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Sovereign Wealth Fund costing Zim

December 3, 2015 Business



Business Reporter

GOVERNMENT might have violated dictates of standard practice across the world in setting up sovereign wealth funds, research findings by a local economic think tank have revealed. The findings are contained in the Zimbabwe Economic Policy Analysis and Research Unit's study titled Global Best Practice in Establishing and Managing SWF in Zimbabwe. According to the findings presented in Harare at a validation workshop, setting up of the SWF was against normal and best practice, as Zimbabwe is battling unsustainable external debts.

In the study, ZEPARU said Zimbabwe made a political decision to establish a SWF and enacted a legal instrument in the form of the Sovereign Wealth Fund of Zimbabwe Act 2014 and subsequently set up the fund in 2014.

"The setting up of the Sovereign Wealth Fund was clearly against standard and normal practices considering that the Government is battling unsustainable debt level and very low international reserves," says ZEPARU's report released yesterday.

SWFs are set up to prudently manage income from a country's natural resources to support macro-economic needs of the country when the resources eventually deplete.

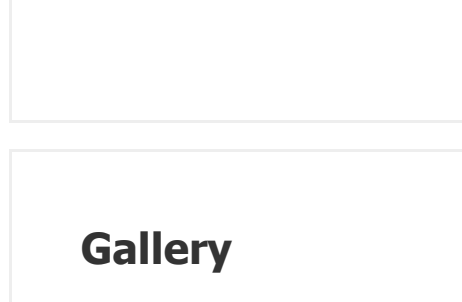
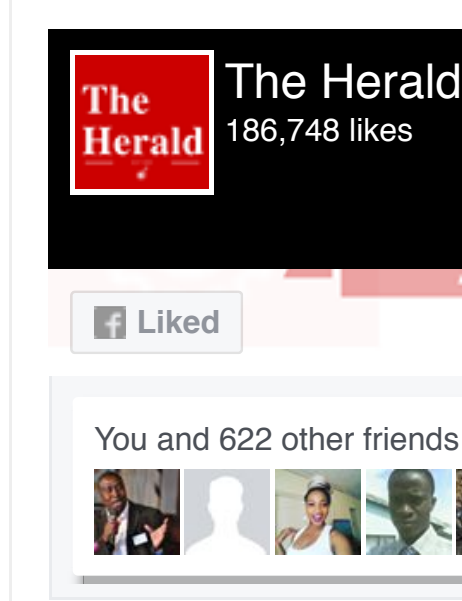
Standard practice requires that Governments repay external loans or reduce them to sustainable levels and can only set up SWF in the absence of substantial external obligations.

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Zimbabwe is saddled with a \$10 billion external debt, with three quarters of it already in arrears, including \$1,8 billion to IMF, World Bank and African Development Bank, which has stood in the way for fresh lines of credit from foreign financiers. ZEPARU noted that while SWF Act can be compared to international best practices enshrined in the Santiago Principles, it contained a number of flaws that need to be corrected.

According to ZEPARU’s study findings, section 11 of the Act by stating that the minister of Finance may give the SWF board directions in the national interest limits the independence of the board regarding administration of the fund.

“In terms of the Santiago principles, once the board has obtained its investment mandate from the Government it should neither direct nor interfere in the fund investment decisions. “It should leave to be accountable for the overall portfolio performance.”

Another flaw in the Act, ZEPARU said, is that it does not provide a limit as to how much can be withdrawn to close the budget deficit. “Section 23 lays out the rules for withdrawals, however, while rules are closely linked to the Government budget surplus and deficit the amount is not determined as part of the annual budget process pre agreed rules.”

To address short comings of the Act, ZEPARU recommended measures that foster transparency and independence of the SWF by publishing the investment policy, creating a dedicated website to publish activities of the SWF and limiting discretions of the responsible minister once the mandate of the fund’s board has been entrusted.

Further, ZEPARU said the Act should provide limits on how much can be withdrawn from the fund to close budget deficit, meaning the amount should be determined as part of annual budget process or pre-agreed rules as per good practice.

The recommendations say Government should create macroeconomic fundamentals that underpin successful setting up of SWFs and building international reserves to required levels.


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