ASSESSING THE EFFECTIVENESS OF SOVEREIGN WEALTH FUND ON DEVELOPMENT: CASE OF RWANDA AND NORWAY

BY:

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

FALL 2017
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634027

A Thesis submitted to the School of Humanities and Social Sciences in partial fulfillment of the requirement for the award of Masters of Arts Degree in International Relations

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

FALL 2017
STUDENT DECLARATION

I, the undersigned declare that this is my original work and that it has not been submitted to any other College, Institution or University other than the United States International University-Africa for academic purposes.

Signed: ___________________________  Date: ___________________________

Cyuzuzo Henriette

This project has been presented for examination with my approval as the appointed supervisor.

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Dan N Odaba

Supervisor

Signed: ___________________________  Date: ___________________________

Prof. Angelina Kioko

Dean, School of Humanities and Social Sciences

Signed: ___________________________  Date: ___________________________

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Deputy Vice Chancellor Academic and Student Affairs
ABSTRACT

In recent years, the Sovereign Wealth Funds (SWF) have emerged as dynamic class as a crucial source of funding for economic development especially in times of economic crisis. The funds currently managed through various SWF are estimated between 2 and 3 trillion dollars, which is huge in terms of its development value to states that own them. For the developing countries of Africa, the objectives of creating SWF are to provide a resilient source of development in finance. Rwanda is one of the countries that is currently experimenting with the SWF called, the Agaciro Development Fund (AgDF). Nonetheless, most analyses of the value of SWF to economic development have focused on resource-rich countries and not countries with few resources such as Rwanda. Furthermore, few analyses have gone the ways of comparing the Rwandan SWF with other successful cases such as the Norwegian SWFs, which could provide insight into the management of SWF and facilitate the improvement of the Rwandan SWF. Thus, three fundamental questions arise, questions which this study sought to address namely; how did Norway's SWF develop and how has the fund been managed? How did Rwanda's SWF develop and how has the fund been managed? Are there any lessons from Norway's development and management of its SWF, for Rwanda? The study was based on a case study research design. This design was preferred because it permitted the researcher to explore and understand the intricate issues relating to SWF in general and the GPFG and the AgDF in particular. This study was entirely a qualitative research hence secondary sources of data were analyzed. The method for data collection was a historical study and it used a mix of content and logical analysis to examine the collected data.
ACKNOWLEDGEMENTS

I would like to express my special appreciation and thanks to my supervisor Dan N Odaba, you have been a wonderful advisor for me. I would like to thank you for encouraging my research and for allowing me to grow as a researcher. I would also like to thank other lecturers who assisted throughout my Master’s program. A special thanks to my family, words cannot express how grateful I am to my sister Emerence Uwizeye and brother-in-law Theonest Njangwe for all the financial support, sacrifices that you have made on my behalf. Your prayers for me were what sustained me thus far. Finally, I thank my God for letting me through all the difficulties. I have experienced your guidance day by day; you are the one who let me finish my degree. I will keep on trusting you for my future. Thank you, Lord!
DEDICATION

I wish to dedicate this Thesis to my late father Kanobana Felicien and mother Karekenako Perpetue, whom I never got a chance to live with longer, but although they are not here to give me strength and support, I always feel their presence that urge me to strive to achieve my goals in life. To my sister Uwizeye Emerence who always has confidence in me and offered me encouragement and support in all my endeavors. She taught me to persevere and prepared me to face the challenges with faith and humility. She is a constant source of inspiration to my life.
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<tr>
<td>AgDF</td>
<td>Agaciro Development Fund</td>
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<td>APA</td>
<td>American Psychological Association</td>
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<td>BoP</td>
<td>Balance of Payment</td>
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<td>BoT</td>
<td>Board of trustees</td>
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<td>CIC</td>
<td>China Investment Corporation</td>
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<td>DSE</td>
<td>Dar es Salaam Securities Exchange</td>
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<td>ECA</td>
<td>Excess Crude Account</td>
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<td>FEG</td>
<td>Fund's Ethics Guidelines</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GPF</td>
<td>Government Pension Fund</td>
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<td>GPF-G</td>
<td>Government Pension Fund-Global</td>
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<td>GPF-N</td>
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<td>IFSWF</td>
<td>International Forum of Sovereign Wealth Fund</td>
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<td>IRBC</td>
<td>Immigration and Refugee Board of Canada</td>
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<td>ITT</td>
<td>International Trade Theory</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>MoFEP</td>
<td>Ministry of Finance and Economic Planning</td>
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<td>MPT</td>
<td>Modern Portfolio Theory</td>
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<td>NBIM</td>
<td>Norges Bank Investment Management</td>
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<td>NDC</td>
<td>National Dialogue Council</td>
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<td>NIF</td>
<td>Nigerian Infrastructure Fund</td>
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<td>Nairobi Securities Exchange</td>
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<td>ODA</td>
<td>Official Direct Assistance</td>
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<td>PwC</td>
<td>Price Waterhouse Cooperation</td>
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<td>RRR</td>
<td>Real Rate of Return</td>
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<td>SWF</td>
<td>Sovereign Wealth Fund</td>
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DEFINITION OF TERMS

ECONOMIC GROWTH

Economic growth refers to the increase in the value of goods and services that per head of a country's population over a given period of time. It is also conceptualized as the increase in the capacity of an economy to produce goods and services (Jones, 2015).

REVENUES

Revenues refer to the amount of money which an organization or a corporate entity actually obtains over a specific period of time including deductions and discounts (Lojanica, 2015).

SOVEREIGN WEALTH FUND (SWF)

SWF refers to pools of money which are obtained from the reserves of a given country and set aside for either domestic or foreign investment with the aim of accruing benefits to the citizens or country's economy either presently or in the future (Truman, 2014).
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

In recent years, the Sovereign Wealth Funds (SWF) have emerged as dynamic class of global investors. In fact, the funds are currently of a significant proportion managing between 2 and 3 trillion dollars (Beck & Fidora, 2008). According to Agbaeze and Onwuka (2014), SWF have become an increasingly important topic in debates concerning economic growth and development especially owing to the magnitude of assets that are under sovereign control. It was estimated that such assets could surpass $4.7 trillion and $5 trillion between 2010 and 2014 (Truman, 2008; Ziemba, 2008; Mungai, 2014). According to estimates by Jen (2007), by 2015 the SWF would reach a total of $12 trillion. Other estimates placed it at $13 trillion come 2017 (Agbaeze & Onwuka, 2014).

Mungai (2014) reports that by 2005 at least 32 states round the world had established sovereign resources funds. Chioma, et al., (2014) puts this figure at over 80 countries by the year 2014. It is however, mostly the resource-rich economies of the west that have established SWFs, the poor countries have only recently started to establish the funds (Hassan, 2009; Beck & Fidora, 2008). Countries, especially the developed ones, which are having surplus reserves have been key beneficiaries of the Sovereign Wealth Funds in terms of the development of their economies (Chioma, et al., 2014). Beck and Fidora (2008) observe that the main states resource-rich countries including those of Europe and the Middle East as well as some in Africa such as Nigeria, that are
benefiting from the high commodity prices and oil have been able to allocate the surplus towards the establishment of the fund.

In Europe, Beck and Fidora (2008) explain that Norway is a typical success story when it comes to the resilience and reliability of the Sovereign Wealth Funds as a formidable source of development funding. Norway established the Government Pension Fund in 1990 (Cleary, 2016). From 2006, the fund includes two categories, the Government Pension Fund-Global (GPF-G), as initially referred to as the Government Petroleum Fund (GPF) and, which had been established in 1990 and the Government of Pension Fund-Norway (GPF-N) formerly referred to as the National Insurance Fund (Truman, 2014; Shenani, 2011).

Currently, the Norwegian fund receives revenues from the central bank from the country’s petroleum activities. The fund is primarily a savings fund of the country’s future generations as such only the anticipated real return of the fund may naturally be used to fund the national budget or other general budgetary purposes (Sheminani, 2011; Cleary, 2016). In the fiscal year 2007, the Government Pension Fund-Global received a portfolio value estimated at US$ 373 billion. The reason for the surplus was in part due to the fact that Norway is currently number of the world largest oil exporters supposed only by Saudi Arabia, Russia and Iran and is the third largest gas exporter after Russia and Canada (Shenani, 2011; Cleary, 2016).

In terms of its management, the fund is managed by the Norges Bank under the leadership of the Norwegian Ministry of Finance. The Ministry provides the guidelines for the use of the funds in investments in capital shares as well as other securities (Truman, 2014).
According to Shenani (2011), the Norwegian SWFs has been greatly successful as the country has been able to maintain a current account surplus of more than 12% of the gross domestic product (GDP). In 2006, the surplus was 16.4% the highest compared to that realized over the last 10 years (Cleary, 2016).

The reason for presenting Norway in such detail especially regarding the country’s SWF, Government Pension Fund-Global-Norway is to provide the platform upon which to examine the Rwandan SWF. Norway case is a success story but one rooted in the nature of the country as a resource-rich state capable of realizing surplus in foreign exchange, which could be allocated to SWF. However, Rwanda is a resource-deficient country which has only recently established the SWF, Agaciro Development Fund (AgDF).

Rwanda in fact is among the African countries that have also adopted SWF to complement other sources of funds for economic growth. In other African countries, the debates are either underway or the fund has been created. These are Kenya, South Africa, Ghana and Nigeria to mention but a few. While not being of particular focus of the study, the Nigerian SWF deserves mentioning in passing. The fund was created in 2003, when Nigeria adopted the Excess Crude Account (ECA). The ECA (the forerunner of the NSWF) became very successful having accumulated a balance of $20 billion by the year 2008 owing to oil boom realized in the country within that period. Nonetheless, it started becoming unsustainable owing to withdrawals initially by the Obasanjo government and then by that of the late President, UmaruYar’Adua.

According to International Forum of Sovereign Wealth Fund (IFSWF) (2017) the Rwandan SWF is conceived as the Agaciro Development Fund (AgDF). This is Rwanda’s Sovereign Wealth Fund which came to fruition in 2011 following the 9th
Umushyikirano or the National Dialogue Council (NDC). The National Dialogue Council is a forum established by the Constitution (article 140). It incorporates the key representatives of councils of local administrative, the President of the Republic and entities with legal personality elected by their peers. The fund was launched by Rwanda’s president at the Umushyikirano as one of the way to have in place funds to cushion the country from global financial shocks and a source of development in finance (Bortolotti, 2016; Muyangu, 2015). The Rwandan SWF is new in that it emerges from the idea of dignity (Agaciro) and embraces the countries guiding moral for economic and social development (IFSWF, 2017).

According to Adamson (2016) Rwanda having few natural resources primarily relying on the patriotism and national pride of Rwandese both at home and in the Diaspora to contribute about $40 million about Rwf 33 billion. Indeed, while the funds available in the AgDF are insufficient to elevate it to the levels of the Norwegian Government Pension Fund, it is highly significant in a country with average per capita annual earnings of about $700 (Adamson, 2016). Tumwebaze (2016) reports further that the fund obtains between 8 and 12% interests from short-term bank deposits and government bonds.

The Fund has since expanded to approximately Rwf30.5 billion (Tumwebaze, 2015). The money for the fund come from various actors including contributions from ordinary citizens (Rwandans), national agencies and the private sector (Tumwebaze, 2015). Basically, the fund was created with a development objective in the minds of its creators. According to Bonfeild (2017), the fund was aimed at; building up public savings to attain self-reliance, accelerate Rwanda’s socio-economic development, maintain stability and economic shocks.
Furthermore, the government of Rwanda in setting up the AgDF hoped that it would enhance citizen’s use of financial institution thereby increase investment in the institutions and increase stability (Muyangu, 2015). In addition, it was hoped that the AgDF would precipitate the diversification of the countries investment portfolio resulting in ventures in different sectors of the economy and lead to the maximization of returns (Tumwebaze, 2015).

By setting up the Agaciro Development Fund (AgDF) the government of Rwanda also sought to promote the country’s self-reliance and realizing homegrown rather than hand-me down foreign solutions to Rwanda’s development needs (Tumwebaze, 2015; Adamson, 2016). For instance, the fund was to be used in supporting healthcare provision and infrastructure development such as roads as well as investment in projects that lead to job creation and have the effect of reducing Rwanda’s dependence on foreign aid (Tumwebaze, 2015; Adamson, 2016; Muyangu, 2015).

Sovereign wealth funds are normally differentiated on the basis of the policy goals or intentions and the resulting asset allocation. Despite the existence of multiple SWFs with several or diverse objectives, based on Santiago Principles taxonomy and the IMF, five types of SWFs can be distinguished.

Stabilization funds which are created to separate the economy and budget from volatility of commodity prices and external shocks giving an example of Chile the Economic and Social Stabilization Fund, Iran, and Russia Oil Stabilization Fund. Their horizons for investment and objectives for liquidity are similar to that of the managers of central banks reserve, with respect to their role in countercyclical fiscal policies to smooth boom/bust cycles. The SWF are often invested in portfolio assets which are highly liquid (occasionally, they are also invested in instruments which are negatively
correlated with the source of risk being addressed with the fund) by allocating over 80 percent of their assets to fixed income securities, with government securities consisting around 70 percent of total assets (IMF 2013).

The intention underlying savings funds in the idea of sharing wealth down the generations by changing or transforming assets that are non-renewable into diversified financial assets (Abu Dhabi Investment Authority, Libya, Russia (National Wealth Fund)) Their investment mandate emphasizes a profile of high risk return, hence, setting apart for the equities and other investments high portfolio shares (amounting to over 70 percent). Development funds on the other hand are created to facilitate resource allocation to priority or key socio-economic projects especially the development of infrastructure. Key examples of countries where this has been the case are UAE (Mubadala) and Iran (National Development Fund).

The most common reason why the pension reserve funds are created is to address certain projected outflows in associated to or linked to contingent-type liabilities on the government’s balance sheet. Countries which have done this include as Australia, Ireland, and New Zealand. These countries held high equities shares among a wide investment portfolio to offset increasing pension costs.

Reserve or fallback investment companies often lessen the negative carry costs associated with earn higher return or holding reserves on ample reserves, while the assets in the funds are still counted as reserves (e.g., China, South Korea, and Singapore). To realize this goal, they seek greater returns by placing even greater allocations in alternative investments and equities with up to 50 percent in South Korea and 75 percent in Singapore’s Government Investment Corporation.
According to the IMF report (2014) the objectives of SWFs depend on country specific circumstances, which may evolve over time. Many funds in resource rich economies have multiple objectives, such as stabilization/savings these countries include Azerbaijan, Botswana, Trinidad & Tobago, Norway and Rwanda, saving/pension reserve Norway and Australia, or stabilization/saving/development (Kazakhstan). Portfolio allocation and investment decisions of SWFs are frequently closely associated with their stated investment objectives and governance structure.

1.2 Problem Statement

According to Truman (2014), the explosive growth of the Sovereign Wealth Funds in 2007 inspired widespread concern about the paradigm shifts of global political economy and the functions that governments would play in managing the wealth. In the Western states, empirical evidence exists indicating that the SWFs were critical in helping western states weather the global financial crisis experienced from late 2007 (Truman, 2014; PWC, 2011). Despite the fact that consensus in literate regarding the mandate and objectives of SWF is less, it is considered that these funds are based on effective policy framework (Agbaje & Onwuka, 2014).

Studies reveal that the objective or goals for establishing the Sovereign Wealth Funds are generally or broadly similar in most economies even for those of Sub-Saharan Africa, (Hassan, 2009, Abuba 2011). Nonetheless, such analyses have focused on resource-rich countries and not countries with few resources such as Rwanda in which the SWFs depend on voluntary contribution from private citizens both within the country and in the Diaspora as well as private companies.

In fact, for a country such as Rwanda, the fact that the use of SWFs is new and still in its infancy stages, very limited research has been conducted that could help conjure a
picture of its resilience a source not only for funds to supplement the national budget but also for the development agenda. Bonfeild (2017) argues that research on the Agaciro Development Fund (AgDF) is needful to permit the understanding of the amounts accumulated by the fund and suggest means through which the funds can be utilized to advance the country’s development agenda.

Indeed, the lack of an assessment of the use of the Agaciro Development Fund (AgDF) in Rwanda and the use of a similar initiative in a success story such as Norway means that assessing the resilience and significance of the fund specifically to Rwanda is both problematic and infeasible. Hence, this study not only endeavors to examine the Agaciro Development Fund (AgDF) but it intends to examine it and extrapolate its resilience and effectiveness by examining the Norwegian Government Pension Fund. In doing so it also seek to contribute to the establishment of consensus on the technical aspects of Sovereign Wealth Funds, ownership structure, sources of funding, operational independence, mandate clarification, policy rules and targets, and accountability and transparency mechanics.

The lack of research on the issue of SWFs in Rwanda further implies that whether SWFs is potentially successful in a poor resource-dry country such as Rwanda. Hence, there is need to determine if the Agaciro Development Fund (AgDF) can facilitate Rwanda’s development given that the country lacks natural resources that could precipitate the realization of surplus foreign exchange revenues to be allocated to the AgDF.

This Thesis bridges the literature gaps by answering three fundamental questions, namely; how has the Agaciro Development Fund (AgDF) influenced economic development in Rwanda? In what ways has the Norwegian Government Pension Fund facilitated economic development in the country? Are there any lessons from Norway’s
development and management of its Sovereign Wealth Fund, for Rwanda? It also contributes information to the literature on the research topic that would facilitate future studies and enable future research to familiarize themselves with the related issues to the link between SWF and economic development.

1.3 The Purpose of the Study

The purpose of this study is to assess the impact of Sovereign Wealth Fund on development using a case of Rwanda and Norway.

1.4 Research objectives

1.4.1 To investigate the development and management of Norway's Sovereign Wealth Fund.

1.4.2 To investigate the development and management of Rwanda's Sovereign Wealth Fund.

1.4.3 To assess lessons from Norway's development and management of its SWF, for Rwanda.

1.5 Research Questions

1.5.1 How did Norway's Sovereign Wealth Fund develop and how has the fund been managed?

1.5.2 How did Rwanda's Sovereign Wealth Fund develop and how has the fund been managed?

1.5.3 Are there any lessons from Norway's development and management of its SWF, for Rwanda?
1.6 Significance of the Study

The study aimed at providing valuable information that may be useful to the following groups:

1.6.1 The Citizens of Rwanda and Norway

The study is highly important to the citizens of both Norway and Rwanda in that it may raise their awareness and understanding of SWF as source of development funding. The study also facilitates the awareness levels of citizens of both countries of the amount in the reserve which can allow them to examine how such funds have been utilized. In doing so, the study has contributed to the creation of an informed citizenry in both countries and enhance their ability to hold government to account on issues regarding the use of public funds and the process of developing their country.

1.6.2 The Governments and Policy Makers of Rwanda and Norway

The governments of Rwanda and Norway could gain significantly from the study. The study provides policy makers in both governments the information regarding SWF and its relationship which may supplement their understanding of the issues involved. The comparative assessment that the study did could equip both the Norwegian and the Rwandan governments as well as the key policy makers with novel strategies that either country has taken, which add to the resilience of the SWF as a source of development finance.

This study supplements the knowledge that policy makers have and helps them developed more informed policy decision regarding the use of SWF. Given that the use of SWF in Rwanda is new compared to that in Norway, the information provided by the study can help Rwandese policy makers develop effective way of using SWF
especially the Agaciro Sovereign Fund and the 1 dollar-campaign which is the survivors Fund that works to rebuild the lives of survivors of the genocide against the Tutsi in Rwanda.

1.6.3 Other African Governments

In as much as the study is important to Rwanda and Norway, it is also important to other countries. The information provided by the study regarding the SWF in Rwanda and in Norway, its impact on economic development and it could also supplement the knowledge of policy makers in other African countries over the same. It sensitizes the policy makers in other African countries that may view SWF with indifference especially with respect to its contribution to economic development on the efficacy and reliance of this source of funding.

1.6.4 Further Researchers

The study ventured into an area that is covered by limited academic attention hence it helps facilitate academic research on SWF and its impacts on economic development especially in developing countries where such literature is lacking. The study also forms part of the literature on the subject hence facilitates the understanding of people who would like to research on the subject. In so doing it is an important and significant contribution to literature review for future researchers.

1.7 Scope of the Study

The study examined the development and management of SWF in Norway and Rwanda with the aim of understanding its efficacy for economic development. It took the case studies of the Norwegian SWF and Rwandan SWF and conducted an assessment of the two with a view of identifying if there are any lessons that Rwanda can learn from
Norway’s experience with the same. The study was a qualitative research hence it relied entirely or exclusively on the assessment of secondary sources of academic information on the research problem. The sources comprised books, peer reviewed journal articles and press releases and publication by the relevant bodies. The study was conducted over four months, between July and October, 2017.

1.8 Chapter Summary

Chapter one of the study has provided the introduction of the study. It provided a detailed background of the study and stated the problem of the study. Chapter One also highlighted the purpose of the study, the research questions and the research objectives of the study. The chapter has proceeded to discuss the significance of the study identifying the potential beneficiaries of the study and highlighting how they stand to benefit from the study. This has been followed by a description of the scope and the limitations of the study.

Chapter Two of this study examined the literature review relating to the SWF and the development and management of SWF in both Norway and Rwanda. The Chapter also provides the summary of the gaps that were to be filled by the study. It further identifies, discusses and justifies the theoretical framework for this study. This is then followed by a chapter summary.

Chapter Three of this study provides the research methodology that was deployed in the study. It identifies the research design that the researcher preferred for the study and provides a justification for this. The chapter also discusses the sources of data for this study and the data collection procedure or technique that was deployed to gather relevant information from the sources. Chapter Three also discusses and justifies the
techniques for data analysis. It further discusses the ethical considerations the research paid attention to and the study limitations. This is then followed by a chapter summary.

Chapter Four of this study provides the findings of the study. The findings of the study are provided according to the study objectives and the research questions. As such, the findings are given according to; development and management of Norway's Sovereign Wealth Fund, development and management of Rwanda's Sovereign Wealth Fund, and lessons from Norway's development and management of its SWF, for Rwanda. This is then followed by a chapter summary.

Chapter Five of this study is the final chapter and provides the conclusions and recommendations of the study. The chapter however commences by providing the summary of the study and of major findings of the study. It provides conclusions for this study based on the research objectives. The recommendations are also provided in chapter five according the objectives of this study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter provides the literature review. The literature reviewed are those concerning the Sovereign Wealth Fund, the development and management of SWF in both Norway and Rwanda. It aimed to provide an in-depth conceptualization of SWF and its development and management in the two countries according to what previous scholars and study findings have argued and concluded. It also sought to identify gaps in literature that the study would help to bridge. The chapter also discusses the theoretical framework upon which studies regarding SWF are based, theories which also formed the platform for the analyses in this study.

2.2 Empirical Review

2.2.1 Sovereign Wealth Fund

Hassan (2009), Chioma, Uche and Bassey (2014) explain that SWF can be conceptualized within the perspective of political economics as a spectrum of financial reform in form of instruments owned by a sovereign state, in which there is an accumulation of the nation’s savings for direct investment as well as developmental purposes. SWF has also been conceived as fund established from the foreign earnings of a state to enable it meet its developmental goals or objectives. Beck and Fidora (2008) define SWFs as the agencies for public investment run part of the foreign asset of sovereign states. They however contend that there is no universally accepted
definition of SWFs and that regardless of this, three elements are critical in the conceptualization of the funds.

These three elements include, the fact that the SWFs are owned by sovereign states, they have very limited or no explicit liabilities, and lastly, they are managed separately from other official foreign exchange reserves (Fidora, Marcel, & Christian, 2007). The major sources of funding of Sovereign Wealth Fund come from oil income or non-commodities income (Oleka, et al., 2014). As such, it serves a source of developmental funding for economic growth and developmental funding through official direct assistance (ODA) (Chioma, et al., 2014).

Indeed, while the concept of SWFs use is not new, having been operated by several sovereign states for decades, it is only recently that these funds have emerged as crucial players in the global financial markets (PwC, 2011; Beck & Fidora, 2008). Nonetheless, policy issues have emerged concerning the growth of SWFs as significant players in the global financial sector.

According to Beck and Fidora (2008) these concerns are in relation to lack of transparency associated with their use as well as privatizations reversals that risks the stability of global finances. It is proposed that the SWFs could precipitate the unwinding of imbalances at the global level via a diversification out of the US dollar-controlled national bonds in which the greatest amount of traditional reserves are invested. Despite these risks and policy concerns, SWFs is gaining popularity across the globe as national governments both in the developed and the developing world are increasingly adopting and using SWFs (Truman, 2008; Ziemba, 2008; Hassan, 2009; (Chioma, et al., 2014).
In the establishing countries, SWFs serve to stabilize export revenues and to stabilize the government. The center of focus for the SWF is the development or creation of the foreign portfolio for investment for a state. Hassan (2009), contends that SWF are increasingly getting recognition as a resilient source of development fund especially owing to their capacity to obtain higher returns and their flexibility for investment in a spectrum of asset classes than other forms of traditional reserves. Furthermore, sovereign states have realized that it is important to have large amounts of fund in foreign reserves as this could provide easy access to funds for governments in situation of economic crises and turbulence (Beck & Fidora, 2008).

According to Anderson (2010), such circumstances may arise from or may be present by fiscal crises, national economic emergencies, currency devaluation and government transitions. A research conducted by the consulting firm, Price Waterhouse Coopers (PwC) (2011) revealed that an increasing number of countries are creating their own funds through the SWF.

The report indicated that the reasons were associated with the global imbalances and the hike in commodity prices around the world. Therefore, it is perceptible why several sovereign states, globally, are choosing to adopt SWF as strategic tool for economic growth and development.

In countries such as Kuwait and Singapore, SWF is not new, according to reports the former has been setting aside some its revenues since the early 1950s and Singapore had done the same since early 1970s (PwC, 2011; Agbaeze & Onwuka, 2014). According to Agbaeze and Onwuka (2014) China leads the park by setting in aside $200 billion of its $1.6 trillion foreign exchange reserves in 2007 to create the China
Investment Corporation (CIC). Similar strategies had also been adopted by other Asian countries such as South Korea and Singapore they set aside billions for the fund.

In 2005, the government of South Korea established a SWF worth $30 billion while the Singaporean government established the Singapore Investment Corporation worth billions (Agbaeze & Onwuka, 2014). The prospects for Sovereign Wealth Funds appear bright. Papua New Guinea, Nigeria, Bolivia and Angola have all either recently started Funds or stated their intention to do so. Australia and Brazil are debating whether to set up new Funds to add to those they already have. The pace of recent expansion means that 50% of global Sovereign Wealth Funds are less than seven years old (PwC, 2011).

Its balance fell to $3.2 billion by 2011 and President Goodluck Jonathan in acting capacity withdrew a further $2 billion from the ECA in 2011. According to Agbaeze and Onwuka (2014) the Nigerian SWF comprises of three separate portfolios, the Nigerian Infrastructure Fund (NIF), the Future Generations Fund and the Stabilization Fund all of which have 20% share of the funds. Another African country which has established the SWFs as a source of development financing and one which is the focus of the current analysis is Rwanda.

2.2.2 The Development and Management of Norway's Sovereign Wealth Fund

The end of the Second World War (WWII) lent a fresh impetus to the ideas concerning universal welfare legislation in Norway that would ensure that every citizen, a living income (Lie, 2013). These ideas were articulated in the Welfare Program of 1948 which had, as its fundamental objective, joining the existing social security arrangements into one system (Christiansen, Petersen, Edling & Haave, 2006; Lie, 2013). Hence, all citizens were to be covered by the novel scheme and benefits accumulate at a level,
which guaranteed every person acceptable or minimum living standards in case of loss income due to disability, illness, old age or unemployment (Christiansen, et al., 2006).

Hence, in 1948, Norway’s leadership considered investment to guarantee sustainable growth more imperative than conducting a major overhaul and upgrade of the country’s existing welfare system (Lie, 2013). By 1963, the process of establishing a national insurance fund had taken hold with the Labor Party promising in its manifesto, to establish a "pension plane for all people" (Lie, 2013, p. 4). The increasing revenues of the nation's new-found oil in 1979/1980 created debates whether the surplus revenues could be save for meeting the needs of future generations (Christiansen, et al., 2006). However, at this time there was no link between the oil fund and the national insurance fund in the public debate.

The so-called Tempo Committee proposed that revenues needed to be determined by industrial considerations in relation to production and development, and then passed to a fund which would be invested in global capital markets before the funds could be brought back into the Norwegian economy (Lie, 2013; Cumming, Wood, Filatotchev &Reinecke, 2017). After much deliberations concerning how the fund would be managed it was decided that the oil revenue was to be transferred to account managed abroad beyond existing administrative apparatus (a foreign currency account) (Truman, 2014; Sheminani, 2011).

Begging in the early 1980s until the 1991-1992 banking crisis, the government of Norway as opposed to other countries experienced fiscal surpluses (Steigum, 2012). It utilized these surpluses to settle government debt, which had been accumulated when the petroleum sector was being set up during the 1970s (Lie, 2013; Steigum, 2012).
Between 1989 and 1990, the Norwegian economy had undergone a parlous state, experiencing huge imbalances in its economy and a looming bank crisis.

The Norway's Government Pension Fund (GPF) was finally established in 1990 as a fiscal policy instrument to augment the enduring management of revenues obtained from Norway's petroleum industry (Beck & Fidora 2008). The fund received its first allocation in 1997 (Steigum, 2012). It is provided for in Norway's laws that the allocation to the fund from the central government budget must not exceed to value of the fiscal surplus.

Since its creation, Norway's SWF has grown substantially. In 2000, the values of foreign assets under GPFG management were valued at NOK 3.7 trillion or about $130,000 (over NOK 740,000) per capita (Steigum, 2013). Data collected by Peqin Ltd (2015) suggest that between 2013 and 2015, Norway's SWF grew by close to $43 billion. In 2016, the Fund's market value was NOK 7.5 billion of which 62.5%, 34.5% and 3.2% was invested in equities, fixed income and real estate respectively with the market value invested in each being NOK 4.7 billion, 2.6 billion and 2.4 billion respectively. (NBIM, 2017). In 2017, Norway's SWF is considered the world largest SWF valued at $960 billion (Milne, 2017; Reuters Staff, 2017). The Fund is also one of the biggest investors in the world with a bond portfolio estimated at $320 billion (Milne, 2017).

2.2.3 The Management of Norway's Sovereign Wealth Fund

Norway's Ministry of Finance (MoF) acts as the asset owner of the Fund and is charged with responsibility for managing it through the Norges Banks (Cumming, et al., 2017). The Executive Board of the Norges Bank has in turn delegated the management of the
Fund to the Norges Bank Investment Management (NBIM). Hence, the actual management of Norway's SWF is done by NBIM (Truman, 2014; Sheminani, 2011).

NBIM is actually a unit within the central bank, but one whose sole mandate is to manage the GPFG (Reuters, 2017). NBIM manages the fund on behalf of the Norway's Ministry of Finance (MoF) and answers to the Norwegian Parliament and the board of the Central Bank of Norway (Reuters, 2017; Moses & Letnes, 2017).

NBIM has a staff of about 320 individuals charge with the tasks of managing the fund and out of which 232 are stationed in Oslo and 83 stationed in offices in foreign cities where the fund is invested including New York, Shanghai, London and Singapore (Steigum, 2013; (Cumming, et al., 2017). The management of the GPFG is provided for in law in particular the Government Pension Fund Act no. 123 of 21 December 2005 (Moses &Letnes, 2017).

According to this act, the Norges Bank is accorded the authority to make decisions regarding investments of the Fund and to exercise ownership rights as an autonomous entity from the MoF (Ang, et al., 2009; Norwegian Ministry of Finance, 2015). The Norges Bank also plays an advisory to role the Norwegian MoF and parliament to facilitate further, GPFG's investment strategy (Lie, 2013). It is mandated to issue quarterly and annual reports on the results of the Fund, including figures on Fund's performance, risk and management costs and market value as well as live approximations of net asset value (NAV) all of which are published on NBIM's website (Norwegian Ministry of Finance, 2015; Cumming, et al., 2017). The investment strategies that NBIM follows is determined by the MoF in consultation with both parliament and the NBIM management.
In actual sense, the board of the NBIM reports to the MoF regarding the Fund's activities and the MoF in turn answers to the Storting (the Norwegian Parliament) on issues relating to the activities of the Fund (Steigum, 2013; Moses & Letnes, 2017). The MoF in assisting the Norges Bank attain the objectives of the Fund, issues certain guidelines such as those pertaining to the reduction of risks of investing in companies considered to be in serious violation of fundamental ethical norms (Norwegian Ministry of Finance, 2015).

**Figure 2.1: General Management Structure of Government Pension Fund Global**

![General Management Structure of Government Pension Fund Global](image)

Source: Government Pension Fund, 2017

According to the statutory provision, income to the Fund comprises of net cash flows from the countries petroleum activities, transferred from Norway's central government budget and the return on Fund capital as well as the net outcome of financial transactions linked with petroleum activities and (Norwegian Ministry of Finance, 2015). In relation to the utilization of the Fund, NBIM can only transfer some of the
funds of the GPFG to the central government if so directed by a Storting resolution (Steigum, 2013; Moses & Letnes, 2017). The transfer of the funds of the GPFG to the central government budget is aimed at covering the oil-adjusted budget deficits (Norwegian Ministry of Finance, 2015). Revenues obtained from the petroleum industry are transferred into Norway's SWF and is essentially invested abroad to avert potential over-heating of the country's economy.

The utilization of the Fund is also regulated by the country's fiscal policy guideline that guarantees that the expenditure of oil revenues through the central government budget should equal the anticipated real rate of return (RRR) on the Fund overtimes. As such, such expenditure is pinned at 4% of the Funds value (Reuters, 2017; Ang, et al., 2009; Norwegian Ministry of Finance, 2015). Nonetheless, the economic policy guidelines are flexible permitting the government to spend the Fund on national budget depending on the prevailing economic circumstances (Truman, 2014; Sheminani, 2011; Reuters, 2017; Ang, et al., 2009). Furthermore, the Fund is not intended for any specific purpose and can only be invested in foreign countries.

**Figure 2.2: Government Pension Fund Guidelines**

![Diagram showing the flow of funds from GPFG to State Budget, including return on investments and fiscal policy guidelines.](image-url)
NBIM is designed to achieve two things to two distinct group of clients; the current citizens of Norway and the future generations of the country. First, NBIM offers "passive" returns as per the MoF's choice of benchmark whose component is influenced by the drive towards efficient diversification of the Fund's overall portfolio (Ang, Goetzmann & Schaefer, 2009).

The benchmark assumes portfolio allocation by asset class and region and is aimed at having potentially tradeable portfolio of securities. Secondly, NBIM seeks to deliver risk-adjusted, positive returns on the benchmark net of the active fee (Cumming, et al., 2017). To achieve this the Fund's management uses a combination external and internal management including outsourcing (Ang, et al., 2009; Moses &Letnes, 2017).

2.2.4 The Development of Norway's Sovereign Wealth Fund

The end of the Second World War (WWII) lent a fresh impetus to the ideas concerning universal welfare legislation in Norway that would ensure that every citizen, a living income (Lie, 2013). These ideas were articulated in the Welfare Programme of 1948 which had, as its fundamental objective, joining the existing social security arrangements into one system (Christiansen, Petersen, Edling & Haave, 2006; Lie, 2013). Hence, all citizens were to be covered by the novel scheme and benefits accrue at a level, which guaranteed every person acceptable or minimum living standards in case of loss income due to disability, illness, old age or unemployment (Christiansen, et al., 2006).

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### 2.2.5 Successes and Challenges

#### Table 2.2: Accumulated Returns since First Capital Inflow in 2012 (Billions of Kroner)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Equity Investments</td>
<td>2,129</td>
<td>1,786</td>
<td>1,567</td>
<td>551</td>
<td>579</td>
</tr>
<tr>
<td>Return on Fixed-Income Investments</td>
<td>955</td>
<td>859</td>
<td>761</td>
<td>551</td>
<td>528</td>
</tr>
<tr>
<td>Return on Real Estate Investments</td>
<td>38</td>
<td>31</td>
<td>14</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Returns</strong></td>
<td>3,123</td>
<td>2,676</td>
<td>2,343</td>
<td>1,799</td>
<td>1,107</td>
</tr>
</tbody>
</table>

Source: Norges Bank Investment Management, 2017
GPFG is one of the best in the world in terms of management and revenues under its control. According to Cata (2013), in just close to two decades after its establishment the fund is estimated to own slightly over 1% and 2.25% of global stocks and every listed company in Europe. In 2010, the GPFG had realized a milestone of more than US $500 billion (Kr. 3 trillion) in assets (Harlvorsen, 2011). Beyond its market power and revenue, the GPFG has emerged as influential player in the regulation of markets and the establishment of high standards and norms for corporate governance and investment. For this it has been an integral member of the IFSWF, at the center of which Santiago Principles of accountability, transparency and prudent or wise investment practices (Cumming, et al., 2017).

In terms of challenges; Despite having established considerable effective internal management capabilities in listed equities and bonds, NBIM still took more than twelve years to initiate its first investment outside the public market (Al-Hassan, Papaioannou, Skancke & Sung, 2013). Furthermore, the Fund lacks formal pension liabilities but is designed instead to accord the government flexibility in relation to fiscal policy for managing reductions in oil prices or/and economic contractions (Cumming, et al., 2017).

Moreover, while there is no formal decision regarding when the fund will be utilized, the parliament of Norway adopted the so-called "spending rule" limiting the amount that the Fund spends in any budgetary year to 4% of the value of the fund at the times in an endeavor to make the fund available for generations to come. This makes it hard for the funds to be utilized in instances of economic crisis and other emergencies.
2.2.6 The Development and Management of Rwanda's Sovereign Wealth Fund

The origin of the idea of the Rwanda's Sovereign Wealth Fund can be linked to the efforts and need for the country to win its economy off foreign aid (The East African, 2012). *Agaciro*, is a word borrowed from *Kinyarwanda* which means "worth", "Dignity" or "pride" This has been embraced as the countries principal moral values for progress towards the attainment of socio-economic development in Rwanda. The Fund would facilitate the countries development agenda by providing some of the funds that would go to financing the national development projects conceived in Rwanda's Vision 2020 development plan (Ravelo, 2012).

The Finance Minister, John Rwangombwa stated that the Fund was aimed at boosting Rwanda's financial independence (World Crunch, 2015). The genocide of 1994 had left Rwanda's economy completely ruined forcing the country to depend heavily on foreign aid. In the post-genocide period, 45% of the country's national budget was funded through international assistance.

The Rwanda's Sovereign Wealth Fund is locally called the Agaciro Development Fund (AgDF) (Hoove, 2016). The Fund was proposed in 2011 at the 9th National Dialogue Council (NDC) or the Umushyikirano by Rwandan leaders (International Forum of Sovereign Wealth Fund, IFSWF, 2017). The official launch of the Fund was done by President Paul Kagame a year later, on 23rd August 2012. According to the IFSWF (2017) and World Crunch (2015), Agaciro, is a word borrowed from Kinyarwanda which "worth", "Dignity" or "pride" which was and has been embraced as the countries principal moral values for progress towards the attainment of socio-economic development in Rwanda.
Certainly, as shown in the table, the country had entered what can only be described as a financial deficit (World Crunch, 2015). Thus, idea of setting up a Fund that could help the country win from aid overdependence and facilitate economic sustainability started to dominate public debates. According to Hoove (2016) it was these considerations that dominated the National Dialogue Council of 2011 (the so-called *Umushyikirano*) in which the idea of Rwanda's SWF was conceived.

**Table 2.3: Total of Aid Rwanda Received as a Percentage of GNI (1994 to 2003)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in Current US$)</th>
<th>Aid as % of GNI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>716.32</td>
<td>95.6%</td>
</tr>
<tr>
<td>1995</td>
<td>702.09</td>
<td>54.1%</td>
</tr>
<tr>
<td>1996</td>
<td>466.65</td>
<td>34.1%</td>
</tr>
<tr>
<td>1997</td>
<td>229.6</td>
<td>12.5%</td>
</tr>
<tr>
<td>1998</td>
<td>350.08</td>
<td>17.6%</td>
</tr>
<tr>
<td>1999</td>
<td>373.19</td>
<td>19.4%</td>
</tr>
<tr>
<td>2000</td>
<td>322.02</td>
<td>17.9%</td>
</tr>
<tr>
<td>2001</td>
<td>298.52</td>
<td>17.8%</td>
</tr>
<tr>
<td>2002</td>
<td>355.04</td>
<td>20.5%</td>
</tr>
<tr>
<td>2003</td>
<td>331.56</td>
<td>19.9%</td>
</tr>
</tbody>
</table>

*Source: OECD DAC*

The Fund would facilitate the countries development agenda by providing some of the funds that would go to financing the national development projects conceived in Rwanda's Vision 2020 development plan (Ravelo, 2012). The Fund was established to achieve several key objectives; to act as a source of sustainable fund for the current and future generations, to build up the countries savings to help in the attainment of self-reliance, facilitate macro-stabilization of the economy, and precipitate stability in times of economic shocks in the economy and also to accelerate the country's socio-economic development (Adamson, 2016; Tumwebaze, 2015; Hoove, 2016; IFSWF, 2017).
The Fund, AgDF was registered with Rwanda Development Board on 1st August 2013, with the Republic of Rwanda as trust and operates in accordance with statutory provision, N°20/2013 established on 25th March 2013 (Tumwebaze, 2015; Hoove, 2016; IFSWF, 2017). This law regulates the creation of the Funds trusts and trustees. The proposal for the Fund's proceeds as well as its Chief Executive Officer was approved by Cabinet meeting on 11th September 2013 with the President, Paul Kagame as the chair.

**Table 2.4: Financial Contributions for the Agaciro Development Fund**

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount (in million RwF)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions prior to Incorporation of AgDF</td>
<td>18,588,327,625</td>
<td>80.1%</td>
</tr>
<tr>
<td>Government contributions</td>
<td>1,000,000,000</td>
<td>4.3%</td>
</tr>
<tr>
<td>Contribution from civil servants</td>
<td>2,212,485,138</td>
<td>9.6%</td>
</tr>
<tr>
<td>Contributions by Corporations</td>
<td>252,103,274</td>
<td>1.1%</td>
</tr>
<tr>
<td>Individual citizens</td>
<td>689,367,320</td>
<td>3%</td>
</tr>
<tr>
<td>Diaspora</td>
<td>92,921,046</td>
<td>0.4%</td>
</tr>
<tr>
<td>Contributions by Corporate staff (Business employee)</td>
<td>125,172,952</td>
<td>0.5%</td>
</tr>
<tr>
<td>Contribution from NGOs (Political Parties, Churches and others)</td>
<td>74,296,756</td>
<td>0.3%</td>
</tr>
<tr>
<td>Contributions from Friends of Rwanda (Mostly local Consultants)</td>
<td>4,136,796</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23,038,810,907</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>


As indicated in the table above, The Fund received pledges of contributions totaling Rwf 18,588,327,625 from several stakeholders even prior to the incorporation of the Fund and after the incorporation and as of 30th June 2014, the Fund had accumulated 23,038,810,907.
This was followed with the appointment of the Board of Trustees for the Fund on 28th March 2014 mandated with the management of the Fund (IFSWF, 2017). The Fund's biggest contributor going by the 2014 annual report by the IFSWF (2017) were the civil servants with 9.3% followed by the Government of Rwanda with 4.3%. However, individual citizens have also been dynamic contributors providing 3% of the Fund's money in 2014 (IFSWF, 2017).

2.2.7 Management of Rwanda's Sovereign Wealth Fund

The AgDF is the Government of Rwanda's longstanding savings tools as such its proper management is significant not only in terms of facilitating national economic growth but in facilitating citizens trust in public projects. Thus, to ensure accountability and transparency, a competent managerial team under the stewardship of a board has been established. This board works under the Ministry of Finance and Economic Planning, MoFEP (Karanja, 2016).

More specifically, AgDF is managed by the Board of Trustees (BoT) appointed by the Cabinet. The first BoT was appointed on the 28th March 2014 and involved competent and experienced individuals with a diversity of expertise in both public and private sector governance. According to Bonfield (2016) the cabinet appointees for the management of the AgDF were picked from the private sector and the public service.

The BoT is charged with responsibility of oversight and management of the Fund's operations including investment on behalf of the people of Rwanda. It reports to the Rwandan Government through the MoFEP. It is also responsible for guaranteeing the Fund's compliance with the legal standards and for the Fund's observance of the highest standards associated with corporate governance.
In terms of contributions to the Fund, the Government of Rwanda resolved to save a portion of the country's domestic revenues with the Fund. At the same time, a significant percentage of privatization proceeds is also contributed to the Fund. The government of Rwanda committed to making contribution of companies that is up to 1% of their turnover tax deductible (Karanja, 2016).

2.2.8 Successes and Challenges Linked to Rwanda's Sovereign Wealth Fund

According to Karanja (2016), over the three years between 2013 and 2016, the funds profitability grew by RWF 3.7 billion and revenue by RWF 3.6 billion a net profit of RWF 7.7 billion was also recorded. Thus, the fund had an 88% year-by-year growth in 2016 compared to 2015 (Karanja, 2016). These developments and growth in the Fund suggests that the Fund has been largely profitable. The Fund recorded a growth in the balance sheet of 28% about RWF 35.1 billion up from the RWF 27.3 billion that was realized in 2015 (Kagire, 2012; Karanja, 2016).

In terms of significance or value to Rwanda's economic growth, the AgDF has also been relatively successful. According to Karanja (2016), while the Fund is yet to fully realize its economic potential in terms of boosting economic development in Rwanda, it invested over RWF 30 billion with several financial institutions in the country including the commercial banks and the Micro-Finance Institutions. Its total contribution to the financial institutions was about 10% of the funds, these institutions lent out to their customers (Karanja, 2016). This therefore implies that the AgDF has indirectly contributed to about 10% lending to private sector development in Rwanda.

Furthermore, the Fund has also invested more than RWF 6 billion in the country's Treasury Bills and Bonds (Hoove, 2016). Such investment has made it possible for the government (which sources public funding through the treasury bills and bonds to
acquire funding for its supplementary national budget and for national development projects.

This is to say that the investments have enabled the government to easily acquire money for stimulating economic growth, which is what the AgDF was structured to accomplish. The AgDF is currently a key if not the leading domestic creditor to the government of Rwanda and this has enabled Rwanda to reduce its reliance on donor funding and foreign aid.

Another, significant success of the AgDF is linked to its attainment of associate membership of the International Forum of Sovereign Wealth Fund (IFSWF). This was attained on 29th February 2016 when the board of the IFSWF approved the AgDF's application for membership in the body as an associate member (IFSWF, 2017). These events had certain underpinning normative significance. According to Bonfield (2016) the IFSWF is a universal network of SWF which seeks to enhance collaboration of SWF activity around the world and to establish a deeper broad-based understanding of the Fund, as well as enhance the industry by promoting and encouraging best practices and sound corporate governance (IFSWF, 2017).

At the core of the IFSWF there is Santiago Principles, which appertain to the principles of accountability, transparency and prudent or wise investment practices. This implies that by being admitted to the IFSWF, the AgDF had significantly demonstrated its compliance with this principle, its ability and willingness to ensure accountability, transparency and prudence in the investment and management of the operations of the funds it received (IFSWF, 2008). The Principles endorse good governance, transparency, accountability and prudent investment practices while at the same time it
emphasizes the significance of a deeper understanding and more open dialogue regarding the operations of the SWF (Bonfield, 2016).

Despite the successes that have been associated with the AgDF, the underpinning challenges that the Fund continues to face are the false reports from social media and other social media platforms. One such issue reported that the Rwandan government has actually forced its citizens and public officials into contributing funds to the AgDF. The Immigration and Refugee Board of Canada (IRBC), (2012) reported that the US State Department in its annual Country Report for Human Rights Practices reported in 2012, that the government of Rwanda were forcing public employees, locals, leaders as well as Rwandan Embassy staff to donate money amounting to one month's salary to the AgDF.

A similar report was also carried in the Kenyan daily, The East African, when it reported in the same year (2012), that some Rwandan government employees had alleged that they were being coerced into donating the equivalent of a month's salary to the AgDF (Kagire, 2012). The social pressure for Rwandan's to contribute at least 10% of their salary is great with elected officials moving around neighborhoods identifying those who have contributed and those who have not in a bid to pressure them to contribute more (IRBC, 2017). Teachers have also been pressured to donate a significant part of their salary according to the reports by the East African (Kagire, 2012).

2.3 Theoretical Framework

Several theories have been proposed and advanced by scholars to conceptualize and explain the association between SWF and economic development for states that have
established these funds\(^1\). Some of these theories are indeed quite informative as far as examining the economic development value of SWF as a review of two such theories in this part may reveal.

2.3.1 The Modern Portfolio Theory (MPT)

The Modern Portfolio Theory is proposed and advanced by Harry Markowitz (1952, cited in Clark & Monk, 2014). There are two critical metrics to the MPT, that is, the expected return and volatility (Oleka, Ugwuanyi & Bassey, 2014). Central to the MPT is the assumption of normal distribution of returns and it also holds that risks are reduced through diversification, which also makes portfolios more efficient. However, one of the fundamental assumptions of the Modern Portfolio Theory is that all investments strategies should be categorized into two types: one that maximizes return for a given risk and the other that minimizes risk for an expected return (Oleka, et al., 2014). According to the MPT, reduction in risk or increases in return is realized through the allocation of investments in different types of assets to create a balanced portfolio known as portfolio diversification equilibrium (Clark & Monk, 2014).

Therefore, in relation to the SWF, this holds true in case of SWFs investments where a collection of diversified portfolio of assets as a whole have less risk as compared to an individual asset (Rozanor, 2010; Oleka, et al., 2014). the MPT argues that when a government accumulates foreign exchange reserves beyond her threshold of required future import bills and liquidity problems, she turns to increase the wealth by investing these surplus foreign exchange reserves in diversified ways in foreign environments thereby having collection of foreign portfolios of investment. Rozanor (2010) explained

\(^1\)Some of the theories and models that have been proposed include the “modern portfolio theory”, “the International Trade Theory”, and “Arbitrage Pricing Theory (APT)” theory, to mention but a few.
that this theory has given rise to the countries launching Sovereign Wealth Funds for increasing returns through portfolio diversification. When it comes to returns on the investments in general, it has been observed by Madura (2008) that with increase in the expected rate of returns, the level of risk increases as well.

The MPT is not without shortfalls, according to Chee (2011), this theory considered too many classes of assets jointly disregarding the fact that each asset class has an expected volatility and return. Furthermore, while the theory assumes a normal distribution for returns, this is not always the case and so a conflict exists between aspirations and desires. Oleka, et al., (2014) explains further that while the theory considered volatility and risks as synonymous, this is actually not the case, explaining that risk implies uncertainty while volatility implies turbulence.

The MPT provides a platform for the understanding of the SWF for the Rwanda and Norway in particular. In this regard, it can be deduced that the two countries established the funds with two intentions; to guard against volatility and thus ensure stabilization and to gain expect returns from the investment of the funds. The MPT in the case of these two countries would therefore imply that the setting up the SWF was a way by which Rwanda and Norway could reduce the risks associated with volatility by engaging in diversification. In the case of Norway, this portfolio diversification could be perceived in the countries investment of the surplus foreign exchange reserve through the sale of its energy resources and the use of the GPFG in foreign investments thereby diversifying foreign portfolio investment.

**2.3.2 International Trade Theory (ITT)**

Another theory, which has been proposed and one which is worth considering in this regard is the International Trade Theory (ITT). While being a business management
theory, the ITT can be applied in this context which asserts that international trade is an exchange of capital, goods or services between countries. To support this theory, Barney and Hesterly (2008) noted that international trade represents a major share of gross domestic product (GDP) of an economy and that the factors such as languages or currencies differentiation, advanced modes of transportation, industrialization, globalization, growth of multi-national cooperation and outsourcing activities can impact an international trade.

By further supporting this view, Abdullah (2009) postulated that snowballing international trade is required if countries want stable and vibrant economies as to continue and remain afloat with the on-going globalization saga. Without the international trade, countries would have access to limited goods and services produced within their own country and no access to the products or services from other countries around the globe. Now, trade is carried out using international currency system and exchange rates of currencies during each transaction of export and imports (Barney & Hesterly, 2008).

To address any uncertainties in trade outside and within the country, the central bank of every nation’s endeavors to reserve the foreign exchange earned through the exports revenues as surplus. Today, the international trade mechanism involves currencies, accounts, standards, central banks, trade unions among others (Abdullah, 2009). Each nation tries save the foreign currencies it earns from the international trade since it aims to be in the stable conditions of her own currency competing with global strong currencies like Euro (€), US Dollar, and British Sterling Pound (£) (Clark & Monk, 2011).
These reserves of foreign exchange have a potential impact of facilitating a country to realize the import bills payment demand, in case of any emergency arising within and without the country. For this purpose, countries try to hold the current and capital accounts in surpluses within the balance of payments (BOP) system (Oleka, et al., 2014). Albesola and Serena (2008) postulate that gold reserves and foreign currency reserves perceived to be the two major sources of economic stability and wealth creation of nations.

Therefore, countries having additional or excess foreign exchange reserves implement wealth creation or multiplication so as to at least secure earnings on their reserves. This is a primary reason for countries with excess or additional wealth creates the Sovereign Wealth Funds. Therefore, SWF has is rooted in the reserves of foreign exchange generated from auspicious international trading system of exports and imports made by the country. Consequently, accretion of foreign exchange performs an important function in establishing an economic environment for the countries where they can set up SWFs.

The ITT provides another platform for conceptualizing SWF in Rwanda and Norway in particular. Applied to these two countries this theory could explain that the SWF for Norway and Rwanda were as a result of surpluses in foreign exchange earnings and were aimed essentially aimed cushioning the countries from economic shocks experienced during financial emergencies or other kinds of emergencies. The theory holds that countries with excess foreign exchange reserves go for wealth multiplication and this is true of a commodity-based SWF such as Norway. Nonetheless, full application of the ITT in the case of AgDF of Rwanda would be problematic given that the country continues to
experience a trade deficit in its international trade, have no excess foreign exchange reserve and its SWF is non-commodity based.

2.4 Chapter Summary

This chapter has discussed the development and management of Norwegian and Rwandan SWF. The chapter has traced the history of the development and management of the Norwegian Fund to the post-WWII period when the idea of public insurance dominated policy discussions in Norway. The Chapter has discussed the development of the Fund over the years since its establishment in 1990 and the first allocation of revenues to the Fund in 1997. It has noted that the Fund has grown to become the largest in the world. The chapter has also discussed the management of the Fund.

It has observed that the need for the Fund arose out of the desire by the Rwandan leadership to guarantee macro-stabilization in times of economic difficulties and to ensure Rwanda's self-sufficiency in terms of current and future economic development. The Chapter has also examined the management of the Rwandan AgDF and discussed some of the successes of the Fund and the challenges facing the development and management of the Fund. Chapter Three discusses the research methodology for the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides the research methodology that was deployed in the study. It identifies the research design that the researcher preferred for the study and provides a justification for the research design. Chapter Three also discusses the sources of data for this study and the data collection procedure or technique, which the researcher deployed to gather relevant information from the sources. Chapter Three further discusses and justifies the techniques for data analysis. It also discusses the ethical considerations the research paid attention to, the study limitations and the steps that were taken to overcome the limitations.

3.2 Research Design

The research design for the study was a case study research. This design was preferred because it permitted the researcher to explore and understand the intricate issues relating to SWF in general and the GPFG and the AgDF in particular. Furthermore, this approach was favored for this study because it allowed the researcher to conduct a holistic in-depth examination of the issues relating to the development and the management of the GPFG and the AgDF as well as to identify and conceptualize lessons for Rwanda from Norway’s GPFG. Additionally, this approach allowed the researcher to include both qualitative and quantitative data from previous studies to explain the SWF in both Rwanda and Norway.
Hence, a case study research design helped the researcher examine “how” Norway's and Rwanda's SWF developed and how they have been managed? A case study approach was also preferred because it enabled the research to assess the development and management of Norway's SWF with that of Rwanda and to identify lessons which, Norway's development and management of its SWF, has for Rwanda?

3.3 Sources of Data

The study was essentially a secondary or qualitative research (or a desktop review). As such, the study utilized qualitative sources of information, which primarily were, published and unpublished academic sources. The researcher utilized books and publications by relevant departments and ministries of the respective governments as well as publications by other relevant organizations as well as e-journals and e-books (accessibly through USIU Library online services and repository). The author endeavored to obtain the latest information possible, therefore, more recent sources were examined unless there was need to consult older sources. The aim was to achieve relevance of collected information for current analysis.

3.4 Data Collection Techniques

The researcher deployed qualitative methods of data collection. The technique that was used in particular was a historical study. In this technique, the researcher read several sources especially academic literature regarding the research problem and pick the information that is deemed relevant. Hence, the research read and made notes of the consulted sources with an aim of building a wealth information that aided the understanding of the issues as per the research questions.
3.5 Data Analysis Methods

In this study, the researcher used a mix of content and logical analysis method used in qualitative study. The content and logical approach permitted an examination of existing secondary sources and the determination of information that was relevant and necessary for the realization of the research objectives. Logical analysis incorporated a logical or rational reasoning process that shadows a constant and systematic assessment of literature concerning the relevant events and issues.

3.6 Ethical Issues

Two ethical issues were of great importance to the researcher in this study. These were, issues relating to the researcher and those pertaining to the research process. Regarding the researcher, the researcher was aware that graduate research is taken not only in partial fulfillment of the degree requirements, but also to provide crucial information for improvement in the society. As such, in conducting this research, the researcher ensured that the study is conducted to provide information that not only contribute literature to the academic field but is capable of informing policy regarding the research problem.

Concerning the research process, the researcher exercised integrity and observed that acts of plagiarism and fraud were not committed. The researcher ensured proper citation and referencing of unoriginal or borrowed information. The researcher further ensured that the originators of information and ideas used in the study were correctly acknowledged as per the standard American Psychological Association (APA) referencing guideline.
3.7 Study Limitation

There is one possible issue that may limit the efficacy and effectiveness of the study. There is limited data to research on, meaning not many scholars have researched on the Rwanda's Sovereign Wealth Fund. This is because the fund is new.

Rwanda's Sovereign Wealth Fund was launched by the president of the Republic of Rwanda H.E Paul Kagame on the 23rd August 2012 and also scholars are more interested in other fields like the 1994 Genocide against the Tutsi or Gacaca (grass root) courts meaning collecting data analyzing the effectiveness of the SWF will not be an easy task. However, to prevent this issue, the researcher consulted as many academic sources as possible peer reviewed journals. The researcher believes that by use of different journals and books will solve the problem.

3.8 Chapter summary

This chapter has both identified and provided the justification of the research design. It has also highlighted the sources of data that were consulted and explained how these sources were accessed. The study has identified the methods of data collection and the techniques for data analysis. It has explained that the data collection technique was a historical study and highlighted why the researcher chose this approach. This chapter has also discussed the ethical issues that the researcher considered and identified the limitations of the study. The chapter has further discussed how the researcher attempted to counter the limitations to guarantee the satisfaction of the study objectives. The next chapter, Chapter Four discusses the research findings of the study in accordance with the study objective and research questions.
CHAPTER FOUR

4.0 FINDINGS OF THE STUDY

4.1 Introduction

This chapter discusses the findings of the study with respect to the three objectives that it aimed to realize. As such, it provides findings regarding; the development and management of Norway's Sovereign Wealth Fund, the development and management of Rwanda's Sovereign Wealth Fund, and lessons from Norway's development and management of its SWF, for Rwanda. This objective defines the organization of this chapter. With regards to the third objective, this chapter touches on the normative, institutional and legal elements that Norway's SWF offer for Rwanda. The purpose of the chapter is to demonstrate that while Rwanda's AgDF has been largely successful, it is still in its infancy years and for it to remain on the current path course it will need to borrow some elements of a more established Norwegian SWF.

4.2 The Development and Management of Norway's Sovereign Wealth Fund

The AgDF is owned by the people of Rwanda though the government. The government of Rwanda has mandated a Board of Trustees to manage the funds and report back to it through the Rwanda Ministry of Finance and Economic Planning, MoFEP (Karanja, 2016; AgDF, 2018). As such, the role of the Board of Trustees it to provide professional, accountable and transparent management of the AgDF so that the potential benefits for which the fund was established can be realized for the countries current and future generations (AgDF, 2018).
The AgDF was established to help Rwanda build public savings and in the process, establish self-reliance (The East African, 2012). More specifically, the AgDF was to four particularly important roles, namely; function as a sustainable source of fund for both current and future generations of Rwanda, to boost Rwanda ‘s public savings reserve and bring about self-reliance, function a source of funds for macro-economic stabilization and jumpstart Rwanda’s economic growth in the aftermath of the incapacitating genocide it had experience in 1994 (Tumwebaze, 2015; Hoove, 2016; IFSWF, 2017).

As such, at the center of the preference for the creation of the fund was the notion held by the Rwanda leadership that the fund would facilitate macro-economic stabilization in time of national and international economic downturn and shock (Mwai, 2016). As such, the Fund was conceived as the Agaciro with the implicit notion of restoring national dignity, pride and worth as opposed to depending on foreign direct assistance (ODA) (IFSWF, 2017). The ultimate goals of the public savings and the cushioning against economic shock was the acceleration of Rwanda’s socio-economic development (Kagire, 2012; Karanja, 2016).

In principle, the AgDF aims at expanding its investment portfolio to spreading investment risks and ensuring maximum returns. The BoT, in charge of the AgDF have sought means of guaranteeing real returns and for riding out temporary economic and fiscal market fluctuations (AgDF, 2018). Currently, AgDF invests or capitalizes on local securities market in both fixed income, government securities, treasury bonds and term deposits with a fairly and relatively small portion of its portfolio in equities (Mwai, 2016).
Apart from the money markets, the commercial banks have also features highly as among AgDF’s investments and here the funds are invested on term-deposits. While the AgDF’s investments portfolio is currently dictated by the objectives and anticipated market and economic circumstances, the fund has put in place plans for investment portfolio diversification with the real estate and equities being prime priority areas (AgDF, 2018). In 2014, the net cash generated from AgDF’s operating actives were Rwf. 6 million, the net cash flows for the AgDF from its investment activities was Rwf. 10 million. The net short-term investments for the AgDF in 2015 were estimated at Rwf. 24 billion of which interest income from investments was Rwf. 1 billion (AgDF, 2018).

By 2016, the AgDF had pushed Rwanda’s domestic revenues to about 66% (Rwf, 174.2 billion) of Rwanda’s 2015/2017 national budget (Ngabonziza, 2016). This implies that the AgDF was reducing the country’s reliance on foreign aid. This increase in domestic revenue of 66% of the national budget resulted in an increase from Rwf 132.6 billion to Rwf 14.6 billion over the fiscal year 2014/15. This further meant that the external or foreign revenues represented about 34% (Rwf 594 billion) of the national budget (Ngabonziza, 2016).

These trends are indicative of Rwanda’s ability to finance its national budget over the years after the effect of the AgDF began to be felt. In the fiscal year 2012/13 the country only financed just 54% of the budget, which translates to Rwf. 1.3 trillion and the rest was funded through foreign aid. Nonetheless, a positive trend has been observed since 2014 when its financing of its budget rose to 62% and external resources accounted for 38% of the budget (Ngabonziza, 2016).
4.3 The Development and Management of Rwanda’s Sovereign Wealth Fund

The Norway's Government Pension Fund (GPF) was finally established in 1990 as a fiscal policy instrument to augment the enduring management of revenues obtained from Norway's petroleum industry. The fund is managed by the Norges Bank under the leadership of the Norwegian Ministry of Finance. The management of the GPFG is provided for in law in particular the Government Pension Fund Act no. 123 of 21 December 2005.

The Ministry provides the guidelines for the use of the funds in investments in capital shares as well as other securities. The investment strategies that NBIM follows is determined by the MoF in consultation with both parliament and the NBIM management. In actual sense, the board of the NBIM reports to the MoF regarding the Fund's activities and the MoF in turn answers to the Storting (the Norwegian Parliament) on issues relating to the activities of the Fund.

The GPFG has grown since its creation in January 1998 to become one of the largest SWF. The fund currently owns about 1.3% of all the listed companies all over the world. It is also one of the biggest investors in stock on earth owning more than $667 billion worth of shares in more than 9,000 companies (Kottasova, 2016). The GPFG investment strategy has been centered on the diversification of investment portfolio. The largest holdings for the GPFG are in Nestle, Apple, Royal Dutch Shell, Microsoft, Novartis, and Alphabet (the company that owns Google) (Kottasova, 2016). It has also invested in real estate business owning properties in some of the world’s best-known addresses such as Times Square in the US city of New York, Champs Elysees in France’s capital, Paris, and Regent Street in London, England (Capape & Guerrero, 2014).
This diversification is a shift from the initial strategy that the NBIM had pursued. Up to 1997 when the fund was still referred to as the GPF, the investment strategy had been akin to that pursued by the Norwegian Central in respect to the foreign currency reserves. GPF was invested in mainly on fixed income (Capape & Guerrero, 2014). This shift was therefore initiated to maximize the returns for the GPFG especially in accordance to the vast revenues that it controlled.

4.4 Lessons for Rwanda from Norway's Sovereign Wealth Fund

The Norwegian approach to SWF is more political in its blending of public and private and public as well as domestic and international governance mechanisms in private markets intervention. In this regard, Norway's SWF can be construed as part of the emerging trend of the international markets and finance regulations (Cata, 2013). Nonetheless, Sovereign Wealth Funds (SWFs) remain very much instruments of the state, tightly linked with the state's legal and formal structures. From the perspective of the Norwegian SWF, the idea is not merely to maximize the welfare of the people of Norway (the funds ultimate investor) but it also seeks to deploy the funds to facilitate Norwegian public policy at both the domestic and the international legal systems of other states to realize a degree of horizontal coordination of corporate governance.

Therefore, the lesson for Rwanda with particular relevance to its AgDF from the Norwegian approach is for it not to emphasize the welfare of the Rwandan citizens alone (even though this is most pressing) but to use the funds to leverage its positions in the region by influencing the harmonization and coordination of corporate governance with its regional states. Rwanda's membership in both the East African Community (EAC) and the Common Market for East and Southern African
(COMESA) provided it with the framework to domestic this approach implicit in the Norway's SWF.

Rwanda participates in the EAC financial markets with its securities being traded at the Nairobi Securities Exchange (NSE) and the Dar es Salaam Securities Exchange (DSE) (Kenya Wallstreet, 2016). According to Cata (2013) the Norwegian SWF engages in global financial markets as both a regulatory stakeholder and a participant, and determines companies in which it may invest. Rwanda can also use its position in the NSE and DSE to do the same.

The Norwegian SWF also established Fund's Ethics Guidelines (FEGs) (Harlvorrsen, 2011). These came into force on 1st March, 2010 replacing the conventional Ethics Guidelines for the GPFG that had been adopted in 2004 (Cata, 2013). The Guidelines were initially established as distinct mechanism to supplement the Norges Bank’s work and after undergoing several reviews have become an integral part of an integrated system that is responsible for investing (Harlvorrsen, 2011). At the core, these guidelines are the provision that links ethics to corporate social responsibility suggesting that firms in which the funds are invested must demonstrate some level of social responsibility (Harlvorrsen, 2011). They should be directly concerned with the welfare of the Norwegians and must demonstrate this by engaging in activities that facilitate citizen’s wellbeing.

Similar guidelines can be adopted in the investment of the AgDF. It has been mentioned herein that the main purpose of the AgDF was to promote economic development (Karanja, 2016). This implies that economic development is a central concern for the Rwandans. Economic growth indicators include poverty levels, health, education and other human needs (Russ & Jones, 2008). It is therefore essential that any company that
has the best interests of Rwanda is also socially responsible and participates in the eradication or alleviation of these impediments to economic development.

As such, in line with the ethical guidelines of the Norwegian SWF, the AgDF should invest in companies that are socially responsible and which will both directly and indirectly contribute to the purposes for which the fund was created. In other words, the commercial banks and financial institutions in which the AgDF is currently invested must also engage in direct social responsibility programs. This is the critical lesson from the ethical guidelines of the Norwegian SWF should accord the AgDF. According to Harlvorrsen (2011), there is a link between sustainable economic growth and sustainable social development. He further notes that, the GPFG evades investing in firms whose corporate behavior are considered as constituting an intolerable or deplorable risk by grossly engaging in unethical activities.

It is a challenge therefore for the management of the AgDF to make it mandatory for firms that want to invest in to provide evidence of consistent ethical behavior and adherence to high standards of corporate governance. The ethical guidelines should not be considered as political or strategic, but may also be considered in terms of delivering sustainable economic growth (Cata, 2016).

There are also certain legal and organizational structures of the GPFG that may be important as far as the AgDF successful management is concerned. According to Cata (2013) neither the GPFG nor its predecessor were established as a separate and traditional juridical entity under the domestic law regarding corporations or under other special legislations. It is structured as a state entity operating independently but again not incorporated as a public or private corporate entity.
In this sense, the AgDF borrowed a lot from the GPFG in that it’s neither a fully public entity nor is it a private entity. The Fund, AgDF was registered with Rwanda Development Board with the Republic of Rwanda and operates in accordance with statutory provision, (Tumwebaze, 2015; Hoove, 2016; IFSWF, 2017). Hence, both exist in the form or records of deposits and investments through the AgDF and the GPFG or the AgDF. The managers of the GPFG and AgDF are neither separately instrumentalities of the state nor are they distinctly constituted entities.

Nonetheless, in both their operations, the AgDF and the GPFG operate as instrumentalities of the state with no obligations and rights vis-à-vis the private sector. As an instrument of the state, the GPFG is controlled by the Ministry of Finance (Cumming, et al., 2017; Cata, 2013). As an instrumentality of the state, the AgDF is controlled by the government through the MoFEP (Hoove, 2016; Ravelo, 2012). The two ministries manage the funds deposit under their respective regulations. The main and significant difference between the two is in terms of their fund allocation and AgDF may borrow a leaf from the GPFG in this regard.

The funds deposited to the GPFG are managed by and invested by the Norges Bank (Cumming, et al., 2017). The domestic funds for the GPFG is managed via the Folkestrygdfondet. (Cata, 2013). The parliament allocates funds for the GPFG from the national net flow from Norway's petroleum ventures. These include revenues from taxes associated with environmental emissions, tax revenues as well as interests from the countries petroleum and petroleum-related engagements (Christiansen, et al., 2006; Lie, 2013). The utilization of the Fund is also regulated by the country's fiscal policy guidelines that guarantees that the expenditure of oil revenues through the central
government budget should equal the anticipated real rate of return (RRR) on the Fund overtimes. Such expenditure is pinned at 4% of the Funds value.

Two lessons are implicit for Rwanda's AgDF from this elucidation. First the AgDF receives it’s funding from several sources as indicated by Figure 2.3. These sources include; government contributions, contribution from civil servant, contributions by corporations, individual citizens, diaspora contributions, contributions by corporate staff, NGOs and contributions from friends of Rwanda (Tumwebaze, 2015; Hoove, 2016; IFSWF, 2017). While the government is not the main contributor (the civil servants are going by the 2014 report) its contribution is significant.

This makes the AgDF vulnerable to political machinations of the government. It would be worthwhile if the contributions are done through the national parliament to ensure good policy on the part of the government and the parliamentarians. This would not only go to enhance the legitimacy of the fund by divorcing it from any political influence that would ensure its continuity if Rwanda should usher in new political dispensation. The other lesson that Rwanda could learn is that it can adopt a system like the one Norway has adopted whereby there is a fixed budgetary allocation that is only contingent on the countries financial performance.

Furthermore, any allocation to the government to supplement the national budget or to finance a development project should be authorized by the government and its value should be fixed for every financial year. In relation to the utilization of the Fund, NBIM can only transfer some of the funds of the GPFG to the central government if directed by sorting resolution (Steigum, 2013; Moses &Letnes, 2017).
4.5 Chapter Summary

Chapter four assessed the findings of the study by bringing the two countries together and identifying if there are any lessons from Norway’s development and management of its SWF, for Rwanda. Hence, the chapter identifies the relevant features for each country’s SWF with an aim of providing a detailed assessment of the two. This chapter has also discussed some of the lessons for Rwanda from the GPFG. The chapter departed from the point that the GPFG owing to its years of existence and remarkable success offer certain fundamental lessons for the AgDF.

It has found that the GPFG presents normative, organizational and legal lessons for the AgDF. Some of the main findings are that AgDF can use its position and to influence the harmonization and coordination of financial markets in the region through regulatory measures. It has also found that AgDF can consider determine recipients of its investments in by considering their adherence to social corporate responsibility and high standards of governance.

The chapter has also revealed that while the AgDF and the GPFG are inherently similar in term of their legal basis, the Rwanda should accord the AgDF autonomy in investment decision making and that the contributions to the AgDF should come from the parliament and not directly from the government. The next chapter, which is Chapter Five provides summary of major findings, conclusion and recommendations.
CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This Chapter is the final of the study and provides the conclusions and recommendations of the study. The chapter starts however by providing the summary of the study and of major findings of the study. The summary is given of the research methodology that was deployed in the course of the study. The summary of this study is also given according to the major finds relating to the study objectives and research questions. The major finding of the study also informs the concluding remarks of this study and the recommendations for improvement and for further research that this study proposes.

5.2 Summary of Major Findings

The purpose was to conduct an assessment of the impact of Sovereign Wealth on development between the case of Rwanda and Norway. The study sought to answer three relevant questions concerning SWF; how did Norway's SWF develop and how has the fund been managed? How did Rwanda's SWF develop and how has the fund been managed? Are there any lessons from Norway's development and management of its SWF, for Rwanda?

The study was based on a case study research design. This research design was entirely a qualitative research or desktop research and hence essentially analyzed secondary or existing sources of data. The method for data collection was a historical study as such the study provided an account of what had taken places in the past in terms of the
development of GPF-G and the AgDF. The technique for data analysis was a mix of content and logical analysis

5.3 Discussion of the Major Findings

5.3.1 The Development and Management of Norway's Sovereign Wealth Fund

Norwegian fund receives revenues from the central bank from the countries petroleum activities. The fund is primarily a savings fund of the country’s future generations as such only the anticipated real return of the fund may naturally be used to fund the national budget or other general budgetary purposes. The fund is managed by the Norges Bank under the leadership of the Norwegian Ministry of Finance. The Ministry provides the guidelines for the use of the funds in investments in capital shares as well as other securities.

The Norwegian SWFs has been greatly successful as the country has been able to maintain a current account surplus of more than 12% of the gross domestic product (GDP). In 2006, the surplus was 16.4% the highest compared to that realized over the last 10 years. In the fiscal year 2007, the Government Pension Fund-Global received a portfolio value estimated at US$ 373 billion. In two decades after its establishment the fund is estimated to own slightly over 1% and 2.25% of global stocks and every listed company in Europe. In 2010, the GPFG had realized a milestone of more than US $500 billion (Kr. 3 trillion) in assets.

The utilization of the Fund is also regulated by the country's fiscal policy guidelines that guarantees that the expenditure of oil revenues through the central government budget should equal the anticipated real rate of return (RRR) on the Fund overtimes. As such, such expenditure is pinned at 4% of the Funds value. Nonetheless, the
economic policy guidelines are flexible permitting the government to spend the Fund on national budget depending on the prevailing economic circumstances.

5.3.2 The Development and Management of Rwanda's Sovereign Wealth Fund

Rwanda’s Sovereign Wealth Fund which came to fruition in 2011 following the 9th Umushykirano NDC. The fund was launched by Rwanda’s president at the Umushykirano as one of the way to have in place funds to cushion the country from global financial shocks and a source of development in finance. The Rwanda’s SWF is novel in that it emerges from the idea of dignity (Agaciro) and embraces the countries guiding moral for economic and social development. Several issues were the root of the decision to establish the AgDF all of which had the objective of boosting economic development.

The fund was aimed at; building up public savings to attain self-reliance, accelerate Rwanda’s socio-economic development, maintain stability and economic shocks. Furthermore, the government of Rwanda in setting up the AgDF hoped that it would enhance citizen’s use of financial institution thereby increase investment in the institutions and increase stability.

In addition, it was hoped that the AgDF would precipitate the diversification of the countries investment portfolio resulting in ventures in different sectors of the economy and lead to the maximization of returns. Therefore, by establishing the AgDF, the government of Rwanda also sought to promote the country’s self-reliance and realizing homegrown rather than hand-me down foreign solutions to Rwanda’s development needs.
The fund was established with about RWF 18 billion however in just three years it has grown to about Rwf30.5 billion, with proceeds coming from contributions from ordinary Rwandans, national agencies and the private sector. Over the three years between 2013 and 2016 the following was achieved.

The funds profitability grew by RWF 3.7 billion and revenue by RWF 3.6 billion a net profit of RWF 7.7 billion was also recorded. Lastly the funds profitability grew by RWF 3.7 billion and revenue by RWF 3.6 billion a net profit of RWF 7.7 billion was also recorded. The funds profitability grew by RWF 3.7 billion and revenue by RWF 3.6 billion a net profit of RWF 7.7 billion was also recorded.

The fund’s availability in the AgDF are insufficient to elevate it to the levels of the Norwegian GPFG estimated at $500 billion. Nonetheless, it is highly significant in a country with average per capita annual earnings of about $700. The Funds biggest contributor going by the 2014, were the civil servants with 9.3% followed by the Government of Rwanda with 4.3%. However, individual citizens have also been dynamic contributors providing 3% of the Fund's money in 2014. The fund is managed by the BoT who under the oversight of the Ministry of Finance and Economic Planning, MoFEP.

5.3.3 Lessons for Rwanda from Norway's Sovereign Wealth Fund

The GPFG is more political in its blending of public, private, domestic and international governance mechanisms in private markets intervention. Sovereign Wealth Funds (SWFs) remain a tool of the state, tightly linked with the state's legal and formal structures. As such, the Norwegian approach to SWF also seeks to deploy the funds to facilitate Norwegian public policy at both the domestic and the international legal systems of other states to realize a degree of horizontal coordination of corporate
governance. The lessons for Rwanda with particular relevance to its AgDF from the Norwegian approach is for it not to accentuate the welfare of the Rwandan citizens alone (even though this is most pressing) but to use the funds to leverage its positions in the region by influencing the harmonization and coordination of corporate governance with its regional states.

The Norwegian SWF also established Fund's Ethics Guidelines. The Guidelines were initially established as distinct mechanism to augment the Norges Bank's work and after undergoing several reviews have become an integral part of an integrated system that is responsible for investing. The guidelines, links ethics to corporate social responsibility suggesting that firms in which the funds are invested must demonstrate some level of social responsibility. The lesson in this is to make it mandatory for AgDF to only invested in any company that has the best interests for the Rwandan people and which is also socially responsible and participates in the eradication or alleviation of these impediments to economic development.

The utilization of the GPFG is pinned at 4% of the Funds value the lesson that Rwanda could learn is that it can adopt a system like the one Norway has adopted whereby there is a fixed budgetary allocation that is only contingent on the countries financial performance.

5.4 Conclusion

5.4.1 The Development and Management of Norway's Sovereign Wealth Fund

Norway has a strong SWF that is close to being the universal archetypal model for the management of SWF. The fund has grown to become the world's leading success story relating to the effective management of SWF. The legal and instructional framework that Norway has put in place regarding the management of the fund helps account for
its success and offers important lessons for other countries that have recently established their funds such as Rwanda. The country has restricted the amount of the GPFG that can be used by the government in any fiscal year, this is especially important as it ensures the realization of the funds ultimate goals of ensuring the welfare of future Norwegians.

5.4.2 The Development and Management of Rwanda's Sovereign Wealth Fund

The creation of the AgDF was an important approach for development of Rwanda with respect to the countries endeavor to achieve economic growth. The fund has been a great success owing to the accumulated increase in contributions to it and revenues that it continues to receive from the various investments. The growth of the funds revenue has therefore made it an important source of development funding for the government and this has demonstrated the fund's ability to succeed in what it was originally aimed to achieve, that is, to facilitate Rwanda's economic growth. The AgDF is currently the one of the most important domestic sources of credit to the government of Rwanda.

Through the commercial banks and other financial institutions, the AgDF has facilitate national economic growth through indirect funding to the private sector in terms of credit. The admission of the AgDF into the IFSWF has further accorded credibility to the fund and expanded its opportunity for information on global investment opportunities. This development has further facilitated the fund legitimacy in terms of transparence, accountability and prudence in investment and corporate governance.

5.4.3 Lessons for Rwanda from Norway's Sovereign Wealth Fund

The GPFG provides certain legal and organization structural elements that lend important lessons that the AgDF can borrow and domesticate. The most fundamental
of this the near-independence or autonomy of the fund from the political processes. This is dynamic in ensuring the legitimacy and eliminating the political association that may be associated with the fund.

Furthermore, the delinking of the fund with the political control in Norway ensures the relevance of the fund for current and future generation regardless of current and future political developments. This is an important lesson for the AgDF whose current success is closely associated with the existing political class.

Additionally, the Norwegian approach provides clear ethical guidelines for investing the funds revenues. To be learnt from this is that while the fund exists to facilitate economic growth it should be invested in activities and companies that advance this objective. Therefore, it is dynamic for AgDF managers to acknowledge the significance of this idea of considering ethics before investing in companies.

It is also important that certain levels in terms of utilization of the funds are established and this is a particularly dynamic lesson for the AgDF since it’s over reliance on the government and the executive leaves the funds vulnerable to over utilization. Adopting a parliamentary system especially with regard to funds allocation and funds use by the government might facilitate the resilience of the funds in enhancing economic growth.

### 5.5 Recommendations

With respect to the study findings regarding the development and management of the SWF in both Norway and Rwanda as well as the lessons that Rwanda can learn from Norway's AgDF, the study makes the following recommendations for improvement and for future research.
5.5.1 Recommendations for Improvement

5.5.1.1 The Development and Management of Norway's Sovereign Wealth Fund

The Norway's Ministry of Finance and the Norges Banks, should continue to adhere to the best practices and the high standards of corporate governance to sustain the success of Norway's SWF. The Norway's Ministry of Finance and the Norges Banks put in place proper mechanisms that would accord the government flexibility in relation to fiscal policy for managing reductions in oil prices or/and economic contractions. Norges Banks not always consider US and the West as the only viable investment destination, it must consider other regions that have great potential including Africa and Asia especially China.

5.5.1.2 The Development and Management of Rwanda's Sovereign Wealth Fund

There is need for the management of the AgDF to enhance campaigns especially among the citizens including those in the Diaspora encourage their contribution to and participation in the AgDF to enhance the contributions to the fund’s legitimacy among the citizens. In doing so, the BoT of the AgDF should perceive accountability as an important determinant of the success and resilience of the fund and invest in providing effective communication with all the stakeholders including the general public. As such, it is contingent upon the BoT to take drastic steps to strengthen its internal capabilities and capacities that would ensure the success of the fund. BoT should sustain the current best practices and adherence to the principles of corporate governance to enhance the acceptance of the AgDF and to ensure its resilience.

The BoT and the Government of Rwanda should conduct studies and continue investigating the different areas of investment both within Rwandan and abroad
especially in regional countries to determine and invest in opportunities that would ensure the greater success of the Fund.

5.5.1.3 Lessons for Rwanda from Norway's Sovereign Wealth Fund

The management should therefore borrow a leaf from the Norway's SWF and acknowledge that the fund's success may lie in foreign investments especially in the top performing economies in the region. Similar to the independence of the Norge's Bank regarding decisions on investment, the Rwandan government and the MoFEP should desist from micromanaging the BoT and accord it sufficient space to make practical investment decisions. The BoT, the MoFEP and the government of Rwanda should consult and implement economic policy guidelines that are flexible and which permit the government to spend the Fund on national budget depending on the prevailing economic circumstances.

5.5.2 Suggestions for Future Research

Researchers and scholars should conduct more research relating to the Sovereign Wealth Fund. Researchers need to provide more information regarding the SWF including its theoretical underpinnings, the countries that have established them and how they are managed. There is need for a comparative research involving the Norway's SWF that could help understand whether it offers an archetypal model of how SWF should be managed and invested. More specifically, researchers need to examine Rwanda's AgDF in more detail.

The need to do so is to terminate the current scarcity of literature relating to the AgDF. Such studies need to examine how the Fund is managed, how much has been invested and areas in which the fund has been invested. There is also need for researchers to
conduct primary study and quantify the economic impact or significance of the AgDF including its resilience as a source of fund for economic growth.
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