

UNIVERSITY OF CAPE TOWN



# **ASSESSING THE FEASIBILITY AND PREREQUISITES FOR ESTABLISHING A SOVEREIGN WEALTH FUND IN SOUTH AFRICA**

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*Building capacity to mobilize & align*

**MASTER OF COMMERCE IN DEVELOPMENT FINANCE (MDevFin)**



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## LIST OF ABBREVIATIONS

ABBREVIATION	TERM
ADIA	Abu Dhabi Investment Authority
ADQ	Abu Dhabi Developmental Holding
ANC	Africa National Congress
CIC	Chinese Investment Corporation
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
EFF	Economic Freedom Fighters
EIA	Emirates Investment Agency
ESG	Environmental, Social, Governance
ESSF	Economic and Social Stabilisation Fund
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GIC	Government of Singapore Investment Corporation
GFECRA	Gold and Foreign Exchange Contingency Reserve Account
IDC	Industrial Development Corporation
IMF	International Monetary Fund
IPR	Interview Protocol Refinement
KIA	Kuwait Investment Authority
LIA	Libyan Investment Authority
NSIA	Nigerian Sovereign Investment Authority
OECD	Organisation for Economic Co-Operation and Development
PFMA	Public Finance Management Amendment Act
PIC	Public Investment Corporation
RERF	Revenue Equalization Reserve Fund
SARB	South African Reserve Bank
SARS	South African Revenue Services
SOE	State-Owned Enterprise
SWF	Sovereign Wealth Fund
TFSE	The Sovereign Fund of Egypt
UAE	United Arab Emirates
UN	United Nations
USA	United States of America

## **ABSTRACT**

In 2023, the Sovereign Wealth Fund (SWF) Institute reported that assets under management for the 173 global SWFs totalled in excess of US\$ 11.5 trillion, with Africa contributing only US\$ 132.69 billion. These funds are invested both domestically and internationally, resulting in a favourable impact on their own countries. The objective of the present study was to determine what the prerequisites to create a SWF in South Africa.

The research delineates a SWF and analyses the history thereof. The study additionally examines investment methods, governance structures, and frameworks for SWF. Within the South African context, a well-managed SWF may enhance intergenerational equity, foster inclusive growth, and bolster fiscal resilience amid global volatility and domestic socioeconomic problems. Revenue from mineral resources or the divestiture of state-owned assets may enable a SWF to stabilise South Africa's economy against foreign shocks, diminish reliance on debt, and furnish a sustainable source of revenue for social and infrastructure development. The 2020 announcement by the former Minister of Finance set an intention for the South African Government to establish a SWF by allocating ZAR 30 billion, as well as exploring various funding solutions through the sale of spectrum, allocation of petroleum, gas, and mineral rights, sale of non-core state assets, and future budget surpluses. The announcement was received with enthusiasm; however, a persistent question lingered: can South Africa establish a SWF, or is it simply an elusive ambition?

The present study gathered data through semi-structured interviews with diverse industry executives in finance, development finance, and asset management. The researcher employed a qualitative exploratory research methodology to obtain insights regarding South Africa's potential for establishing a SWF. The study's major findings indicated that a SWF should be seen as a savings vehicle capable of aiding future generations considering the country's escalating debt. The SWF may potentially support South Africa during economic difficulties. For South Africa to establish a SWF, it must be founded on a robust legislative framework that enables the fund to be agile, competitive, sustainable, governed effectively, and insulated from political interference. South Africa possesses a pre-existing model from which it can derive insights and enhance to establish the fund.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background to the Study

During the 2020 budget speech, the then finance minister, Tito Mboweni, promised to work on the establishment of a Sovereign Wealth Fund (SWF) for South Africa (Markowitz, 2020). The idea was received with both acclaim and heavy criticism from various sectors of society due to economic reasons and the publicly known mismanagement of resources at national government level (Markowitz, 2020; Smit, 2023).

A SWF is defined as a state-owned investment fund established through privatisation proceeds, governmental transfer payments, fiscal surpluses, and revenues resulting from natural resources extraction (Ouni et al., 2020; Wagner, 2013). Considering the definition of a SWF by Wagner (2013), a SWF may be founded on privatisation proceeds, governmental transfers, fiscal surpluses, and revenues resulting from the proceeds of natural resources extraction. Of these four sources of funding, privatisation proceeds and revenues generated through the sale of extracted natural resources stand as plausible avenues of utilisation in South Africa. With a public deficit forecast at ZAR 94 billion (Bisseker, 2023) and a government characterised by well-known mismanagement scandals, South Africa appears to be in a position where it must rely on limited methods to fund such a SWF.

Although the idea proposed by Tito Mboweni presents itself with several socio-economic challenges that includes an energy crisis and high levels of unemployment, the establishment of a SWF would have the following advantages: the stabilisation of the financial market in economic crisis, increase of capital availability, the financing of development projects, and the diversification of a country's revenue (Ajami & Karimi, 2023; Černohorský & Tesnerová, 2021; Kenneth Okechukwu, 2020; Qobo & Soko, 2022).

As there are over 173 SWFs globally, managing US\$ 11.5 trillion (Megginson et al., 2023), the plan of building a SWF in South Africa may be motivated by the number of pre-existing SWFs around the world. Based on such a considerable number of global SWFs and without a deep analysis, it would be easy to assume that South Africa would be able to establish a local fund of its own (Qobo & Soko, 2022). However, certain stark realities that have shaken the country in the most recent decade indicates several obstacles against such a project.

Although there are several advantages to establishing SWFs, some of their key disadvantages include “low transparency, the possibility of promoting political goals instead of promoting the benefits of the population, the possibility of higher corruption in the event of political influence on fund management, and destabilising the financial market contingent upon extensive selling” (Blundell-Wignall et al., 2008; Chhaochharia & Laeven, 2008). These disadvantages reflect commonalities with the political scandals associated with the current South African government, and has led many experts to question the ability of the current government to creating and maintain a SWF.

If South Africa follows the model implemented by countries such as Finland and the United Arab Emirates, a South African SWF would imply the creation of a new state entity or enterprise managed by the government. In wake of the litany of scandals that have ripped South African State-Owned Enterprises (SOEs), one questions the ability of the government to successfully establish and manage such a financial venture. On the opposite side of the public negativity that may surround such an idea, one also directs attention towards the possibility of creating a SWF proofed against mismanagement, corruption, and unethical political interference.

Following the example of the Finnish government before it created Solidium Oy (the Finnish SWF) in 1991, South Africa would likely need to implement new industrial policies regarding its own SOEs. Prior to the creation of its SWF, the Finnish government struggled to find the investment needed to fund its own SOEs (Ranki, 2012). Such challenges increased the need to publicly list Finnish SOEs while reassessing the need to hold state shares in those SOEs (Ranki, 2012). Once the Finnish government realised that its SOEs could no longer be used to drive the implementation of economic policies, it decided to relinquish most of its shares in those SOEs. Apart from the excessive corruption, the Finnish story contains strong similarities with the current state of the South African economy. From Eskom to Denel (to name a few), most South African SOEs have currently lost the fire power needed to influence national economic policies.

Within this context, the creation of a South African SWF should be preceded by policies reforming the management of SOEs. In line with such observations, the South African government recently proposed a bill that would result in the creation of a new state entity designated to manage all SOEs (Government Gazette, 2023).

The new state company would be named the 'State Asset Management SOC Ltd' and the proposed organisation would replace the National Department of Public Enterprise through a transfer of shares (Government Gazette, 2023). If approved in Parliament, the new proposal would reduce the red tape caused by the presence of bureaucratic functions and the ineffectiveness of state executive roles created through political appointments. Furthermore, this new entity may create an effective environment for the creation of a state SWF.

Therefore, the present study presents an analysis of the currently existing SWFs around the world, while discussing factors relevant to the creation of a South African SWF. Furthermore, it analyses both South Africa's ability to establish a SWF and the current economic environment while discussing a potential framework that may prevent a South African SWF from failing.

## **1.2 Research Problem and Questions**

South Africa last recorded a budget surplus during the 2005 to 2009 fiscal year periods (Stats SA, 2019). According to the 2022 budget speech delivered by Enoch Gondongwana, the current Finance Minister, the national fiscus remained constrained with a budget deficit of 5.7%, while gross national debt was projected to stabilise at 75.1% of the Gross Domestic Product (GDP) by the 2024/25 fiscal year (Godongwana, 2022). Consequently, the national fiscus required assistance through international borrowing to respond to the government development programme. This observation leads to the conclusion that a specific economic environment must exist before the creation of a SWF can be considered. Furthermore, throughout the pandemic, South Africa witnessed the dire financial state of its SOEs through a revealing report brought forward by the State Capture Commission (Zondo, 2022). Considering these events, more questions can be raised on South Africa's ability to build a SWF with the aim of contributing towards national economic stability.

Considering the current State of the South African economy, the main research question of the present study is: *What are the prerequisite conditions for South Africa to establish a SWF?*

The main research question is accompanied by three sub-questions as follow:

- What roles can SOEs and development finance institutions serve in aiding the South African government's initiative to create a SWF;
- Which institutional arrangements and governance frameworks are optimal for enhancing transparency and accountability in the creation of a SWF in South Africa; and

- Considering South Africa's present financial landscape, what viable funding sources exist for a SWF, and which investment goals should direct its initial establishment?

### **1.3 Research Objectives**

The main objective of this study is to assess South Africa's readiness and ability to establish a SWF. The objectives further include to:

- Investigate the prospective roles of SOEs and development finance institutions in facilitating the creation of a SWF in South Africa;
- Assess appropriate institutional structures and governance frameworks that guarantee openness, accountability, and efficacy in the establishment and administration of a South African SWF; and to
- Ascertain feasible funding sources and strategic investment priorities for a South African SWF, taking into account the nation's prevailing financial and economic circumstances.

### **1.4 Scope and Justification for the Study**

The idea of a SWF had been discussed in September 2018 within the chambers of the African National Congress (ANC), two years before the official announcement by the then Finance Minister Tito Mboweni (Qobo & Soko, 2022). The revival of the topic in 2020 constituted the revisitation of a discussion that required formalisation at government level. However, for the past three years since its official announcement, there no formal steps have been adopted to advance the establishment of a SWF. Such silence does indicate the presence of hurdles, not allowing for the fast-tracking of the announced SWF project. The present study will assist in tabling policies, parameters, and frameworks for the establishment of a SWF in South Africa, and will also serve as a guiding document for countries sharing strong economic and political similarities with South Africa.

### **1.5 Plan of Development**

The research study is presented through five chapters. The present chapter provided a background to the study and presented introductory concepts related to SWFs. The original discussions and objectives underlying the project creation of a SWF in South Africa was also summarised. The chapter further presented the research questions and objectives. Following, Chapter Two presents a detailed empirical review of the published literature on topics related to SWFs.

The literature review is divided into various sections discussing the history of SWFs, the impact of SWFs, the investment strategies employed by SWFs, an overview of selected African SWFs, and an overview of the Chinese SWF and its impact in Africa.

Chapter Three details the research methodology utilised to answer the research questions, while also outlining the research design. Furthermore, this chapter also describes the data collection process and the tools of analysis. Chapter Four examines the results derived from the gathered data, establishing a connection between these results and the literature review. Finally, Chapter Five presents an overall summary of the research and the key findings from the study. The chapter also provides the necessary recommendations based on the observations, findings, and forecasting conducted and provides direction for future research.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction to Sovereign Wealth Funds

Blundell-Wignall et al. (2008) defined a SWF as a pool of assets owned and managed directly or indirectly by governments to achieve national objectives. While Quadrio Curzio and Miceli (2010) further defined a SWF as a specialised investment vehicle, state-owned, for the acquisition, retention, and management of assets with financial objectives. In line with these definitions, one understands that a SWF may be likened to a financial weapon designed to overcome national challenges and to shape the implementation of national policies. Considering the dire economic state of South Africa, characterised by high levels of unemployment and notable fiscal deficits, the creation of such a financial weapon constitutes an attractive concept. Ouni et al. (2020) stirred the pot of academic definitions by labelling SWFs as a confusing concept to explain due to its hybrid nature. Ouni et al. (2020) further stated that “SWFs are controlled by the government, but they are run as private organisations, they lack transparency, and they share strong similarities with private investment operations.” Such a definition may lead to the understanding that an environment of corporate independence should precede the creation of a SWF.

The Santiago Principles (IFSWF, 2008) defined SWFs as special investment purpose funds owned by governments for macroeconomic purposes. According to the Santiago Principles (IFSWF, 2008), SWFs hold and manage assets with a view to achieve national objectives and conduct foreign investments. The Santiago Principles elevate the nature of SWFs from “a state bank” to the “status of international investor.” Considering the definition brought by the Santiago Principles, one understands that a South African SWF may have the possibility of widening its horizons by selecting profitable investments opportunities outside of South Africa. According to the International Monetary Fund (IMF), and based on the Santiago Principles, there are five types of SWFs (Al-Hassan et al., 2013). Their classifications are determined by their policy objectives and are categorised as follows:

- **The Stable Fund:** this type of SWF is designed to insulate or protect national economies from the price volatility of commodities and from external shocks. These SWFs tend to invest largely in liquid portfolios while allocating 80% of their assets into fixed income securities.

Some of the SWFs falling within this category include the Oil Stabilisation Fund of Russia and the Economic and Social Stabilisation Fund of Chile.

- **The Savings Fund:** This SWF aims to distribute wealth over generations by converting non-renewable assets into a variety of financial assets. Some of the SWFs falling within this category include the Abu Dhabi Investment Authority and the National Wealth Fund of Russia.
- **The Development Fund:** This type of SWF intends on allocating resources to finance socio-economic projects. The SWFs within this category include the Mubadala Fund of the United Arab Emirates (UAE) and the National Development Fund of Iran.
- **The Pension Reserve Fund:** These investments are designed to cover future outflows relating to pension obligations on the government's financial statements. They maintain significant stakes in stocks and other investments to counterbalance increasing pension expenses.
- **Reserve Investment Corporations:** These types of funds intend to reduce the negative carry costs of holding reserves or to earn higher return on ample reserves, while the assets in the funds are still regarded as reserves.

In most resource-rich countries, SWFs simultaneously carry several objectives or multiple SWFs are established. Such is the case for countries such as the UAE, Botswana, or Norway (Al-Hassan et al., 2013). In line with questions attached to the present study is whether a South African SWF would exist in a counter cyclical nature to prevent the impacts of economic crises. One of the objectives of the present study is to provide a proposal tabling a set of institutional arrangements and governance frameworks ensuring transparency, accountability, and effectiveness in establishing a SWF and in managing its funds. By placing an observation on the current financial institutions owned by the South African state, one can draw a set of points which can be utilised to organise a governance framework for a SWF. For example, the management scandals that have tarnished the Public Investment Corporation (PIC) can serve as a point of reference to understand what needs to be avoided when establishing a SWF.

## **2.2 Historical Origins of Sovereign Wealth Funds**

Sovereign Wealth Funds primarily originated in the 1950's at the wake of the Second World War (Wilson, 2023). Although SWFs existed since the 1950's, the term was first coined in 2005 by Andrew Rozanov, an investment manager and writer. Rozanov stated that certain governmental investment institutions could justify their existence through the management of the budget surplus of their countries, thus being labelled as SWFs (Chen, 2009).

The first SWF was the Kuwait Investment Authority (KIA) created in 1953 (Wilson, 2023), to date the KIA manages US\$ 803 billion in assets, and it is the fifth largest SWF in the world (SWFI, 2023a). The fund was created to hold and manage the financial surplus caused by the discovery of oil (Wilson, 2023). By retracing the origins of the KIA, one notes its establishment based on financial surpluses, thus indicating that surpluses caused by the sale of minerals represent a “speedy boost” in the creation of a SWF.

In 1956, the Kiribati state created its own SWF, the Revenue Equalisation Reserve Fund (RERF), which currently manages over US\$ 608 million in assets. In 2009, the RERF was depleted by 11% through a withdrawal of funds by the Kiribati government due to the global economic crisis that plunged the Kiribati economy into a budget shortfall (IMF, 2011). From a comparative perspective, one might view these assets as small for a SWF created in the 1950's; however, it should be noted that Kiribati is a small island state, with a population of 131 232 according to The World Bank (2022). Since Kiribati is a country with a relatively smaller population compared to South Africa and considered one of the least developed countries (Sem et al., 2015), one understands that South Africa may not have a luxury of excuses for not establishing a SWF as promised in 2020.

From the history of both the KIA and RERF, two relevant point must be noted: Firstly, the KIA was founded at the wake of the Second World War, thus indicating a consciousness trend pivoting towards a saving culture in a world that was ravaged by years of global war. Secondly, the economic episode that saw the RERF use part of its funds to save the Kiribati economy at the wake of the global crisis of 2009 is a clear example of an advantage of a SWF during times of crisis. These points can serve as motivation for implementing a SWF in South Africa.

The world would have to wait for a few more years before witnessing the birth of the Abu Dhabi Investment Authority (ADIA), founded in 1976 by Zayed bin Sultan Al Nahyan (Wilson, 2023). The ADIA was created to hold, manage, and invest funds resulting from the surplus sale of oil extraction (OECD, 2017). Currently, the ADIA holds US\$ 800 billion in assets and investments spread around the world (OECD, 2017). In 2002, in response to the need of UAE citizens who were not directly benefiting from oil extraction, the UAE government created the Mubadala SWF to diversify activities away from oil extraction (OECD, 2017). In addition to the ADIA and Mubadala Fund, the UAE also has a third SWF named the Emirates Investment Agency (EIA), founded in 2007 (OECD, 2017). From the profiling number of investment agencies, one notes that there are no conventional limits to the number of SWFs hosted by a single country. In line with the context of the present research, one also notes that the conditions preceding the creation of ADIA were characterised by the surplus of oil sales, while the economic conditions preceding the creation of the Mubadala and EIA were characterised by an over reliance on oil and the need to respond to more diverse economic policies.

A concrete historical model of a SWF can also be seen in Norway with the Government Pension Fund created in 1990 to manage the ever-increasing oil revenue of the country (Backer, 2009). The fund currently manages assets to the value of US\$ 1 477 trillion (SWFI, 2023c), thus being considered as one of the largest SWFs in the world. Twenty-one years after the Norwegian government had discovered oil in the Black Sea, the government decided to create a SWF to control the management of the revenues created by the oil surplus (Özgül, 2019). Based on the purpose of the Norwegian SWF, one can learn that a SWF can also be established to create better monitoring tools on national surplus revenues. Such objectives may be useful to South Africa, particularly in the context of fighting corruption. On an interesting note, the Norwegian Sovereign Fund obtained its first capital in 1996 (Özgül, 2019), and to this day the same fund is one of the largest in the world. It took the Norwegian Government six years to deposit capital into their SWF, noting that between 1990 and 1996, although the Government Pension Fund was already an existing entity, it remained empty. Such an example provides evidence that a South African SWF would not necessarily require existing funds upon formation. Deposited funds or capital within a SWF does not necessarily form a prerequisite to establish a SWF.

The history of the SWFs around the world is typically characterised by a policy determined to save the budget surpluses of a nation. Based on the SWFs present above, there is no need to adopt a conventional formula in order to launch a SWF within South Africa.

Countries such as Kiribati and Norway have proven that a struggling economy and a lack of capital to fund a SWF are not key hurdles to create and manage a SWF. Since South Africa generates US\$ 125 billion from its mineral resources annually (Al Jazeera Staff, 2022), there may be a strong case for the creation of a SWF.

By revisiting the Kiribati SWF and its positive effects during the 2008 global crisis, one of the questions included in the study questionnaire sought to determine whether a South African SWF would assist in supporting the balance of payment in view to prevent deficits. The Kiribati decision to draw funds from its SWF indicates that a SWF may serve as an intergenerational equity. Such an observation can be made when one considers that the Kiribati SWF is over 60 years of age.

### **2.3 Sovereign Wealth Funds in Africa**

The African continent has established approximately 27 SWFs (see Table 1 below), with the oldest being the Pula Fund from Botswana and the largest being the Libyan Investment Authority (LIA) from Libya, with an estimated asset value of US\$4 5billion (Global SWF, 2024; IFSWF, 2024; SWFI, 2024a, 2024b).

In Botswana, the Pula Fund was established as the country's SWF in 1994. To date, the Pula Fund manages US\$ 3.49 billion in assets (SWFI, 2024a). The fund was established to manage the surplus in diamond trade. In comparison to South Africa, Botswana relies heavily on diamond trade, while South Africa has a more diverse economy (Benza, 2020). The LIA is Africa's second largest SWF, managing US\$ 38.4 billion in assets (SWFI, 2024a). The fund was established in 2006, and its existence clearly proves that even a young SWF can thrive through political turmoil. Despite former President Ghaddafi being overthrown in 2011, the LIA remains operational. Such an example indicates that even during the current South African political environment, characterised by uncovered corruption, it may be possible to launch a SWF with a robust nomenclature.

According to the Sovereign Wealth Institute, Africa is host to 27 SWFs (SWFI, 2023b), considering South Africa as the third largest economy on the continent (Oluwole, 2023), arguments against the South Africa's ability to launch a SWF overlooks the evidence that other African countries with smaller economies have managed to launch their own SWFs.

*Table 1. Twenty-Seven African Sovereign Wealth Funds.*

<b>SOVEREIGN WEALTH FUND NAME</b>	<b>COUNTRY</b>	<b>YEAR ESTABLISHED</b>	<b>ASSET VALUE (\$ BILLION)</b>
Ethiopian Investment Holdings	Ethiopia	2021	45,00
Libyan Investment Authority	Libya	2006	38,40
Fond de Regulation des Recettes	Algeria	2000	16,35
The Sovereign Fund of Egypt	Egypt	2018	12,00
Fundo Soberano de Angola	Angola	2012	3,87
Pula Fund	Botswana	1994	3,49
Nigeria Sovereign Investment Authority	Nigeria	2012	2,42
Fonds Gabonais d'Investissements Stratégiques	Gabon	2012	2,00
Mauritius Investment Corporation	Mauritius	2020	1,79
Mohammed VI Fund Morocco	Morocco	2020	1,60
Ithmar Capital	Morocco	2011	1,20
Ghana Heritage Fund (Ghana Heritage Fund)	Ghana	2007	0,93
Fonds Souverain d'Investissements Stratégiques	Senegal	2012	0,85
Fonds Spécial d'Investissement de Guinée	Guinea	2023	0,70
Ghana Infrastructure Investment Fund	Ghana	2014	0,33
Agaciro Development Fund Corporate Trust Ltd	Rwanda	2012	0,26
Ghana Petroleum Funds	Ghana	2011	0,20
Fonds National des Revenus des Hydrocarbures	Mauritania	2006	0,16
Fonds Souverain de la Republique Gabonaise	Gabon	2011	0,14
Cape Verde Sovereign Wealth Fund	Cape Verde	2015	0,12
Petroleum Investment Fund	Uganda	2015	0,12
Fonds Souverain de Djibouti	Djibouti	2020	0,12
Sovereign Fund of Mozambique	Mozambique	2024	0,11
Equatorial Guinea Fund for Future Generations	Equatorial Guinea	2002	0,10
Sovereign Wealth Fund of Zimbabwe	Zimbabwe	2014	0,10
Welwitschia Fund	Namibia	2022	0,02
Namibia Minerals Development Fund	Namibia	1996	0,01

All 27 African SWFs have a combined managed asset wealth valued at over US\$ 100 billion. In addition to the Pula Fund and the LIA, notable African SWFs include:

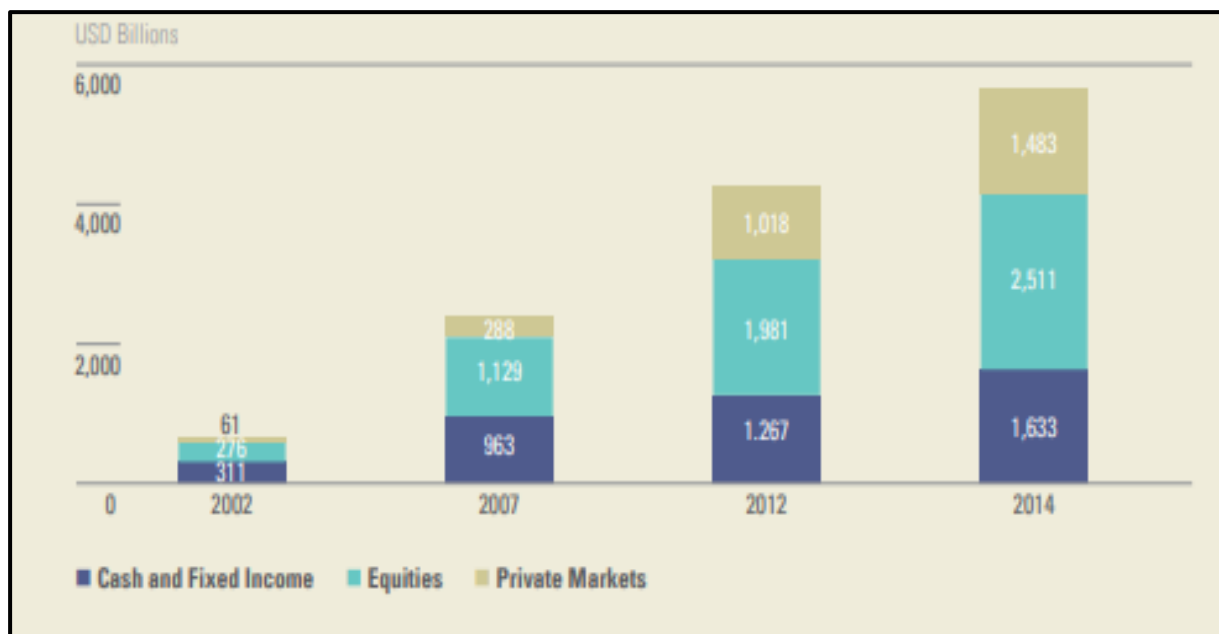
- The Nigerian Sovereign Investment Authority (NSIA), founded in 2013, ran profitably for nine consecutive years (Global SWF, 2022).
- The Welwitschia Fund from Namibia was launched in 2022 with a capital investment of US\$ 16 million. The Namibian Government expects to boost the fund capital through the privatisation of 22 SOEs and through surpluses generated from the discovery of oil (Global SWF, 2022).
- The Ethiopian Investment Holdings manages US\$ 45 billion in investment spread within SOEs (Cox, 2023).

The above-mentioned African SWFs can serve as models displaying the possibilities at hand for the South African Government. Furthermore, these same African SWFs dispel any myth asserting that South Africa may be too late or have too little to launch a SWF.

#### **2.4 Investment Strategies Employed by Sovereign Wealth Funds**

In line with the research questions, is the consideration of whether a SWF would contribute towards the growth of the South African economy. The question also aligns with the first research objective which focuses on measuring the impact of SWFs in their countries of origin. According to the Capital Market Authority (2023), the term investment is defined “as the commitment of current financial resources in order to achieve higher gains in the future.” Based on the observations made by the global SWFs, they rely on various forms of investments to increase their assets values. Therefore, the investment strategies applied by SWFs will be presented in the following section, while analysing their impact on national economies.

Sovereign Wealth Funds generally do not invest in a typical asset class or within a rigid framework; however, Hentov (2015) suggested that SWFs invest in “cash and cash equivalents (e.g., treasury bills, certificate of deposits, repurchase agreements), fixed-income securities (e.g., treasury bonds, municipal bonds, corporate bonds), global equities (i.e., shares in foreign firms), and private markets (i.e., assets that are not publicly listed)”. Figure 1 below depicts the distribution of SWF investments across conventional asset classes from 2002 to 2014.



**Figure 1. Sovereign Wealth Fund Investments Allocation (2002-2014).**

*Source: (Hentov, 2015)*

Pielichata (2019) stated that, based on observations, SWFs tend to adopt four strategies when implementing investment decisions: they act as private equity firms, invest with other private equity funds, directly invest in secondary markets, or invest in less risky and volatile markets. Kotter & Lel (2011) discovered that one of the investment strategies used by SWFs consisted of targeting underperforming multinational corporations with headquarters in developed nations and to favour companies that were currently experiencing financial strain. Such trends have been observed sports such as soccer, where several SWFs prefer to invest in struggling European professional soccer teams before transforming them into profitable assets (Hentov, 2015). African SWFs prioritise large returns and political interests over risk, which is why they tend to invest internationally rather than domestically (Diallo et al., 2016; Wills et al., 2016).

Concerning anti-money laundering and anti-corruption rules, the transparency levels of a SWF may affect the operations and worth of the organisation in which the SWF invests in (Kotter & Lel, 2011). There are no set guidelines for the strategic asset allocation of SWF investment, where they typically invest in large, listed companies and foreign businesses that are active in the energy, private equity, real estate, and investment sectors (Bernstein et al., 2013; Chhaochharia & Laeven, 2008). A key characteristic of SWF investment is in their appetite for low-risk investments located within peaceful and turbulent-free regions (Bortolotti et al., 2010).

## **2.5 Aligning Investment Strategies with Foreign Policies and International Pressures**

Bortolotti et al. (2010) conducted a study on 802 investments made by 33 SWFs between 1985 and 2009. The study revealed that the majority of investments made by those 33 SWFs were injected into Organisation for Economic Co-Operation and Development (OECD) countries. Such an observation appears to indicate that SWFs would prefer to inject their international investments in countries that are less prone to political instability. In the same study, it was uncovered that American companies attracted over half the number of SWF investments (426 of 802) and almost one-third of the value (US\$ 58.3 billion of US\$ 181.6 billion; (Bortolotti et al., 2010).

The next most popular investment attractions by number are Chinese and Singaporean companies; however, almost all are domestic investments by the China Investment Corporation, Temasek, or the Government of Singapore Investment Corporation. Cross-border investments account for 90% of all SWF listed-firm stock purchases, and over three-fourths of those investments are targeted towards OECD companies (Bortolotti et al., 2010). The first observed investment strategy consists of choosing stable and low-risk destinations.

However, beyond the criteria of stability, SWFs have to carefully study other factors such as international sanctions and global polarisation. Global polarisation, refers to international issues dividing countries, such as the Ukraine-Russia war or various politically contentious issues debated at the United Nations (UN). To bring a practical view on such an issue, the case of the LIA represents a real case where the foreign investment made by a SWF could be targeted in the midst of global polarisation.

In 2011, the UN Security Council adopted resolution 1973 which authorised foreign forces to protect Libyan civilians against the Gaddafi regime during the Libyan Civil War (Sacerdoti, 2012). Following this adoption, an extension was applied on resolution 1973 which also included the freezing of assets managed by individuals and institutions operating on behalf of the Libyan Government (Sacerdoti, 2012). The sweeping extension of the resolution also implied the freezing of assets managed by the LIA, since it was deemed to finance the Libyan regime during the civil war (UN Security Council, 2011). Sacerdoti (2012) stated that Libyan assets valued at US\$ 68 billion and managed by the LIA were frozen for being directly linked to Gaddafi and his family.

Sacerdoti (2012), while discussing the UN sanctions against the LIA, mentioned that the freezing of the LIA assets were justified by the direct involvement of the Gaddafi family into the LIA. While Gaddafi was accused of human rights violations (UN Security Council, 2011), the government of the UAE is also known for, and accused of, committing severe human rights violations by the United States of America (USA; (USDS, 2022). The murder of the Saudi Arabian journalist, Jamal Kashoggi, and the UAE known human rights violations have not plunged the Saudi Arabian SWFs into various forms of grave sanction (Stewart, 2021). Although evidence pointed towards the Saudi Arabian Government's orchestration of the murder of Jamal Kashoggi, the USA President did not sanction the Saudi Arabian King, nor the Saudi Arabian SWF directly linked to his family (Stewart, 2021). For this reason, Sacerdoti (2012) argued that the sanctions imposed on the LIA included levels of bias observed through the differential treatments of various nations accused of human rights violations.

## **2.6 Macroeconomic Effects of a Sovereign Wealth Fund: The Case of Chinese Sovereign Funds**

During the 2008 USA Presidential election, Barack Obama stated his concern towards investment made by Russian and Chinese SWFs into USA institutions. He voiced doubts regarding the true and real objectives of the Russian and Chinese SWFs investments in the American market (Coffin, 2019), demonstrating a clear example of the impact of SWFs on the stability or destabilisation of an economy.

Within the South African perspective, the macroeconomic effects of SWFs have been observed through the Chinese Investment Corporation (CIC). As a good example, the CIC bought a 25% stake in the Shanduka Group in 2011 (England, 2011). The Shanduka Group was founded by Cyril Ramaphosa, the current South African President who was then a very influential member of the South African ruling party. Although not considered directly, such an investment may bear a level of influence on South African politics. In 2009, the China-Africa Development Fund invested US\$ 140 million in Africa (Yan, 2010), and in 2013 the China-Africa Development Fund invested ZAR 400 million to obtain a 20% stake in Independent News and Media South Africa (Sole & Mckune, 2014) The investments made by the China-Africa Development Fund displays clear potential for influence on African economies.

In light of such examples, a potential South African SWF may also be utilised to expand South African influence on foreign soils. According to its 2018 Global Report, the CIC invested 53% of its portfolio in USA markets, 33% of its investment in non-USA markets, and 13% of its portfolio in emerging markets (CIC, 2019). Contrary to other safe SWFs investors, Chinese SWFs do not shy away from investing in regions presenting volatility risks such as Africa. The appetite and willingness to invest in Africa resulted in the formation of large investment acquisitions within the continent. In light of such observations, a potential South African SWF should be able to invest within Africa and not only in stable OECD countries.

Further arguments for a South African SWF to favour “south-south” investments and investments in emerging countries may be justified by the solidified alliance that South Africa holds with China and Russia. The freezing of the LIA assets by Western countries should serve as a lesson or a warning to South Africa in investing abroad through SWFs. Should South Africa maintain its solidified relations with Russia and China, a potential South African SWF may see its investments based in Western countries exposed to potential freeze.

The macroeconomic effects of the Chinese investments through its SWFs in Africa have been significant. The financial investments have grown from US\$ 75 million in 2003 to US\$ 5 billion USD (de Freitas, 2023). African nations have broadened their economy and export markets through Chinese investments, leading to increased access, new revenue streams, economic expansion, and enhanced wealth (de Freitas, 2023). Chinese SWFs’ investments in Africa have faced extensive criticism, with de Freitas (2023) highlighting that their investments differ from Western investments by:

- not making significant efforts to export their governance model;
- having heavily invested in Africa; and
- not pursuing the building up of a network of states obliged to supply natural resources and locations for military bases.

The Chinese model of foreign investment presents an attractive premise without conditions attached, unlike Western investments that are accompanied by various forms of pressures (de Freitas, 2023). Since the Chinese SWFs have made bold investments in Africa and in emerging markets, one asserts that a potential South African SWF would also be able make investments within the continent without the need to meddle within the politics of countries receiving South African investments.

## 2.7 Framework Models for Sovereign Wealth Funds

Current global SWFs operate based on a set of structures and frameworks guiding their decisions. One of the objectives of the present study was to provide a proposal tabling a set of institutional arrangements and governance frameworks ensuring transparency, accountability, and effectiveness in establishing a SWF and in managing its funds. Within this context, it remains relevant to discuss whether a potential SWF should operate within the supervisory ecosystem of existing institutions (e.g., Ministry of Finance or the National Treasury) or whether a South African SWF should operate with a set of guidelines unique to the South African context.

Among the top eight SWFs in the world, only one belongs to a European or Western country (SWFI, 2023e). Since the majority of the top eight successful SWFs were not founded in Europe or in a Western country, one can erase the notion that Western countries hold the secret recipes for the creation of SWFs. Furthermore, except for the Government of Singapore Investment Corporation (GIC) Private Limited, the top eight SWFs are operating under political systems that are either monarchic or social communists. This observation erases “liberal democracy” as compulsory pre-condition for the successful establishment of a SWF.

*Table 2. Top Eight Sovereign Wealth Funds.*

FUND NAME	REGION	FUND VALUE (billions)
Norway Government Pension Fund Global	Europe	US\$ 1.478
China Investment Corporation	Asia	US\$ 1.351
SAFE Investment Company	Asia	US\$ 1.020
Abu Dhabi Investment Authority	Middle East	US\$ 853
Kuwait Investment Authority	Middle East	US\$ 803
Public Investment Fund	Middle East	US\$ 777
GIC Private Limited	Asia	US\$ 770
Hong Kong Monetary Authority Investment Portfolio	Asia	US\$ 514

*Source: (SWFI, 2023e)*

Al-Hassan et al. (2013) asserted that SWFs possess varying frameworks; nonetheless, they identify two predominant forms of institutional frameworks: the Investment Company Model and the Manager Model. The Manager Model designates the asset owner, often the finance ministry, which grants an investment mandate to the asset manager of the SWF (Al-Hassan et al., 2013). The Investment Company Model refers to the establishment of an investment entity by the government, which subsequently owns the assets of the fund. This model is typically employed when the investment strategy necessitates a more concentrated investment and active ownership in individual companies, or when the fund has a developmental objective alongside financial returns (Al-Hassan et al., 2013). Both models align directly with Principal-Agent Theory, which describes the relationship in which one entity, termed the principal, assigns tasks to another entity, known as the agent (Alhammedi et al., 2023).

## **2.8 Governing Frameworks Models from Selected Sovereign Wealth Funds**

In order to demonstrate the two different models listed above and the implementation of Principal-Agent Theory, five SWFs has been selected as examples: two of the top SWFs in the world and three African SWFs namely - the CIC, the Norwegian SWF, the Pula Fund of Botswana, the LIA, and the Sovereign Fund of Egypt (TSFE; Eaton & Ming, 2010).

The CIC is managed in accordance with the Chinese company law and by three governing bodies namely: the Board of Directors, the Board of Supervisors, and the Executive Committee, while the Chinese State Council exercises shareholder's rights on behalf of the state (CIC, 2019). The CIC Board of Supervisor serves as an auditory committee, the Board of Directors' drafts policies, while the Executive Committee implements the policies drafted by the Board of Directors (CIC, 2023). Since the Chinese State Council operates as a shareholder in the CIC, one can assert that the Chinese Government is involved in the activities and decisions of the CIC.

The Norwegian SWF has a very particular method of management that includes the participation of the Norwegian Central Bank and the Ministry of Finance (Backer, 2009). The Norwegian Central Bank supervises the affairs of the fund, while the Ministry of Finance runs the policy of the SWF (Backer, 2009).

The Pula Fund from Botswana falls under the Bank of Botswana (Botswana's Central Bank). Occasionally, the Government of Botswana invests directly into the fund. The Board of the Bank of Botswana has overall responsibility of the Pula Fund and the fund itself does not have its own board or management (Bank of Botswana, 2025; IFSWF, 2022; SWFI, 2023d).

The LIA serves as Libya's SWF and is owned by the people of Libya and not the Libyan Government or Central Bank. The people are represented by the Board of Trustees. The Board of Trustees includes essential government officials such as the Prime Minister and the Minister of Finance. There is also a Board of Directors and Executive Management to oversee its commercial activities (IFSWF, 2019).

The TSFE is the investment fund for Egypt, with a purpose of creating, managing, and perfecting opportunities within Egypt's SOEs. The fund's highest body is the General Assembly, which consists of the Prime Minister, four Ministers, the Deputy Governor of the Central Bank of Egypt, and seven independent experts. The fund has its own a Board of Directors and management (TSFE, 2025).

From above examples, one asserts that government branches remain closely involved in successful SWFs. Within the context of such an observation, a governance framework for a potential South African SWF would need to include provision for the direct involvement of government. Since the top global SWFs are recipients of their government's involvement, a South African SWF cannot be run without some level of participation from government.

## **2.9 Investment Restrictions of Sovereign Wealth Funds**

Although the contexts and policies differ from one region to another, it is relevant to set guiding rules to protect the maintenance of a potential SWF, particularly within the South African context that has been characterised by corruption and mismanagement. Therefore, a SWF framework should include restrictions to prevent reckless and uncalculated investments. Rietveld and Bauer (2014) compiled a list of restrictions for SWFs in order to maintain their assets and avoid any form of financial crises in their countries of origin:

- **Domestic Investments:** Most SWFs established in countries rich in natural resources prohibit themselves from making domestic investments. Such restriction is implemented to prevent undermining sterilisation objectives (Rietveld & Bauer, 2014). Usually, resource-rich countries store their financial surpluses within a SWF.

If the same SWF would decide to re-inject the surplus by investing in domestic assets, a financial inflation could ensue. Secondly, a direct expense through a SWF may equate to a policy act by bypassing budgeting measures, any form of oversight, and public transparency. Such unseen or uncontrolled expenses may be utilised for political patronage. In the South African context, a restriction on domestic investment may prevent the SWF from turning into a “piggy bank” for any ruling party.

- **Minimum Credit Rating:** Many SWFs are restricted from investing in bonds with a lower credit rating. In order to prevent high-risk investment in low-quality foreign bonds, SWFs are often given a directive to limit their investments into bonds classified under a specific rating class (e.g., AA, AA-). These ratings are set by reputable credit agencies such as Moody, Fitch, or Standard and Poor.
- **Other High-Risk Instruments:** This restriction prevents SWFs from investing in futures or options traded by financial institutions without full knowledge of both the investment techniques used and the objectives of the derivatives. In other words, SWFs should be convinced that derivatives will be used for hedging and not for speculative purposes.
- **Taking Debt:** A SWF must be restricted from taking on debt due to the risk of overborrowing and opening the door to financial mismanagement.
- **Using Funds as Collateral on General Government Debt:** Certain oil-rich countries (e.g., Algeria, Venezuela, and Cameroon) have attempted to utilise their oil reserves as collateral for general government debt (Rietveld & Bauer, 2014). This strategy appeared sound until the price of oil declined, resulting in their over-indebtedness. Such restrictions may assist in preventing risks and the depletion of funds.

The Santiago Principles, instituted in 2008, are optional rules for SWFs designed to mitigate concerns regarding their investment practices and to enhance governance (Rose, 2023). Some assert that these standards improve openness and demonstrate adherence to the regulations of host nations (Park & Estrada, 2011), while others claim they are insufficient for safeguarding the interests of recipient governments and only provide a "veneer of respectability" (Bismuth, 2017). The principles emerged from a multi-tiered governance process that included international organisations and SWFs (Norton, 2010). As SWF assets exceed US\$ 10 trillion, the significance of the Santiago Principles in international soft law had escalated (Rose, 2023).

Nonetheless, their voluntary nature constrains their efficacy as a governance instrument (Rose, 2023). Notwithstanding objections, the concepts correspond with the financial goals of SWFs, potentially fostering adoption (Park & Estrada, 2011). The creation of the International Forum of SWFs in 2009 further facilitates the implementation and development of these principles (Norton, 2010). The present study identified the need for a strong framework preventing mismanagement within a potential for a South African SWF. One asserts that the restrictions listed by Rietveld and Bauer (2014) may assist in preventing the usage of a SWF as a “piggy bank” for local politicians and for patronage in dubious international markets.

## **2.10 Conclusion**

The literature on the subject of SWFs suggests that the creation of a SWF does not require stringent prerequisite conditions, particularly for a mineral-rich country such as South Africa. Furthermore, as a few developing countries with lower national GDPs than South Africa have managed to create their own SWFs, one can assert the possibility of creating a South African SWF.

The majority of the top eight most successful SWFs were not established in Western nations and are not operating within liberal democracies. Such a factor is determinant to deter the need for a liberal democracy and Western economic model as prerequisites to create a SWF. From such a context, one asserts that a South African SWF should be built according to the needs of the country and not according to the needs of the West.

Although the literature indicated that most SWFs prefer investing in OECD stable countries, evidence indicated that Chinese SWFs are breaking this practice by investing in Africa. Such a model of investment may serve as a source of inspiration for a potential South African SWF, adopting a “south-south” investment venture. Furthermore, in light of new alliances being formed due to the Russian-Ukraine War, one asserts that a potential South African SWF should express great care before investing in countries standing against Russia and China for fear of seeing its investments being frozen.

Finally, since most of the successful global SWFs are not independent bodies, it is clear that a South African SWF will require Government participation. In order to prevent patronage and mismanagement, legally binding financial restrictions need to be applied with the greatest levels of transparency.

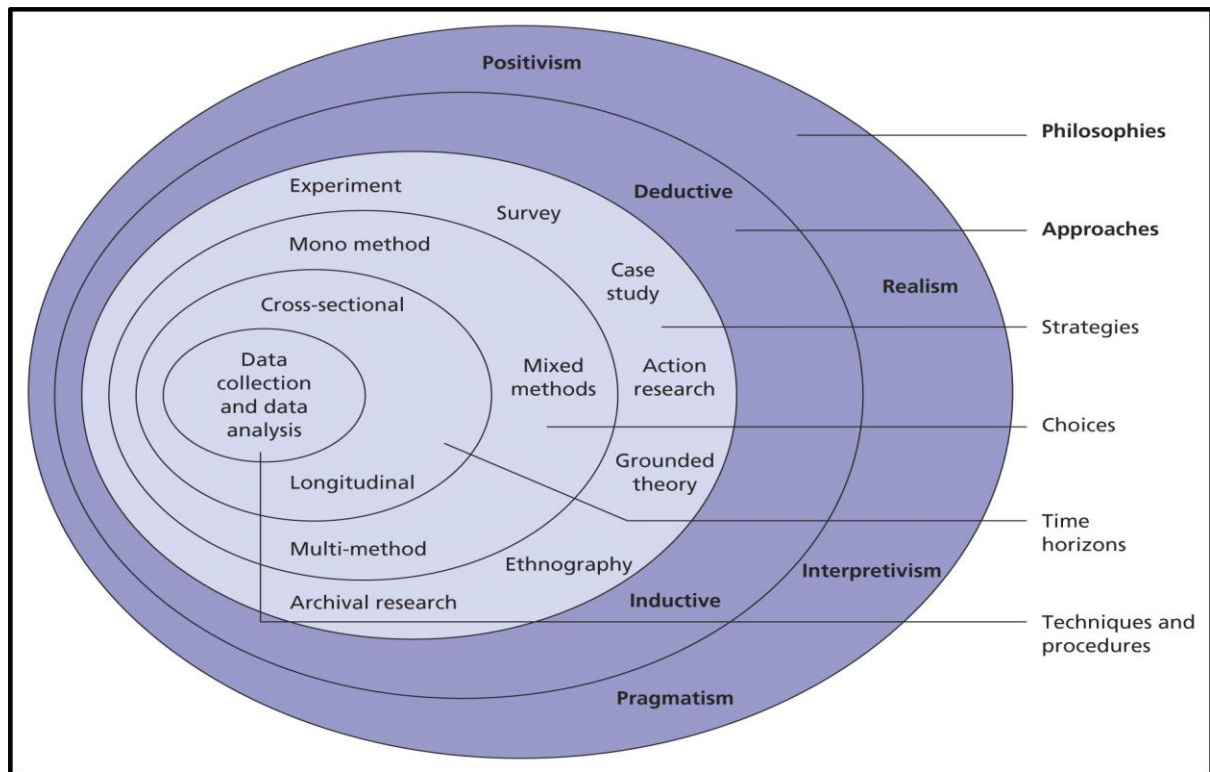
## **CHAPTER THREE: METHODOLOGY**

### **3.1 Introduction**

This chapter outlines the methodology utilised to address the research questions and fulfil the research objectives. It details the research design, encompassing population and sampling, data collection and instruments, data analysis, ethical considerations, research limitations, the trustworthiness, credibility, dependability, and transferability of the findings, as well as the confirmability of the data.

### **3.2 Research Approach**

The study has chosen to employ qualitative and inductive research methodologies to fulfil the research objectives. Billups (2021) defined qualitative research methodology as an exploration and examination of people's lives, their beset of behaviours, and emotions. Denzin and Lincoln (2017) described the qualitative research methods as the systematic use and gathering of various empirical materials such as case studies, personal experiences, introspection, life stories, interviews, artefacts, cultural texts, observations, historical records, interactions, and visual materials to depict the ordinary and challenging moments and significance in individual lives. Creswell (2009) cited, "the purpose of qualitative research is to explore the meaning of the people's experiences, the meaning of people's culture, and how the people view a particular issue or case." Through a questionnaire, the researcher collected data to explore the experience, views, and introspection of experienced individuals on subjects related to SWFs.



**Figure 2. The Research Onion.**

Source: Creswell (2009).

### 3.3 Research Design

The researcher adopted an interpretivist philosophy during the research process. Interpretivism refers to a method that analyses events in a society based on the specific value system of the society or culture in which those events occur (Creswell, 2009). Within the context of the present study, the research questionnaire included questions designed to provide answers related to South African institutions and its political environment. The purpose of a questionnaire is to investigate difficult subjects, collect comprehensive data, and obtain insights into experiences and perspectives in a systematic manner consistent across all respondents, so facilitating the study in acquiring further information and identifying patterns during interviews (Marshall, 2005). The researcher selected a qualitative research methodology to collect observations and data from respondents, emphasising their experiences and expertise in SWF and finance. Upon the collection of responses, the researcher adopted an inductive approach to allow for the development of a theory (Creswell, 2009) that will either validate or invalidate South Africa's ability to create a SWF.

Information on SWFs in South Africa is scarce, which justifies the use of an inductive approach as this methodology does not rely on pre-established hypotheses, making it essential to the study and formulation of new theories (Saunders et al., 2023).

The research employed semi-structured interviews using a questionnaire comprised of 33 open-ended questions from which the researcher expected to receive responses representing opinions and experiences from the selected audience. The questionnaire was pilot tested on a selected audience of five respondents. The objective of the pilot sought to test the reliability of the responses and the ease of understanding of the questions. The present study was a cross-sectional in nature which consisted of a single data collection point from different individuals within a specific time period (Creswell, 2009). A cross-sectional study is most effective for providing evidence in the planning of future research endeavours (Wang & Cheng, 2020). The choice of the cross-sectional study is justified by the fact that the research sought information from individuals currently working within key political and financial positions in order to gather contemporary and current responses.

### ***3.3.1 Population and Sampling***

A purposive sampling approach was used which entails deliberately selecting participants based on their expertise (Saunders et al., 2023). The participants were also selected based on the identification of key organisations with knowledge and experience of SWFs. The establishment of a SWF requires various stakeholders and for the purpose of the present study, 25 individuals were targeted from the following sectors:

- **Representatives from South Africa Political Parties:** Political representatives the ANC (Paton, 2024) and the Economic Freedom Fighters (EFF; Maeko, 2024) have made various pronouncements regarding the establishment of a SWF. According to Kamiński (2017), SWFs are not autonomous political entities but merely investment instruments that a state can strategically employ to achieve political and economic dominance. The study sought to interview leaders from the three major political parties in South Africa.
- **Government Officials:** SWFs are government owned and typically government managed (IFSWF, 2008). The establishment of SWFs is generally driven by government officials, in particular those from government department such as National Treasury and the South African Reserve Bank (SARB).

- **Development Finance Institutions (DFIs):** Massa (2013) defined DFIs as international, regional, or bilateral entities established to address the investment deficiencies of developing nations. They offer financing options (i.e., loans, guarantees, and equity investments) to both the public and private sectors, aiming to promote equitable economic growth and sustainable development while ensuring long-term financial viability. With this, DFIs provide a good basis for this study. The study sought to interview representatives from the Industrial Development Corporation (IDC), Development Bank of Southern Africa (DBSA), and the PIC.
- **Finance Professionals:** Finance professionals include individuals from the private sector, particular those who are involved in raising finance, dealmakers, and professionals within investment funds, pension funds, and private equities who will provide insights regarding investments and their dealings with other SWFs.

Table 3 below presents a summary of the proposed participants:

*Table 3. Summary of Proposed Participants.*

<b>PARTICIPANT CATEGORY</b>	<b>NUMBER OF PARTICIPANTS</b>
<b>Political Parties</b>	3
<b>Government Officials</b>	2
<b>Development Finance Institutions</b>	3
<b>Finance Professionals</b>	
Economists	4
Dealmakers	4
Investment Managers and Fund Managers	5
Investment Bankers	4
<b>TOTAL PARTICIPANTS</b>	<b>25</b>

### **3.3.2 Data Collection and Instrument**

The study employed semi-structured interviews as the method for data collection. The use of an interview method for collecting data provided the interviewer with detailed and in-depth rich insight from the participants (Rubin & Rubin, 2005). Castillo-Montoya (2016) asserted that an Interview Protocol Refinement (IPR) framework is crucial for executing advanced interviews in qualitative research, as it delineates a four-phase process that guarantees coherence between interview questions and the research question, facilitating inquiry-based dialogues and ensuring participant feedback is aligned with the interview protocol. The IPR proposes a matrix in a tabular format which list all the interview questions against the research objectives as presented in [Appendix C](#) (Castillo-Montoya, 2016). Jonker and Pennink (2009) presented an alternative method for gathering data from participants, specifically an open-ended approach; however, the present research topic would not be suitable for this approach and the IPR remains the ideal approach.

The participants listed in Table 3 above are individuals with firsthand experience of foreign SWFs, finance professionals knowledgeable about SWFs or comparable institutions, and politicians and technocrats who would be directly or indirectly involved in the establishment and oversight of a SWF. In addition, the participants were selected based on the organisations they are employed by or manage as they would hold more relevant information from a political, government, DFI, and finance standpoint. The targeted audience comprised Senior Political Leaders, Senior Government Officials at the Director General or Deputy Director General level, Senior Economists of DFIs, Chief Investment Officers of DFIs, as well as Senior Dealmakers and Senior Economists. There are very few published facets of SWFs, as prior research has primarily investigated the feasibility of establishing SWFs, and there is scant documentation available, particularly in the African context and in countries with attributes similar to South Africa. Consequently, this study will depend on primary data acquired from interviews rather than secondary data.

The interviews were conducted online using Microsoft Teams to provide flexibility in location for the participants, all of whom were situated in different areas of South Africa. Each interview had an average duration of between 30-45 minutes to maximise involvement and interaction with the participants.

The researcher faced various hurdles, including difficulty in contacting politicians during an election year and arranging post-election encounters as they prepared to take government. To overcome this issue, requests for interviews were accepted up until the final day of data collection. The reluctance of government personnel to participate in the study without the consent of political leaders in their individual departments stems from fears that they would be viewed as speaking on behalf of the government rather than in their personal capacity. A request was made to their principals (Ministers), but no response was obtained before the conclusion of this study. Participants' absence due to job commitments also necessitated the rescheduling or postponement of interviews. Interviews were rescheduled to accommodate participants' requests for a more convenient day and time. Some participants also declined to participate in the process, citing a lack of expertise despite their involvement in the finance industry. To remedy this issue, additional participants in similar roles and organisations were recruited.

### **3.4 Data Analysis**

Adams et al. (2007) asserted that there are four ways for analysing qualitative data: the grounded approach, content analysis, summarisation, and the framework approach. Gibson and Brown (2009) supported the theme analysis methodology, which entails gathering and coding participants' responses, making it the preferred method for this study. The interview responses were categorised to identify common themes, which were then analysed for connections and differences (Gibson & Brown, 2009). During the coding process, *a priori* codes are established prior to data examination, and *inductive* code are formulated during data analysis (Gibson & Brown, 2009). The codes are documented and organised as the investigation progresses, culminating in the development of final coding and themes that yield conclusive conclusions. The final themes are summarised, analysed, recoded, and tracked throughout the process, as documented in Table 7 and Table 8 below.

The participants responses were imported into NVivo software for coding, maintaining a coding record, and mapping the responses. To guarantee confidentiality and anonymity, no names or personal details of participants were uploaded to the software, and all information was saved on a password-protected laptop and on an encrypted end-to-end backup system.

### 3.5 Ethical Considerations

In view to respect the ethical rules attached to research processes involving individuals partaking in this research, strict ethical considerations have been applied. Ethical approval to conduct the study was obtained from the University of Cape Town's Faculty of Commerce Ethics Committee on the 26<sup>th</sup> of September 2023 (see [Appendix B](#)). The anonymity and confidentiality of the individuals partaking in the semi-structured interviews was respected and the collection of identifying information was limited. The following key protections were explained to each participant:

- Their participation was voluntary;
- They can withdraw themselves from participation in the study at any given time, for any reason, without prejudice;
- Their identity would remain anonymous; and
- They may decline to respond to any of the questions posed.

### 3.6 Research Limitations

South Africa lacks a SWF, and despite political party discussions, there is no comprehensive policy or publicly available legislation to establish a framework for a SWF. Consequently, it would be challenging to identify participants with SWF experience, necessitating reliance on their expertise; however, participants in senior positions and are positions that would have forced interactions with SWFs were identified. The second limitation was that published research on SWFs predominantly concentrate on their evolution, governance, and investment strategies. However, the substantial number of SWFs that operate with secrecy regarding their activities restricted access to comprehensive data regarding their operations (Ainina & Mohan, 2010; Alosaimi & Alfraih, 2023; Bahoo et al., 2020; Sun & Hesse, 2009). Reliance was therefore placed on the latest research articles available on related topics.

### 3.7 Trustworthiness of Findings

To ensure the quality of the research and the trustworthiness of the findings, the following key aspects were maintained throughout the process:

- **Credibility:** In research, credibility pertains to the degree to which findings accurately represent the reality of the issue (Stahl & King, 2020). To uphold the study's credibility, the researcher employed data triangulation on the collected responses and examined any parallels and patterns therein.

Triangulation was accomplished by interviewing participants from several organisations and sectors, including politicians, government institutions, and finance specialists.

- **Dependability:** The reliability of qualitative data is ensured by confirming that the findings were gathered and established regardless of any alterations in the research environment or among participants during data collection (Stahl & King, 2020). The researcher ensured that very little errors were made during the interviews, during data collating, while uploading to the NVivo software, in understanding the themes, and when compiling the final analysis of findings.
- **Transferability:** Stahl and King (2020) asserted that, in qualitative research, transferability involves ensuring that findings may be utilised to compare and evaluate situations across different contexts or areas. The research methodologies, processes, and findings analysis are clearly delineated for comprehension and can be adapted to various situations for comparative studies.
- **Confirmability:** Stahl & King (2020) asserted that confirmability in qualitative data is upheld when the data undergoes verification and cross-verification during the data collecting and processing phases, ensuring that the results are likely replicable by others. A systematic procedure for validating the outcomes and comprehensive documentation of the process is explicitly delineated.

## CHAPTER FOUR: DISCUSSION OF FINDINGS

### 4.1 Introduction

This chapter presents a summary of the themes derived from the interviews conducted. This section compiles the interview responses, accompanied by demographic information, and a detailed analysis of the responses, while summarising the identified themes and correlating them with the gathered responses to the study questions. The researcher also explores the knowledge and experience of experts in the field of economics to evaluate the possibility of creating a SWF in South Africa. Furthermore, the researcher considers secondary data and compares this to the opinion of the interviewed participants in a view to extract useful and valid data that could either support or contradict the capacity of South Africa in creating a SWF. Through a detailed and developed analysis, the extracted data in this chapter can assist in responding to the research question: *What are the prerequisite conditions for South Africa to establish a SWF?*

The researcher emphasised the importance of analysing the SWF project in conjunction with the current financial condition of South Africa. In examining the two dependable variables, one can also ascertain the distance between them. One may enquire whether the gap between South Africa's current financial condition and the establishment of a SWF is vast or sufficiently narrow to facilitate the integration of these two elements into a concrete reality.

The first sub-question emphasised the potential contribution of SOEs to the financing of a SWF. Previous chapters have established that the majority of South African SOEs are in a precarious condition due to inadequate management (Zondo, 2022). Despite the current poor condition of SOEs, it is posited that a revitalisation strategy could transform them into funding sources for a prospective SWF. This argument can explore additional responses regarding the development and maintenance of viable funding sources capable of generating surpluses for a SWF.

The second sub-question addressed the framework required for establishing a robust SWF. As outlined in the preceding chapters, South Africa has experienced significant corruption and insufficient transparency within its SOEs. This question aimed to identify essential factors that could contribute to creating a SWF protected from corruption, looting, and mismanagement.

The announcement by former Finance Minister, Tito Mboweni, regarding the establishment of a SWF was met with scepticism from various analysts and experts, particularly due to the significant mismanagement associated with the current government's SOEs (Markowitz, 2020; Qobo & Soko, 2022). The researcher contends that findings likely to demonstrate a SWF resilient against corruption and mismanagement may enhance public acceptance of a SWF project.

The third sub-question aimed to identify potential sources for an expanded list of funding for a SWF. A comprehensive list of funding sought to identify sources beyond SOEs and identify types of investments that a South African SWF should pursue. A South African SWF may enhance its growth by making prudent global investments, following the model of established international SWFs. As previously discussed, the South African Government must evaluate investment decisions by assessing the strength of its international relations in a context marked by global conflicts and defined by alliances. A final point to consider is the type of funds needed for South Africa. As discussed previously, the Santiago Principles identified five types of funds, namely: the stable funds, the savings funds, the development funds, the pension reserve funds, and the reserve incorporation funds (Al-Hassan et al., 2013; IFSWF, 2008).

#### **4.2 Profile of Participants**

The interviews were conducted with 22 of the 25 targeted respondents using the questionnaire attached as [Appendix A](#). The notable responses that the researcher was unable to secure were from representatives of political parties and government officials. Before the commencement of the interviews, consent was obtained from the respondents, confirmed by their submission of signed copies of pages 1 and 2 of the questionnaires ([Appendix A](#)). All the respondents' interviews had a view and understanding of SWFs and were able to provide inputs on the proposed establishment of a SWF in South Africa. Table 4 below provides a summary of the age grouping across gender and educational levels of the respondents. The years of financial experience of the respondents ranged between nine to 30 years. Table 5 below presents a profile of all of the respondents and their academic qualifications.

**Table 4. Summary of Age and Educational Levels.**

<b>AGE GROUP</b>	<b>EDUCATION LEVEL</b>	<b>FEMALE</b>	<b>MALE</b>	<b>GRAND TOTAL</b>
<b>30-40 Years</b>	Doctorate		1	<b>10</b>
	Masters	1	4	
	Undergraduate	1	3	
<b>41-50 Years</b>	Doctorate		2	<b>8</b>
	Masters		3	
	Undergraduate	2	1	
<b>51-60 Years</b>	Doctorate		1	<b>2</b>
	Undergraduate	1		
<b>61-70 Years</b>	Masters	1		<b>2</b>
	Undergraduate		1	
	<b>GRAND TOTAL</b>	<b>6</b>	<b>16</b>	<b>22</b>

**Table 5. Summary of Interview Respondents.**

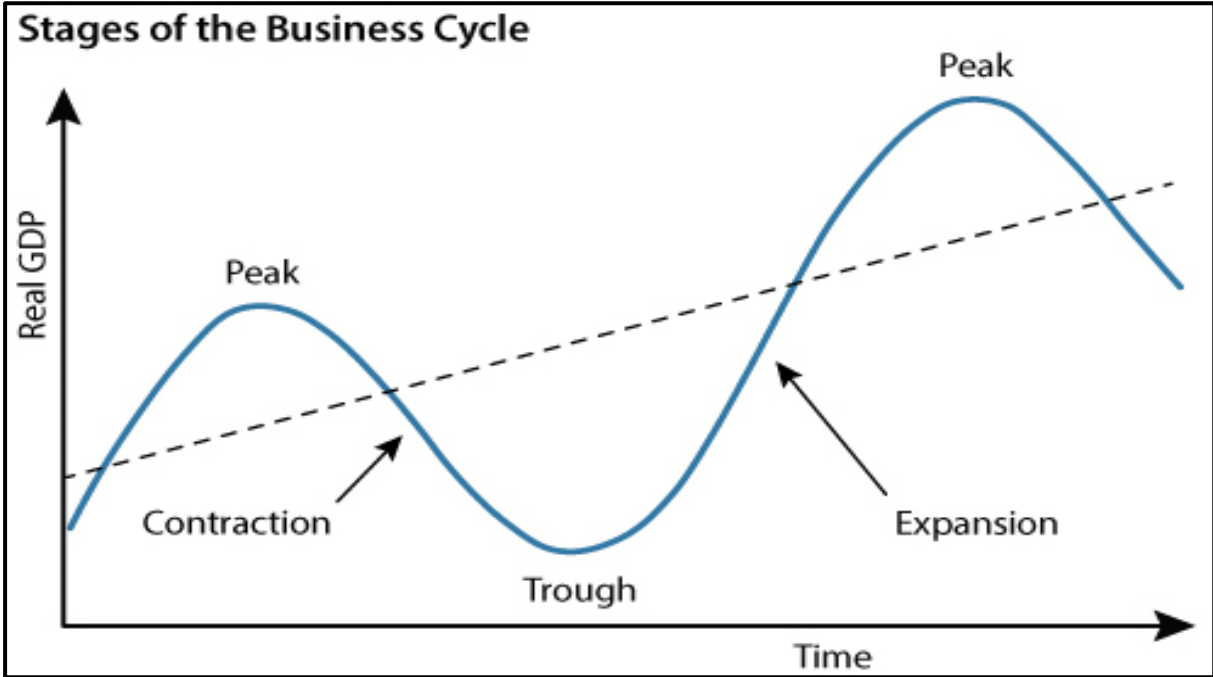
<b>RESPONDENT #</b>	<b>GENDER</b>	<b>AGE RANGE (YRS)</b>	<b>EDUCATIONAL LEVEL</b>	<b>WORK EXPERIENCE (YRS)</b>
Respondent 1	Male	41-51	Masters	25
Respondent 2	Male	41-51	Doctorate	20
Respondent 3	Female	30-40	Undergraduate	10
Respondent 4	Male	30-40	Masters	9
Respondent 5	Male	51-60	Doctorate	32
Respondent 6	Male	30-40	Doctorate	15
Respondent 7	Male	41-51	Masters	22
Respondent 8	Male	30-40	Undergraduate	14
Respondent 9	Male	41-51	Masters	26
Respondent 10	Male	30-40	Masters	11
Respondent 11	Male	30-40	Masters	14
Respondent 12	Female	41-51	Undergraduate	15
Respondent 13	Male	61-70	Undergraduate	30
Respondent 14	Male	30-40	Undergraduate	11
Respondent 15	Female	61-70	Masters	29
Respondent 16	Male	30-40	Undergraduate	13
Respondent 17	Female	30-40	Masters	15
Respondent 18	Male	30-40	Masters	16
Respondent 19	Female	41-51	Undergraduate	17
Respondent 20	Male	41-51	Undergraduate	20
Respondent 21	Female	51-60	Undergraduate	16
Respondent 22	Male	41-51	Doctorate	10

**4.3 Analyses of Responses Collected**

**4.3.1 Section A: Goal and Purpose of Creating a Sovereign Wealth Fund**

The responses collected from participants indicated that a SWF should follow the example of Norway or countries that have established funds through the proceeds of their natural resources. The responses also indicated the need for a SWF to be used as a saving strategy for future generations, as a countercyclical weapon, and to soothe transitions at the end of a business cycle. Responses from multiple respondents (Respondent 2, 4, 5, 6, 17, 19, and 22) indicated that a SWF would counter key elements of negative cycles by creating and maintaining jobs, financing healthcare programmes, building climate resilience, and stabilising various key economic sectors: *“It's establishing an investment firm for South Africa and that's basically and hoping that those savings will be channelled back into the economy, and they'll help South Africa when it's good and in the bad times”* (Respondent 1).

A business cycle is defined as a series of economic cycles characterised by expansions and contractions (Assous et al., 2016; Wolla, 2023). In simpler words, a business cycle is characterised by a period of economic boom and a recession as depicted in Figure 3 below. The responses obtained pointed towards the need to have a SWF that would assist during severe recessions.



**Figure 3. Business Cycle.**

Source: (Wolla, 2023).

Although the desire to establish a SWF is noble, one understands the reality of having a source of funding. Respondent 5 clearly indicated that South Africa should diversify the priority of its imports from natural mineral resources to a wider range of exports as such diversity would assist in bolstering the balance of payments. Respondents 5, 7, and 11 expressed opposing views and lamented their concerns with using a SWF as a tool to improve the national balance of payment and argued that such objectives should be left to the SARB. Through these responses, one could view the SWF as a competitive tool, depriving the SARB from one of its roles. However, through the view of participants considering it as a tool to improve the balance of payment, one may argue that a SWF can play a positive role in improving the national economy.

#### 4.3.1.1 Optimism versus Pessimism

A contrast of thoughts between participants occurred when discussing a SWF as a tool for fostering growth. On one hand, one respondent expressed pessimism towards the creation of a SWF to the point of labelling it as a “bad idea” due to the fact that South Africa is currently running policies indebting instead of saving for future generations. The same participant also highlighted the level of poverty that South Africa has sunk itself into through international debt. In 2024, it is estimated that South Africa’s national debt constitutes 75% of the national GDP (IMF, 2024). On the other hand, a few respondents expressed optimism regarding the creation of a SWF as a tool fostering growth by attracting investments which could be reused to maintain and improve local infrastructure. Additionally, this optimistic view, held by the majority of respondents, considered the SWF as a method of building intergenerational wealth that may aid the nation in overcoming future debts:

*It seems unfair for one generation to get to spend all of its natural resources and subsequent generations don't get to share in it. So instead, you save some of it, you invest it for the long-term horizon. You diversify and all that kind of stuff, so that's the classic case for SWF (Respondent 4).*

On an interesting note, some participants pointed towards the fact that a SWF could be used to redress injustices of the past. Such views transcend economic needs to address social imbalances among various society groups. Furthermore, a few responses indicated that a SWF may foster growth through ethical, visionary, and ideologically clear leadership. Such views shift the focus from technically economic subjects to ethical leadership. Considering the leadership crisis experienced within various South African institutions, one notes the relevance of ethical leadership in running a SWF.

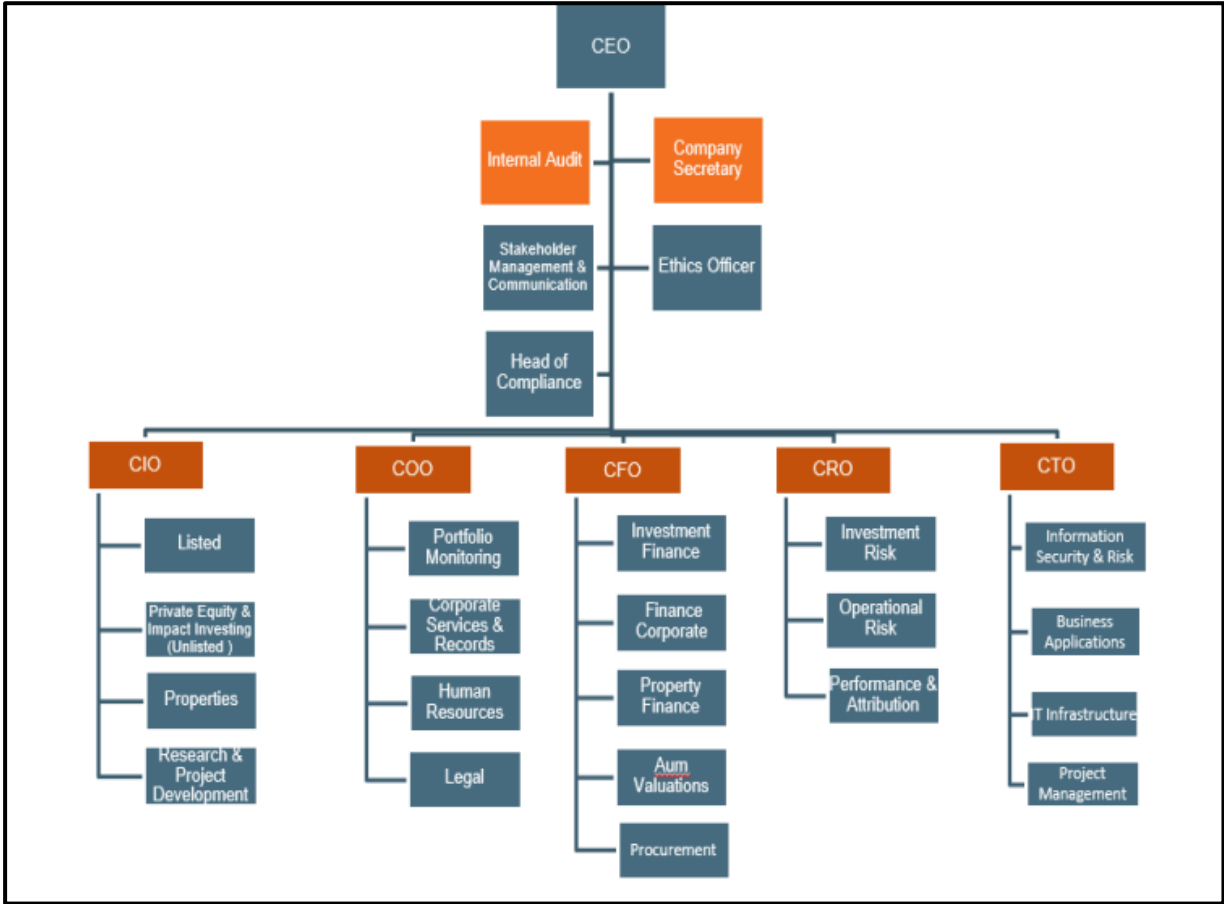
Based on the responses collected, the data pointed towards the need for creating a SWF classified as a development fund. In other words, a fund that would focus on financing socio-economic projects (Al-Hassan et al., 2013). Although the idea of a socioeconomic fund may be attractive due to the economic challenges currently faced in South Africa, one recognises that South Africa already has a group of government owned financial institutions running programmes supporting socio-economic projects. A few respondents indicated that a SWF may assist in reducing the current overreliance on Foreign Direct Investment (FDI). In the context of the current global order, a lesser reliance on FDI could strengthen the foreign policy of South Africa and the nation's ability to resist unreasonable demands from foreign governments.

With regards to the research objectives, the responses to the first section of the questionnaire indicated that a SWF may impact the country through investment used to revitalise local infrastructure. The sources of funding or instruments to establish a SWF could be generated by diversifying imports to a level that could improve the national balance of payments. Although the potential for instruments to fund a SWF can be generated, a response from one of the respondents highlights the lack of readiness in South Africa when considering the level of national debt. However, as discussed in previous chapters, ideal economic conditions are not a prerequisite to establish a SWF. Therefore, even in its current economic condition, South Africa can establish a SWF.

#### ***4.3.2 Section B: Institutional Arrangements and Potential Governance Structures***

In order to protect a SWF against poor governance, respondents indicated the need to build an organisation that is free from political interference while prioritising accountability, transparency, the rule of law, and responsiveness. Furthermore, it was clear that responses pointed towards the creation of an independent institution operating under public oversight. In view to prevent political interference, respondents argued that a SWF should run policies free from governmental and political ideology to remain independent in its operation regardless of the incumbent government. Interestingly, most respondents argued that the day-to-day investment strategies should be led by the SWF management to prevent political interference, while the government could offer broad guidelines, in that *“a strong framework needs to development, where politics do not interfere with the day to day running of the SWF as history has taught us that political interference does not bring positive results”* (Respondent 8). Furthermore, respondents suggested that SWF management should not be political appointees but experts in finance and economic subjects.

According to a response collected from participants, the correct framework to build a SWF should be erected through parliamentary legislation. Interestingly, the interview responses pointed towards the PIC as the closest structural model to follow for the creation of a SWF, as depicted in Figure 4 below.



**Figure 4. The Public Investment Corporation Structure.**

Source: (PIC, 2024)

4.3.2.1 The Public Investment Corporation as a Framework Model

A closer look at the PIC structure as described by the PIC Manual (PIC, 2024) may assist in conceptualising a potential framework for a SWF. The manual described the structure of the PIC in five articles:

- The PIC is a statutory body established by the PIC Act, read together with the Companies Act 71 of 2008. The PIC is the asset manager for South Africa's public sector, taking care of the investment needs of Government, public sector pension and provident funds, and other public sector funds.

- The PIC is wholly owned by the South African Government, represented by the Minister of Finance, and operates under its own empowering legislation, the PIC Act. This Act gives the PIC the status of a corporation able to operate as a modern asset manager and offer clients services comparable to those available in the private sector.
- The PIC is also an authorised financial services provider in terms of the Financial Advisory and Intermediary Service Act in carrying out client investment mandates. The PIC uses market driven measures to benchmark its investment performance, enabling clients to compare its returns to those achieved in the marketplace.
- The PIC's organisational structure consists of two main components: the Asset Management Business and Operations. Executive Directors – the Chief Executive Officer and the Chief Financial Officer, and the various Executive Heads of Department, lead the organisation. The Executive Directors are accountable to the PIC Board of Directors for the overall performance of the PIC.

From the onset, one can see that the PIC was created from a combination of statutes: the PIC Act and the Company Act 71 of 2008. This combination leads one to understand that the PIC operates as a private organisation. If one follows the suggestion from one of the respondents, we can conclude that a SWF should result from the combination of two legislative Acts (i.e., one designed for the SWF and the Company Act 71 of 2008).

A critical question that must be considered is regarding accountability and to whom a SWF would account. Logically, such an entity would account to the Finance Minister or the National Treasury. However, one participant suggested that a SWF could account to any state organs as long as the correct governance framework is developed and adopted. All participants expressed a reluctance on having a SWF impacted by political interference and their responses clearly indicated a desire for a SWF with a mandate free from political interference. The only two institutions (i.e., the National Treasury and the SARB) that would be likely to act as supervisory bodies to a SWF were seen as limited in capacity and too affected by political interference.

As the PIC is an investment company servicing both the private and public sectors, the SWF should act as an investment company with a clear mandate focusing on capital investments and support for socio-economic projects.

### **4.3.3 Section C: Internal Capacity**

Some respondents noted the shortcomings in the National Treasury and the SARB in managing a SWF, while others argued that they were only for policy management. Based on the responses, the National Treasury would only be good at drafting policies and directives containing legal jargons, but the management of a SWF should be conferred to a team of investment management specialists. Respondent 11 stated that *“in terms of knowledge the National Treasury may have the knowledge in terms capacity and people, they are currently overwhelmed with economic pressure.”*

Based on the literature review, it is clear that the management policy of a SWF differs per country. In Norway, the Government Pension Fund is administered by the Ministry of Finance. The administration of the fund is divided into three functions namely: general policy, investment strategies, and administration. The general policy function belongs to the Ministry of Finance which sets out principles of ethical and institutional management with the fund’s investment strategies (Özgül, 2019). The operational administration of the fund is managed by the Norway Central Bank. Within this scope, a management agreement was made between the Ministry of Finance and the Norway Central Bank to regulate the sharing of functions. After considering the example of Norway, one can clearly conclude that the management of a SWF should be adapted to the realities, context, and needs of the country of origin.

The South African context is characterised by corruption and state capture (Zondo, 2022); therefore, it remains appealing to build a financial institution with a corruption proof framework. The State Capture Commission Report (Zondo, 2022) provided ample details on the methods utilised by politicians and private sector actors to illegally seize the operations of several SOEs. Consequently, due to maladministration and poor procurement practices, most of SOEs were misused to direct funds towards private service providers who never delivered infrastructure projects.

After the former Finance Minister’s announcement on the creation of a SWF (Markowitz, 2020), many rightfully dismissed the idea. Among other social ills, political interference played a key role in the destruction of many SOEs. For this reason, participants strongly believed that political interference within the running of a SWF should be reduced to a minimum. Data extracted on the performance of these SOEs, along with the views expressed by responses, point towards the relevance of developing a SWF adapted to the South African context.

#### 4.3.3.1 The Problem Linked with Capacities in South Africa

The views expressed by the respondents on the limited ability of both the National Treasury and the SARB in managing a SWF reveal concerning challenges within some of the most respected national institutions. In a logical context and based on the existing SWFs operating around the globe, one would expect that the Finance Ministry, the SARB, and the National Treasury to be the first institutions to drive and oversee a SWF. On an exceptional note, a few respondents suggested that a SWF could report to the SARB if its mandate was modified to accommodate the role of “SWF overseer.” Another group of participants indicated that a SWF could report to the National Treasury or the Presidency to receive direct support. However, past events rooted in the state capture era indicates that such options may result in political interference. In a view to counter such political meddling, a few respondents indicated that a SWF would be best left alone, while answering directly to Parliament. The desire to see a SWF report to governmental financial institutions could be rooted in the clear absence of financial skills. Within such a context, one respondent mentioned the idea of importing skills to manage the SWF. Such ideas do not come across as surprising when considering that skills from other SWFs may be imported to South Africa. Based on the current state of many SOEs, it is clear the Government would not be able to manage a SWF unless it enters into a partnership with various local and international fund experts such as the PIC, DBSA and IDC. The stance expressed by the participants against the use of these institutions reveal that South Africa is undergoing a skill crisis on two fronts: in capacity and in quantity.

A study led by a major South African recruitment group reported that the finance sector is one experiencing shortage of skills (BusinessTech, 2023). This revealed the extent to which certain governmental sectors are experiencing shortages in skills, thus resulting in slow service delivery and blotted operations. One participant mentioned the possibility of outsourcing work to external investment agencies while running the proposed SWF. Outsourcing is not a foreign concept in South Africa, since it is a method that the South African Government utilises to provide services and reduce its national spending wage bill (Badenhorst-Weiss & Ambe, 2011; Badenhorst-Weiss & Nel, 2008; PSCBC, 2014). This was further support by Respondent 9 in noting that “*the SWF would need to look to expects within the financial sector and to international SWF that currently operating to build the capacity.*”

The scandals that have plagued outsourcing management consulting companies, such as McKinsey and KPMG in South Africa, have left a bitter taste in the mouth of many. McKinsey was involved in dishonest practices in its dealing with the South African Revenue Services (SARS), while KPMG was found to have covered audit irregularities for a multinational organisation holding shares owned by the PIC (Cohen, 2024; Phillip, 2022). Since a SWF would surely contribute towards the financial and economic sovereignty of the nation, one could argue that outsourcing practices should be limited while considering security parameters to protect investments.

#### 4.3.3.2 The Public Finance Management Amendment Act and the Need for Agility

The Public Finance Management Amendment Act (PFMA) focuses on the accountability, transparency, and effectiveness of public spending. Its key objectives are to establish a managerial ethic in national government departments, ensure that financial and performance information is regularly and well reported, and link budgeting to plans and performance (Ajam, 2008; Bokoda & Nkoana, 2009; Momoniat, 2002). Based on the responses received, the PFMA represents a stumbling block if it should be used to establish a SWF. In Chapter 2 of the PFMA, the Act describes the powers of the National Treasury. One of the powers includes: “promoting and enforcing transparency and effective management in respect of revenue, expenditure, assets and liabilities of departments, public entities, and constitutional institutions” (National Treasury, 1999). Such power would empower National Treasury, through the Act, in enforcing transparency and effective management in a SWF. A supervisory act from the National Treasury would bring several advantages such as effective control on operations and may deter acts of corruption. Corbacho & Ter-Minassian (2013) advocated for strong financial legislation designed to build a framework in which institutions and financial actors can operate. The PFMA (Chapter 2) states that the National Treasury may perform the following functions (Corbacho & Ter-Minassian, 2013):

- Assist departments and constitutional institutions in building their capacity for efficient, effective, and transparent financial management; and
- Investigate any system of financial management and internal control in any department, public entity, or constitutional institution.

A supervisory role from the National Treasury may allow for increased capacity, efficiency, and sound financial management. However, the comments by the respondents seem to indicate that the National Treasury does not have the capacity to fully investigate or assist in building capacity as opinions were divided between reality and abstract views. Abstract views may imply that the National Treasury is able to investigate system management and build capacities in constitutional institutions. However, the reality points towards the fact that SOEs, and many national departments, are poorly run and managed. This calls into question on what role the National Treasury played in attempting to prevent the mismanagement of constitutional institutions. A failure to rapidly investigate and prevent mismanagement in national departments and constitutional institutions indicates that the National Treasury may be either overwhelmed or under-capacitated.

Based on the responses provided, the promulgation of a new Act may be necessary to create a flexible SWF. The call for a new legislative Act would also imply the need for agility in various spheres involved in managing the SWF. Agility is defined as the ability of an organisation to sense environmental change and to respond efficiently and effectively (Joiner & Josephs, 2008; Prikladnicki et al., 2020). For Strohmaier & Rollett (2005), agility is the ability of a business system to rapidly respond to change by adapting its initial stable configuration. van Oosterhout et al. (2005) defined agility as the ability to make decisions in a thriving environment under constant changes. An agile legislation and agile supervisory roles over the SWF would render the mandate of the SWF flexible and faster in its deliverables. Agility remains an important topic in the context of a governmental administration known as being either bloated or under capacitated.

#### ***4.3.4 Section D: Potential Funding Instruments for Establishing and Building the Sovereign Wealth Fund***

Respondents indicated that South Africa could use four different types of funding instruments, namely: proceeds from mineral resources, SARB reserves, a wealth tax, proceeds from privatisation and fiscal surpluses:

*As we discover more natural resources such Oil deposits, Hydrogen gas programme etc, we can direct those proceeds into establishing a SWF, unfortunately it is difficult to implement on existing natural resources like gold as that currently funds the fiscus through mineral royalties (Respondent 10).*

Although some respondents supported the idea of utilising SARB reserves, a few others also indicated that these reserves may be insufficient, noting that “*we don’t have enough reserves to be withdrawing for a SWF while we have such competing demands that require our immediate attention, so the SARB would be the best place*” (Respondent 9).

A pertinent point made by some respondents was that mineral resources are commonly exploited by private organisations. It would thus raise impossibility in generating funds from assets owned by the private sector unless a special tax is levied on these mineral resources. Respondent 22 strongly opposed other respondents on levying an additional tax for existing mining companies as this may deter other foreign investments. In a view to avoid such obstacles, one respondent suggested that the Department of Mineral Resources conduct a large-scale exploration that would result in endowments. These endowments would then result in the form of a licence and the proceeds can then be utilised to finance the SWF. A few respondents suggested that sovereign bonds, the ocean economy, investment partnerships, and carbon credits could be used to generate funds.

Regarding a wealth tax as a source of funding, respondents showed reluctance, particularly when considering that some of the wealthiest people already pay half of their income. The second argument against a wealth tax was justified in that only 7.1 million individuals pay income tax, out of the 60 million individuals living in the country (Jacobs, 2024). The third argument against a wealth tax was that it would incentivise tax evasion from the wealthy. Furthermore, 3 million individuals pay 90% of tax income in South Africa (Jacobs, 2024) and a special tax for a SWF would stretch the frustration of the tax base to higher levels:

*South Africans are highly taxed and taxing the wealth will not bring allot money to the table and besides majority of the wealthy individuals have found ways to protect themselves from taxes and have created special purpose vehicles to protect their wealth...its worth a try but I don’t see it being much* (Respondent 7).

On a constructive note, one respondent suggested an alternative to privatising SOEs by only privatising the assets owned by the SOEs. For example, instead of privatising Eskom, the Government should privatise the large lands owned by Eskom. Such an alternative form of privatisation could prove faster and could prevent sales that include heavily bankrupt and indebted SOEs.

Counterarguments against the full privatisation of SOEs consisted in the fact that the government should keep control of key services such as electricity instead of giving it away through privatisation, with Respondent 4 noting that “*yes, it can. But not advisable. The SOEs should not be privatised in South Africa. They play a developmental agenda that will be eroded if privatised and establish a long-term suffrage of the citizens.*”

Although the idea of using SARB reserves was considered as a viable option, one of the respondents stood against the idea of borrowing from the foreign exchange and stated that the SARB did not hold any excesses. However, as a reliable source, the respondent stated that the SARB held financial reserves that are proceeds of losses and profits kept in the foreign exchange account. This foreign exchange account is called the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). According to the respondent, the GFECRA holds reserves valued at ZAR 500 billion and if it was utilised to fund a SWF, such an option could be viable. However, in using the GFECRA reserves, the potential to create a SWF may compete with the need to alleviate the national debt burden. The current Finance Minister had proposed to tap into the GFECRA reserves to lessen the national debt (Bonorchis, 2024). This may lead one to assume that a potential SWF would at any time also be used for debt repayment:

*The fact South Africa had withdrawn money from the GFECRA to fund our daily needs, we have set a bad precedent, we might as well use a portion for the future generations, and maybe we can make a conditional that it repays the GFECRA once its sustainable” (Respondent 3).*

The SARB plans to distribute ZAR 150 billion from the GFECRA to the National Treasury over the next three years to alleviate the country's borrowing requirements and debt-service costs. This move aims to avoid significant spending cuts or tax increases. The distribution will occur through changes in GFECRA governance and establishing a new framework between National Treasury and the SARB (Bonorchis, 2024). While utilising GFECRA funds may appear to be beneficial in the short term, it poses risks such as potential future losses and decreased foreign exchange reserves. To mitigate these risks, the funds will be divided into three buckets: one for exchange rate swings, another for SARB contingency reserves, and the remainder for utilisation by the National Treasury. If the SARB operates with such caution to alleviate debt, this also means that these funds may be utilised to fund a SWF.

Despite challenges and warnings regarding an excessive cash injection, the Government finds the economic benefits compelling. The redistribution is expected to lower the debt-to-GDP ratio, attracting foreign debt buyers and reducing debt-servicing costs. This, coupled with optimistic economic forecasts, leads the National Treasury to project a peak debt-to-GDP ratio of 75.3%. (Bonorchis, 2024). There seems to be a clear case for utilising the GFECRA reserves to fund a SWF.

#### **4.3.5 Section E: Potential Sovereign Wealth Fund Investment Strategy**

Regarding the investment strategy, responses indicated that the investment strategy of a SWF should be determined by the objectives of the SWF. The responses were provided against the suggestion that a SWF should perhaps adopt a conservative strategy. There was a clear sentiment that the type of investment, the risk tolerance, the prioritisation of domestic investments, and the portfolio concentration should be determined by the objectives of the SWF. If the objective consists of making quick and large returns, then an aggressive strategy should be adopted. In cases where a SWF would be used to maintain stability, then a conservative strategy should be used. Respondent 1 stated that the “*government like any shareholder should provide a broad mandate and framework for the SWF, while the Directors and Managers decide the investment strategy within that framework,*” while Respondent 8 supported that by stating that “*some governments just provide guiding principles for the SWF such as not to invest in weapons manufacturing outside the state and not to invest in countries that are committing human rights violation.*”

The researcher noted that Respondent 4 urged that a SWF investment strategy should focus on the long-term view with risk tolerance by investing in commodities with countercyclical objectives. Sound financial strategies with countercyclical ingredients may assist in soothing economic crises when jobs losses and social unrest loom (Aghion & Howitt, 2009; Aghion & Saint-Paul, 1991). Furthermore, the view expressed by participants pointed towards the importance of staying away from complicated investment projects that are impacted by corruption and mismanagement in that “*any good SWF should invest locally and internationally to hedge its risk and to get better returns*” (Respondent 3).

The same respondent viewed offshore investment as an advantageous tool that would protect the economy against the rise in local prices. Offshore investments were viewed by all respondents as an important method of diversification to create greater economic security.

Furthermore, respondents expressed the need to measure risk tolerance through a balanced portfolio that would prioritise infrastructure and local investments. The researcher noted that the majority of respondents advocated for major SWF investments to be made internationally. Such views indicate that an international portfolio would more profitable than local investments. Another participant had a slightly different view regarding the investment strategy and was of the view that a SWF should invest in large quantum assets (e.g., multibillion rand water projects) and should not shy away from the need to take real risks when adopting an investment strategy since “high-risk adoption” opens the door to new grounds. For the respondent, offshore investments should be made in commodities that can be imported into South Africa. Concerning the environmental, social and governance (ESG) principles, participants aligned on the importance of having a SWF that invests while keeping to the ESG rules.

#### ***4.3.6 Section F: Potential Sovereign Wealth Fund Investment***

In this section of the questionnaire the researcher asked questions regarding the link between South Africa’s geopolitical strategy and potential international investments through a SWF. Respondent 4 mentioned that *“the investments of SWF should be made after full knowledge of the foreign policy. SA’s foreign policy should precede any international investment by the SWF.”* Respondent 5 highlighted that *“geopolitical strategies may impact the SWF; however, the main goal is to ensure long term investment returns. If we can achieve other geopolitical strategies, it should only be a secondary consideration,”* and Respondent 7 indicated that *“the foreign strategy of the country will influence a SWF investment at a full scale.”*

The responses obtained aligned with the importance of considering the risks associated with international strategic assets (e.g., ports, arms industry). Investments in international strategic assets automatically calls for political meddling. For example, the USA Government will constantly remain involved in the business affairs of a SWF investing in its port operations. Thus, it remains important to weigh the destination of a SWF investment, particularly in the wake of the current international tensions reigning in Eastern Europe and the Middle East.

### 4.3.7 Section G: General Questions (Open Ended Questions)

In this section, participants reiterated the role that the Deputy President would play in implementing a SWF. The Deputy President’s role would be played through managing collaboration between key working groups and financial departments. Furthermore, by obtaining full support from the President, SWF building could gain traction and importance. Regarding the estimated time needed to establish a SWF, the responses collected indicated that the country would last an average of five years on condition that it stabilises its economy and that it manages to develop all its funding instruments: “*the Presidency has a responsibility to establish this SWF, and they need to make a country imitative not a political initiative*” (Respondent 13).

On the pre-conditions required to build a SWF, the researcher has gathered the responses and divided them in three categories as presented in Table 6 below.

**Table 6. Preconditions to the Building of a Sovereign Wealth Fund.**

ETHICAL CONDITIONS	LEGAL CONDITIONS	DEVELOPMENTAL
<ul style="list-style-type: none"> <li>• High moral and ethical standards</li> </ul>	<ul style="list-style-type: none"> <li>• Promulgation of a legal framework through a legislative Act</li> </ul>	<ul style="list-style-type: none"> <li>• Macro-economic stability</li> </ul>
<ul style="list-style-type: none"> <li>• Transparency</li> </ul>	<ul style="list-style-type: none"> <li>• Application of the rule of law</li> </ul>	<ul style="list-style-type: none"> <li>• Political consensus</li> </ul>
<ul style="list-style-type: none"> <li>• High levels of accountability</li> </ul>	<ul style="list-style-type: none"> <li>• Application of the Zondo Commission recommendations</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity building</li> </ul>

### 4.4 Themes Collected

The researcher chose a deductive thematic method to analyse the themes and feelings expressed in the interviews. Thematic analysis is a method for systematically identifying, organising, and offering insight into patterns of meaning (themes) across a dataset (Braun & Clarke, 2012). A deductive thematic analysis involving the gathering of themes and codes based on the researchers’ interests was conducted and resulted in six themes being derived as presented in Table 7 and Table 8 below.

*Table 7. Themes Collected.*

THEME	SAVING STRATEGY FOR THE FUTURE	ENFORCED THROUGH LEGISLATIVE ACT	FUNDING SOURCES	MANDATE OF THE SWF	GEOPOLITICAL CONDITIONS AND ENVIRONMENT
CODES	<ul style="list-style-type: none"> <li>Counter-cyclical purpose</li> <li>Project development</li> <li>Local investments</li> </ul>	<ul style="list-style-type: none"> <li>PFMA Act</li> <li>Need for a legislation emboldening Agility and capacities</li> </ul>	<ul style="list-style-type: none"> <li>Diversified imports</li> <li>Sale of SOEs assets</li> <li>GFEFRA reserves usage.</li> <li>Mineral Exploration licence</li> </ul>	<ul style="list-style-type: none"> <li>Objectives of the SWF</li> <li>Types of investments</li> </ul>	<ul style="list-style-type: none"> <li>Risks measurement</li> <li>Foreign policy</li> <li>International interference</li> </ul>

*Table 8. Themes and Codes Collected.*

THEME	MORALITY	INSTITUTIONAL INDEPENDENCE	CAPACITY BUILDING
CODES	<ul style="list-style-type: none"> <li>Financial integrity</li> <li>Transparency in operations</li> <li>Accountability</li> </ul>	<ul style="list-style-type: none"> <li>Policy independence</li> <li>No political interference</li> </ul>	<ul style="list-style-type: none"> <li>Import international skills</li> <li>Partnership with local experts</li> </ul>

Across the interviews, it was clear that the main themes included the mandate of a SWF, the funding sources, the geopolitical conditions and environment, and the advantages that a SWF would present as a savings institution. In summary, the researcher noted that the respondents placed emphasis on the following themes:

- **Morality is necessary to build and maintain a SWF:** As South Africa has experienced deep economic crises caused by morality issues, the respondents clearly mentioned that a SWF will not be successful without integrity, transparency, and accountability.

- **Institutional independence:** In a view to protect its full effectiveness, it remains relevant that a SWF operates independently from political and governmental ideology. This will require that the SWF be created through an Act that promotes its independence from political interference.
- **Capacity building:** Since financial skills remain a critical skill within South Africa, participants suggested that a SWF would function effectively by importing international skills and by partnering local fund experts.
- **A SWF should be a pillar of savings for the country:** A South African SWF can serve as a tool driving local development and assist in against counter-cyclical periods. The views shared are a stark reminder of the mandate of the Chile SWF also known as the Economic and Social Stabilisation Fund (ESSF). The ESSF has successfully acted as a supportive economic instrument to fill budget deficits and to soothe the damaging effects of the COVID-19 pandemic (Lam et al., 2023).
- **The mandate of a SWF remains an important foundation:** An important topic revolves around the mandate that a SWF should have prior to being in operation. Considering that the South African economy displays signs of fragility through high unemployment, dilapidated SOEs, and a high debt-to-GDP ratio, one is of the view that a South African SWF should embrace two functions: the stable fund and the development fund functions (Al-Hassan et al., 2013). Furthermore, the mandate clearly provides an indication of the type of investments that a SWF would make.
- **The need for a new legislative Act or a modified PFMA:** The PFMA contains clauses empowering the National Treasury to oversee SOEs and financial departments across the country. Logically, a SWF would fall under the supervision of the National Treasury due to the PFMA Act. However, a special legislation designed for a SWF could grant flexibility and agility to a SWF. Furthermore, since capacities within the National Treasury are limited, it would be important to create legislation expediting capacities within a SWF.
- **How to fund a SWF:** In response to critics who are primarily focused on the negative aspects of a South African SWF, it was interesting and valuable to uncover creative ideas that would assist in financing a SWF. Even though the mining sector is controlled by private interests, South Africa does not fall short of new ideas or creative tools to generate funds towards financing a SWF. While most SOEs are not viable, they still own unused and neglected assets which can be sold to generate funding.

Added to those assets, mineral licence exploration and GFECRA reserves may aid in establishing a SWF.

- **Geopolitical conditions:** In a world experiencing sudden polarisation with the Ukraine-Russia war and conflicts in the Middle East, South Africa has irritated a few international partners through its positions. In 2011, the UN along with Western powers decided to freeze the assets of the LIA due to geopolitical conflicts (Sacerdoti, 2012). Such events should serve as a lesson when making investments abroad in countries that may turn into foes during a season of global turbulence. It remains important that a South African SWF keeps its investments in harmony with a sound South African Government foreign policy protecting the nation's interests.

## **4.5 Joining Data with Research Questions and Research Objectives**

### ***4.5.1 Joining Data to the Research Questions***

From the data collected from the respondents, one must reconcile the answers to the research questions.

*Through a thorough investigation, how can South Africa establish a SWF with its current financial state?*

It is clear that South Africa's current state of financial affairs is encountering several challenges characterised by depleted SOEs and a ballooning national debt representing 75% of the GDP (IMF, 2024). As proof that the national debt represents great concern, the Finance Minister has plans to tap into the SARB foreign exchange reserve to alleviate the debt burden. A SWF must first be regarded as a savings instrument that could alleviate debt burden if it must be regarded with equal or higher consideration than the national debt burden. In the following phase, South Africa will have to tap into currently available funds to finance a SWF instead of seeking funds from bankrupt SOEs. The best source of funding clearly points towards the GFRECA reserves, valued at ZAR 500 billion (National Treasury, 2024). Furthermore, a new legislative Act containing agile clauses will be required to facilitate the existence of an effective and bloated-free SWF.

*What kind of roles can state-owned enterprises and development finance institutions play in assisting the South Africa Government in establishing a SWF?*

Based on clear legal evidence provided by the Zondo Commission (Zondo, 2022), and based on audited data provided by the Auditor-General (2021), SOEs cannot play a role in establishing a SWF. In a 2021 Audit, three DFIs (i.e., the Land and Agricultural Development Trust, IDC, and the DBSA) were audited along 12 other SOEs. The overall audit result indicated that 9% of the 15 state organisations were financially healthy. In other words, only one organisation was financially healthy (Auditor-General,2024). Since most SOEs are not viable, none of them can be sold at a good price. This leads a conclusion that the participants were correct in suggesting that SOEs assets (e.g., buildings, land, cars, etc.) be sold to fund the SWF. Furthermore, it remains safe for South Africa to keep its SOE in the public view to maintain control over basic services.

*What institutional arrangements and governance frameworks can South Africa adopt to ensure transparency and accountability for the establishment of a SWF?*

Based on the responses, less political interference will be beneficial for agility and protection against corruption. The arrangements should be described in a mandate enforced by a legislative Act that does not fall under the PFMA.

*When considering South Africa's current financial outlook, what are the potential sources of funding for the establishment of a SWF and which investment should be prioritised when establishing a SWF?*

At this point, the best source of funding will be the sale of mineral exploration findings, the GFRECA foreign exchange reserves, and the sale of SOEs assets. The best investments should be carried out offshore if they prevent an increase in commodity prices locally. Furthermore, international destinations proving to be safe and stable should be considered for SWF investments.

#### **4.5.2 Joining Data with Research Objectives**

In this section, the researcher assesses whether the data collected satisfies the main objective of the current research which consists of assessing South Africa's readiness and ability in establishing a SWF.

To a certain extent supported by tangible evidence, South Africa is ready to create a SWF when considering several factors. Critics against the SWF argue that the nation does not have enough capital to establish such venture (Markowitz, 2020). The establishment of SWFs in other countries such as Namibia and Botswana indicate that it is not compulsory to have a large sum of capital to establish a SWF. The Welwitschia Fund from Namibia was launched in 2022 with a capital investment of US\$ 16 million. The Namibian Government expects to boost the fund's capital through the privatisation of 22 SOEs and through surpluses generated from the discovery of oil (Global SWF, 2022). In Botswana, the Pula Fund was established as the SWF of the country in 1993. To date, the Pula Fund manages US\$ 4.1 billion in assets (SWFI, 2023e). In comparison to Namibia and Botswana, South Africa has more funds available in the GFRECA foreign exchange reserve and a sizable amount of assets owned by SOEs which can be sold to generate funds for a SWF.

#### 4.5.2.1 Sub-Objectives of the Research

In this research, four sub-objectives were mentioned. However, two are discussed in the following section; the third sub-objective was discussed in the literature review while the last objective will be discussed in the next chapter.

#### *Analysing the role of SWFs and their impact in their countries of operation*

Though the research will not analyse the impact of all global SWFs, the researcher explored the instruments available to the South African Government in a view to establish a SWF. In Africa, there are three key areas where SWFs can play a pivotal role (El Fihri et al., 2023):

- **Renewables and Sustainable Energy:** With the threat of climate change, Africa is rapidly transitioning to renewable energy sources, creating investment prospects in grid infrastructure, renewables, and green hydrogen.
- **Local Value-Added Production:** Trade developments and the COVID-19 crisis have spurred African countries to focus on localising critical production and moving towards value-added output in sectors such as pharmaceuticals and agricultural processing.
- **Infrastructure Growth:** Large transcontinental projects, such as railways and ports, have the potential to drive infrastructure growth across Africa, with SWFs participating in various high-profile projects.

In recent years, African SWFs have emerged as key players in filling funding gaps and engaging in transformative sectors, often through partnerships and leveraging private sector capital (El Fihri et al., 2023). Some are focusing on leveraging existing state-owned assets, while others are actively involved in nation-building and local economic development. Additionally, partnerships with Middle Eastern SWFs have been observed, reflecting the shared interest in Africa's growth opportunities. Key examples of the impact made by SWFs in their countries of origin include (El Fihri et al., 2023):

- The TFSE and the Abu Dhabi Developmental Holding (ADQ) have established a US\$ 20 billion investment partnership focusing on sectors including healthcare, pharmaceuticals, utilities, food and agriculture, real estate, and financial services. This collaboration aims to bolster Egypt's economic development through interconnected investments (El Fihri et al., 2023).
- In Nigeria, the Nigeria Sovereign Investment Authority (NSIA) has financed various infrastructure projects, including a US\$ 440 million investment in constructing a 1.6-kilometre-long bridge in Niger, along with secondary bridges and connecting roads.

#### *The Economic and Social Stabilisation Fund*

The ESSF of Chile consists of two funds: the Pension Reserve Fund and the Economic and Social Stabilisation Fund. The Pension Reserve Fund is designed to support the state guarantee for pension and disability solidarity benefits. The ESSF was designed to finance fiscal deficits and to stabilise primary expenditures arising from low growth and/or low copper prices. The ESSF can be used for debt service and contributions to the Pension Reserve Fund. Essentially, assets in the ESSF may help reduce the need for issuing debt by financing the budget shortfall originated from economic downturns and volatile natural resource prices. At the end of 2022, the ESSF showed a balance of US\$ 7.5 billion (2.4 percent of GDP; (Lam et al., 2023). The ESSF serves as a great example of how a South African SWF could operate. During the COVID-19 pandemic, US\$ 10.2 billion was withdrawn from the fund to stabilise the economy (Lam et al., 2023). Such examples can be a great motivation for South Africa to create SWFs particularly in moments of crises. Key characteristics of the ESSF includes (Lam et al., 2023):

- Well-established laws that govern contributions to and withdrawals from funds;
- A minimum annual contribution of 0.2% of GDP into the Pension Reserve Fund, with additional contributions possible based on fiscal surplus; and
- Withdrawals from Pension Reserve Fund capped at 0.1% of the previous year GDP.

The researcher interestingly notes that withdrawals are extremely capped to prevent excessive outflows. A potential SWF could learn from the rigorous discipline practised by the Chile ESSF.

The other characteristics of the ESSP includes (Lam et al., 2023):

- Flexible in/outflows adhering to international best practices;
- The Pension Reserve Funds are earmarked for solidarity spending on pensions;
- ESSF funds can finance budget deficits, public expenditures, service public debt, or contribute to the Pension Reserve Fund;
- Resources can only be used during a declared state of emergency representing at least 0.5% of total budget expenses; and that
- Funds are solely for financing expenses from natural disasters or related insurance premiums.

The use of ESSF and Pension Reserve Funds are extremely rationed and dedicated to finance deficits. The above examples of the effects of SWF on their countries of operations were used to pinpoint some of the key benefits of a SWF. Within the South African context, a SWF could assist during moments of crisis and to counter cycles.

#### **4.6 Conclusion**

On discussions regarding the establishment of a SWF in South Africa, focusing on its purpose, governance structures, and internal capacity, the researcher noticed divergent and useful views. Respondents express divergent views on the SWF's potential benefits, with some advocating for its role in economic stability and infrastructure development, while others expressed concerns regarding national debt, political interference, and the risk strategies to adopt.

Regarding institutional arrangements, there is a suggestion to model the SWF after the PIC, with parliamentary legislation as its foundation. The researcher argues that the PIC may not be a complete model to follow since it is strongly dependent on the PFMA. The Act allows for strong interference and positive accountability while impeding agility in the context of a government known for its slow service delivery.

Special attention is given to the internal capacity issues highlighting shortcomings in existing institutions such as the National Treasury and the SARB, with calls for specialised investment management teams. Such a call would imply the need to outsource work and tasks in case where a SWF was created. Outsourcing is suggested but met with caution due to past scandals and the need for security in investment management. The researcher acknowledges the indelible tracks left by state capture and argues in favour of full capacitation within a SWF.

A dream of building a SWF cannot continue unless one truly engages a discussion over its funding. In the interviews, sources of funding ranged from proceeds from mineral resources, SARB reserves, a wealth tax, and proceeds from privatisation to fiscal surpluses. These suggestions come with their own set of challenges as one respondent mentioned that the private sector's dominance in mineral resource exploitation makes it difficult to generate funds without special taxes. The idea of a wealth tax carries many dangers due to concerns about its ability to trigger potential tax evasion and discontentment within the current tax base population. However, an effective alternative suggestion included the conducting of large mining explorations by the Department of Mineral Resources to generate funds from endowments. Regarding other sources of funding, a very practical and tangible idea suggested tapping into reserves from the GFECRA held by the SARB for funding the SWF. However, using the GFECRA reserves may compete with national debt repayment efforts.

The researcher noted the views expressed on investment strategies which should align with SWF objectives. Therefore, from the onset, the founders of a South African SWF would need to be clear regarding its mandates and objectives. The respondents indicated that “safety in investing” should remain a critical priority. The safety of the economy will push a SWF to adopt long-term views with risk tolerance and countercyclical objectives.

Views were divided when considering financing local large quantum assets, avoiding complicated investment projects affected by corruption and mismanagement may be a safe path to adopt in an early stage. In an ever-evolving world, the researcher noted that responses positively emphasised the importance of considering ESG principles in SWF investments. Finally, it is crucial to consider the geopolitical risks associated with international investments through the SWF, particularly in strategic assets carrying key interests of foreign governments. The war between Ukraine and Russia and the geopolitical conflicts affecting the Middle East teach us to make business investments based on sound analysis.

## CHAPTER FIVE: CONNCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

In this chapter, the study summary, recommendations, and policy implications are presented. The chapter will also carry the fulfilment of the fourth sub-objective of *providing a proposal tabling a set of institutional arrangements and governance frameworks ensuring transparency, accountability, and effectiveness in establishing a SWF and in managing its funds.*

### 5.2 Benefits of a Sovereign Wealth Fund

Sovereign Wealth Funds aim to maintain and grow their capital over generations, primarily through investments. Sovereign Wealth Funds invest in various asset classes such as cash equivalents, fixed-income securities, global equities, and private markets. They employ different investment strategies, including acting as private equity firms, investing with other private equity funds, direct investments in secondary markets, or targeting underperforming multinational corporations. Sovereign Wealth Funds typically invest in large, listed companies and foreign businesses active in sectors such as energy, private equity, real estate, and investments. They tend to favour low-risk investments in stable regions, often preferring OECD countries due to their political stability.

Regarding foreign policies and international pressures, successful SWFs tend to align their investment strategies with the political climate. For example, SWFs may face limitations in accessing Western markets if their home country's foreign policy conflicts with those of Western nations. A good example of this can be found in the LIA, whose assets were frozen due to its connection with the Gaddafi regime during the Libyan Civil War. This example illustrates how SWFs may face consequences based on their government's actions and international relations.

Sovereign Wealth Funds are not operating alone, and their international investments can automatically bear either good or negative consequences on national economies. In the right hands and through sound international investments, a SWF would respond to the pressing needs of the South African economy.

### **5.3 Summary of Findings**

#### ***5.3.1 Creation of a New Legislation for the Creation of a Sovereign Wealth Fund***

In the same manner that certain SOEs and Governmental institutions were created, the researcher recommends that the South African Parliament moves forwards with the creation of a legislative Act for the creation of a SWF. The proposed Act should contain clauses promoting and delineating the mandate of the SWF along with the clearly delineated roles and limits of the supervisory body overseeing the SWF. The roles and limits of the supervisory body should be described in a manner that promotes agility within the SWF.

#### ***5.3.2 Governance Framework Promoting Transparency of Funds and Management***

The researcher found that the SWF should be directed by a governing board headed by a Chief Executive Officer. The Chief Executive Officer should be seconded by a Chief Operations Officer and a Chief Investment Office. The researcher recommends a reporting routine submitted to Parliament on a regular basis in view to increase accountability.

#### ***5.3.3 Legislative Framework***

Although the PFMA plays a role in promoting accountability, transparency, and effectiveness in public spending within Governmental institutions, the same legislative Act contains weaknesses that could hamper the functions and mandate of a SWF. Using the PFMA to establish a SWF may pose challenges, as the National Treasury, empowered by the PFMA, may lack the capacity to effectively supervise a SWF. Such a lack of capacity may lead to bloatedness against agility and therefore a new legislative Act may be necessary to create a flexible SWF capable of responding efficiently to changing environments.

The research placed emphasis on the necessary institutional arrangements and governance frameworks for transparency, accountability, and effectiveness within a SWF. The current bloatedness and under capacity of several Governmental departments leads to question whether the SWF should operate within existing supervisory institutions or have unique guidelines tailored to the South African context. The second option comes across as more attractive since it will allow for agile decisions.

#### ***5.3.4 Funding Sources***

As mentioned earlier, the study found that the following as funding source for a SWF: mineral exploration licences; the sale of SOE assets, and the GFECRA reserves.

### **5.3.5 Mandate**

The study found that the SWF should be built around a developmental and savings mandate in view to prioritise local funding.

### **5.3.6 Capacity Building**

In view to prevent over reliance on governmental institutions and private consulting companies, the study found that compulsory and speedy recruitment processes would be required within the SWF. Such a speedy recruitment process will mostly be possible through an agile process. Furthermore, the process of building a SWF should be opened in partnering with local and international fund experts.

### **5.3.7 Investment Strategy**

It remains important that a SWF stays clear from investing in foreign strategic assets in view to prevent political interference. Furthermore, the study found that SWF investments be applied after full cognisance of both local and international foreign policies.

### **5.3.8 Investment Proceeds Usage**

The proceeds of investments should be utilised for developmental and countercyclical purposes. Should the Government wish to make a withdrawal from the SWF, the withdrawal amount should be capped and the amount must be equal to or not exceed the permitted Contingency Reserve amount in the country's budget.

### **5.3.9 Restrictions on Sovereign Wealth Funds**

The study found that the following restrictions on a South African SWF should be put in place:

- **Restrictions on taking debt:** The SWF must be restricted from taking debt to the risk of overborrowing and opening the door to financial mismanagement.
- **Restrictions on other high-risk instruments:** This restriction prevents a South African SWF from investing in futures or options traded by financial institutions without full knowledge of both the investment techniques used and of the objectives of the derivatives. In other words, a South African SWF should be convinced that derivatives will be used for hedging and not for speculative purposes.
- **Minimum credit rating:** The SWF should be restricted from investing in bonds with a lower credit rating. To prevent high-risk investment in low-quality foreign bonds, the

South African SWFs must be given a directive to limit its investments into bonds classified under a specific rating class (e.g., AA, AA-).

#### **5.4 Conclusion**

Initially, the announced SWF in South Africa was intended to be financed through various means, including spectrum allocation, resource royalties, and asset sales. However, the COVID-19 pandemic severely impacted the economy, leading to doubts regarding the feasibility of funding the SWF. South Africa's history of budget deficits and a high national debt further complicated the matter, necessitating international borrowing for Government programmes. The establishment of a SWF remains a feasible idea and is supported by the study findings of the possible funding opportunities as this would be the biggest requirement.

Additionally, revelations regarding the poor financial state of SOEs raise questions about the country's ability to establish a SWF for economic stability. However, in-depth research on the state assets value, the GFECRA reserves, and mining licence exploration indicate levels of hope for the funding of a SWF. The researcher noted that among the global top eight SWFs, only one belongs to a Western country, challenging the notion that Western countries hold the key to successful SWF creation. Such facts may deter criticism claiming that successful SWFs are mostly tied to liberal democratic systems, while majority of the most successful SWFs operate under monarchic or social communist political systems such as China and Saudi Arabia.

#### **5.5 Future Research**

Additional research is necessary to investigate SWFs in Africa and developing nations and their economic impact. The study also reveals that numerous SWFs have a secretive disposition, and greater transparency is required, particularly where SWFs adhere to the Santiago Principles.

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# APPENDICES

## Appendix A: Interview Questions



### Master of Commerce in Development Finance INTERVIEW/SURVEY CONSENT FORM

Participant name: .....

I volunteer to participate in a research project conducted by **Usiphile Masibonge Mbalo** as partial fulfilment of the requirements for the **Master of Commerce in Development Finance Degree** at the UCT Graduate School of Business. I understand that the research is designed to gather information about **“Is the establishment of a sovereign wealth fund a “pipe dream” for South Africa”** and that I will be one of approximately 12 of people being interviewed for this research.

#### **Objective(s) of the research**

The main objective of this study is to understand the readiness of South Africa to establish a sovereign wealth fund. The study will focus on the following:

1. The role of sovereign wealth funds and their impact in countries
2. Explore instruments available to South African government to establish the SWF.
3. Explore other successful SWFs in the world and how they managed to achieve their desired results and how their success is translated in their economy for the benefit of people.
4. Provide a proposal for a set of institutional arrangements and governance frameworks for an SWF in South Africa that will ensure transparency, accountability, and effectiveness in managing the fund.

#### **Research results and Findings**

The participant comments will serve as the foundation for a dissertation that will be completed in order to earn the Master of Commerce in Development Finance degree. While the dissertation will eventually be made public (in accordance with UCT’s Open Access Guidelines), your identity will be kept private, and you won’t be mentioned by name in any results reports. All information will be held safely on a server that requires a password. If the participant agrees to have the interview recorded, the audio files will be stored for 36 months after the project is over before being deleted. The transcriptions and audio files will only be utilized for this research project. The results and conclusions of this study can be shared in accordance with UCT norms and used for future research and policy formulation for the South African government.

#### **Ethics approval**

The ethical clearance for this study was approved by the UCT GSB Research and Ethics Committee on 26 September 2023

#### **Participation and confidentiality**

I understand that my participation in this research is voluntary, that I will not be compensated and that I may withdraw at any time. The interview will take approximately 45 - 60 minutes to complete and will be audio recorded.

I understand that I will not be identified by name in any reports using information obtained from this interview and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data will be subject to standard data use policies which protect the anonymity of individuals and institutions.

Should you have any questions or concerns please contact me Usiphile Mbalo on 063 772 0190 or [MBLUSI001@myuct.ac.za](mailto:MBLUSI001@myuct.ac.za) or my supervisor Dr. Thanti Mthanti on [thanti.mthanti@uct.ac.za](mailto:thanti.mthanti@uct.ac.za).

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**Consent**

I consent to participate in this interview, based on the terms outlined above and subject to the following additional condition of my own (if any).

-----  
**Signed by interviewee**

-----  
**Date**

-----  
**Signed by Student**

-----  
**Date**

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## Questions

### Background Information

<b>Name:</b>					
<b>Gender:</b>					
<b>Age (Between):</b>	30 and 40	41 and 51	51 and 60	61 and 70	Above 71
<b>Educational Background:</b>	No Matric	Matric	Undergrad Degree	Masters	Doctorate
<b>Work Experience (Years):</b>					
<b>Current Job Position &amp; Function:</b>					

### Section A: Goal and Purpose of Creating a Sovereign Wealth Fund

1. Is the primary purpose of establishing a SWF in South Africa countercyclical policy i.e., to reduce the severity of economic cycles?
2. Would one of the main objectives of the creation of a SWF in South Africa be to provide balance of payment support?
3. Would creating an SWF aid and foster economic growth in SA?
4. Would one of the main objectives of the creation of a SWF in South Africa be to foster intergenerational equity?
5. What other objectives might policy makers have for the creation of a SWF in South Africa?

### Section B: Institutional arrangements and potential governance structures

1. How can a SWF be insulated from the poor governance practices exhibited by existing South African state-owned entities?
2. How can the current government department shield the SWF from political meddling?
3. Would you say the SWF be best placed to report directly to the National Treasury? Why?
4. Would you say the SWF be best placed to report to the South African Reserve Bank? Why?
5. Should the South African SWF's investment strategy be decided at the management level or at the political level?

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### Section C: Internal capacity

1. Do you believe that National Treasury has the necessary skills and expertise to establish the SWF?
2. Do you believe that National Treasury should delegate to the South African Reserve Bank to establish and manage the Sovereign Wealth fund?
3. Do you believe that South African government has the necessary skills and expertise to efficiently manage and supervise the activities of a SWF?
4. Can state-owned PIC, DBSA, and IDC help the South African government establish and manage an SWF?
5. In your opinion, how can existing legislation be improved to create a conducive environment for SWFs to conduct their business with limitations?
6. In your opinion, does the current legislations such PFMA, Collective Investment Schemes Control Act and South African Reserve Bank Act have the capability to enable the establishment of a SWF?

### Section D: Potential Funding Instruments for Establishing and Building the Sovereign Wealth Fund

1. Can South Africa use its proceeds from natural resources to establishing and fund a SWF?
2. Can South African use a portion of its existing foreign reserves held by SARB to establish a SWF?
3. Can South Africa levy a wealth tax to establishing and fund a SWF?
4. Can South Africa use privatisation (of SOEs) proceeds to establishing and fund a SWF?
5. In your view, what other funding sources might SA use to establish, and fund a SWF?

### Section E: Potential SWF Investment Strategy.

1. Should an SA SWF follow a conservative investment strategy to preserve wealth for future generations?
2. Should an SA SWF invest primarily offshore to support countercyclical policy and provide balance of payment support?

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3. How should SWFs determine risk tolerance when drafting their investment strategy to meet their objective of achieving the desired return without compromising future return?
4. Should an SA SWF invest primarily domestically to support large strategic projects?
5. In your view, what should the optimal portfolio concentration between domestic and foreign investments?
6. Should SWFs incorporate ESG factors into their investment strategy and decision-making?

#### **Section F: Potential SWF Investment—Geopolitical considerations**

1. Should a SA SWF invest in large strategic projects abroad?
2. Should the SWF invest in strategic assets abroad with a majority/controlling shareholding stake?
3. In your view, to what degree should SA's geopolitical strategy influence the investment strategy of its SWF?

#### **Section G: General questions (Open Ended Questions)**

1. According to your perspective, how do you believe the Deputy President's office, the National Treasury, and other important players would collaborate and coordinate to create an SWF?
2. Would you mind sharing your thoughts on a realistic time frame for South Africa to create and launch an SWF, considering the current financial situation?
3. What specific conditions or considerations must be met in South Africa before an SWF can be established?

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## Appendix B: Ethical Approval



UNIVERSITY OF CAPE TOWN  
**FACULTY OF COMMERCE**  
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### Commerce Faculty Ethics in Research Application Form

Any person planning to undertake research in the Faculty of Commerce at the University of Cape Town is required to obtain ethical clearance. This form is intended for undergraduate students, honours students, PD Dip students and Masters students whose research component is less than 90 credits.

Once this form is completed it should be sent via email to your departmental ethics representative. Your supervisor will be able to provide you with the contact details.

It is assumed that the researcher has read the UCT Code for Research involving Human Subjects (Available at <http://web.uct.ac.za/depts/educate/download/uctcodeforresearchinvolvinghumansubjects.pdf>) in order to be able to answer the questions in this form. Students must include a copy of the completed form with the dissertation/thesis when it is submitted for examination.

1. PROJECT DETAILS			
<b>Project title:</b>	<b>Is the establishment of a sovereign wealth fund a "pipe dream" for South Africa?</b>		
<b>Principal Researcher/s:</b>	Usiphile Mbalu	<b>Email address(es):</b>	MBLUSI001@myuct.ac.za usiphilem@idc.co.za
<b>Research Supervisor:</b>	Dr. Thanti Mthanti	<b>Email address(es):</b>	thanti.mthanti@uct.ac.za
<b>Co-researcher(s):</b>		<b>Email address(es):</b>	
<b>Department:</b> UCT Graduate School of Business, Development Finance Centre			
<b>Brief description of the project:</b>			
<p>The study seeks to ascertain South Africa's readiness to establish a sovereign wealth fund. The research will look into the role of sovereign wealth funds and how they affect countries. The research will look into the tools available to the South African government to establish the SWF. The study will look at other successful SWFs around the world, how they achieved their goals, and how their success is reflected in their economy for the benefit of people.</p> <p>The study will attempt to provide a proposal for a set of institutional arrangements and governance frameworks for a South African SWF that will ensure transparency, accountability, and efficacy in fund management.</p>			

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### Appendix C: Interview Protocol Refinement Framework

	<b>Background Questions</b>	<b>Research Objectives 1</b>	<b>Research Objectives 2</b>	<b>Research Objectives 3</b>	<b>Research Objectives 4</b>
		Analysing the role of sovereign wealth funds and their impact in their countries of operation	Exploring instruments available to the South African government in view to establish a SWF.	Analysing successful SWFs established in other countries while studying their chosen methods which provided positive financial results and economic benefits to their populations.	Providing a proposal tabling a set of institutional arrangements and governance frameworks ensuring transparency, accountability, and effectiveness in establishing a SWF and in managing its funds
<b>Background Information</b>	X				
<b>Section A Questions (5)</b>		X		X	
<b>Section B Questions (5)</b>					X
<b>Section C Questions (6)</b>					X
<b>Section D Questions (5)</b>			X		
<b>Section E Questions (6)</b>				X	
<b>Section F Questions (3)</b>				X	
<b>Section G Questions (3)</b>		X			X