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Excess Crude Account And Sovereign Wealth Fund As Strategic Tools For Sustainable Development In Nigeria

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Abstract
The rapidly changing dynamics and volatility of oil market have underscored the need for building material fiscal savings. Hence, the wisdom behind the establishment of Excess Crude Account (ECA) and Sovereign Wealth Fund (SWF) by the Government of Nigeria in 2004 and 2011 respectively. These two funds serve as buffer to sustain developmental strides of Nigeria in the present and in the future. The SWF is a state owned investment fund comprising financial assets that include stocks, bonds and other financial investments aimed at effectively managing the proceeds from oil exports for the benefits of both present and future generations in Nigeria. The thinking behind the ECA and SWF is to ensure that excess crude oil revenues are made productive in times of fiscal difficulties. Sustainable development ensures that a country is in charge of its economics in order not to unfairly mortgage the interests of the present and future generations. It must, however, be averred that without the mobilization of short-term and long-term savings to support the consolidation of present and future growth and development there cannot be sustainable development.
Keywords: Excess Crude Account, Sovereign Wealth Fund, Strategic, Tools, Sustainable Development.

1. Introduction

Nigerian government has been carrying out ambitious fiscal policy reform agenda since 2003 in order to ensure sustainable development in all sectors of the economy. The most far reaching of those reforms was to base the annual budget on a conservative reference saves in a special fund account. The Excess Crude Account (ECA) and the Sovereign Wealth Fund (SWF) was created for this purpose by the federal government of Nigeria in 2004 and 2011 respectively. These accounts are regarded as amassing buffers established to serve as stabilization instruments for the Nigeria economy.

The objective of the Excess Crude Account was primarily to protect planned budget against shortfalls due to the volatile crude oil price at the international market. The bull of the withdrawals forms ECA has been shared amongst the three tiers of government to make up for shortfalls in the national budgets (Ogunlesi, 2010). By 2007 the amount in the ECA had researched $20.3 billon from $5.1 billon in 2004. Although some of the withdrawals might be prudent in terms of meeting unanticipated exigencies associated with the 2008-2009 economic crisis. However, the process also underscores Nigeria's weak governance (Sen, 2012; Ubah, 2011). The fact is that ECA was created outside constitutional provision for the purpose of saving all oil revenue in excess of the benchmark price set in the annual budget. Its relevance to sustainable development cannot be overemphasized, it remain a potent stabilization instrument for the economy.

In 2011 the federal government of Nigeria decided to create Sovereign Wealth Fund (SWF) as a long-term instrument. This is not because the ECA was illegally created, but because there was a need to have a strong fiscal framework that would ensure that the present and future generations of Nigerians are adequately provided for with the earnings from excess crude prices. It was also considered very important for Nigeria to adopt a saving culture and sustainable development strategies to grow the economy, since the country is relying entirely on depleting asset as the only source of revenue.

Sustainable development is one of the most critical challenging and fundamental issues facing developing countries, including Nigeria. Sustainable development as used in this study is about ensuring that while satisfying the needs of the present generation, Nigeria's natural resources are not depleted or jeopardized so as to meet the needs of future growth and secure the livelihoods of coming generations. Thus, sustainable development ensures the creation of national wealth, durable growth, economic progress, prosperity and better society based on prudent management of resource to engender social justice and dignity of the human person.

However, without the mobilization of short-term and long-term savings and investment strategies to support the consolidation of the present and future growth and development, there cannot be a sustainable development in Nigeria. It is against this backdrop that this study view ECA and SWF as strategic tools in the quest to enhance fiscal revenue and provide an edge over risks of the present and future external shocks occasioned by fluctuations in the price of oil at the international market.

2. Excess Crude Account

Excess Crude Account (ECA) is an account set up by the Nigerian government and used to save oil revenue above a base amount derived from a defined benchmark price. ECA is a short-term instrument designed to cushion shortfalls effect in oil revenue that may emanate from low production, oil theft or fall in crude oil price at the international market (Budina, 2012). Therefore, the build-up in the ECA had become very handy in ensuring that whatever shortfall in revenue is adequately taken care of. The government had to draw from the ECA to deal with the unanticipated losses due to output and price variation which was the purpose for setting it up. According to Olawunmi and Ailemen (2013), surplus funds, mainly emanating from the sale of Nigeria's crude oil were held in the Excess Crude Account (ECA) which was created in 2004 to act as a stabilization fund against budget deficits arising out of oil price volatility and to potentially fund domestic infrastructure investments.

3. Sovereign Wealth Fund

Sovereign wealth fund (SWF) is a state owned pool of money that is invested in various financial assets the money typically comes from a nation's budgetary surplus. When a nation has excess money, it uses a sovereign wealth fund as a way to funnel it into investments rather than simply keeping it in the central bank or channeling it back into the economy (Adigun, 2011).

Sansui (2013) opined that the motives for establishing a sovereign wealth fund vary by country. For example, Nigeria generates a large portion of its revenue from exporting oil and needs a way to protect the surplus reserves from oil base risk, thus it places a portion of that money in a sovereign wealth fund as a way to accrue profit for the benefit of the nation's economy and its citizens.

Above all the primary functions of Sovereign Wealth Fund (SWF) are to:

(i) Stabilize the economy of the country through diversification and

(ii) Generate wealth for future generations.

3.1 Categories of Sovereign Wealth Fund

Sovereign wealth fund can fall into two categories

(i) Commodity

(ii) Non-commodity

The difference between the two categories is how the fund is financed.

Commodity sovereign wealth funds: Commodity sovereign wealth funds are financed by exporting commodities. When the price of a commodity rises, nations that export that commodity will see greater surpluses. Conversely, when an export–driven economy experiences a fall in the price of that commodity a deficit is created that could hurt the economy. A SWF acts as a stabilizer to diversify the country's money by investing in other areas. Thus, commodity SWF has seen huge growth as oil and gas prices increased between 2000 and 2013.

Non commodity sovereign wealth funds: Non commodity sovereign wealth funds are typically financed by an excess of foreign currency reserves from current account surpluses non – commodity funds totaled $2 trillion in 2012, which is three times the total, three years earlier. Currently, the majority of funds are financed by commodity funds, but non commodity funds may reach beyond 50% of the total by 2015 (Sanusi, 2013).

3.2. What do SWF Invest in?

Sovereign wealth funds are traditionally passive, long-term investors. Few SWF reveals their full portfolio but sovereign wealth funds invest in a wide range of asset classes including:-

(i) Government bounds

(ii) Equities

(iii) Foreign direct investments

4. Nigeria Sovereign Investment Authority

The establishment of the Nigeria Sovereign Investment Authority (NSIA) which will manage the sovereign wealth fund of Nigeria is expected to help reduce the vulnerability of the economy to external shocks, ensure intergenerational equity and serves as a catalyst for attracting investment for Nigeria's critical infrastructure. It has three components:

(i) Infrastructure fund
(ii) Stabilization fund
(iii) Intergenerational fund.

The sovereign wealth fund investment Act was signed into law on May 27, 2011 and was regarded as a right step in the right direction by many Nigerians. Nigeria sovereign wealth fund legislation was necessitated by the depletion and the non-renewable nature of the hydrocarbon resources in the country and the need to develop critical infrastructure that would attract investment and diversity the economy.

5. Funds to be Administered by the Nigeria Sovereign Investment Authority (NSIA) Act

Section 4 (1) of the Act empowers the NSIA to manage three (3) classes of funds these are:

(i) To manage the future generations funds.
Section 4(1)a of the act defines the future generation fund as a diversified portfolio of appropriates investments for the benefit of future generations of Nigerians. The fund is essentially of ensuring the legacy of future generations of Nigerians in not squandered by the present generation.

(ii) To manage the Nigeria infrastructure fund section 4(1)b defines this fund as a portfolio of investments specifically related to and with the object of assisting the development of critical infrastructure in Nigeria that would attract and support foreign investment, economic diversification and growth .

(iii) To manage the stabilization fund section 4(1)c describes the stabilization fund as a portfolio of investments to provide supplemental funding for stabilization of the federation.

6. Benefits of Excess Crude Account and Sovereign Wealth Fund

(a) To adopt a savings policy in the interest of the present and future generations of Nigerians
(b) To act as stabilization tools at such times when oil prices fall below the projected sum for any fiscal year.
(c) To serve as the engine room for the infrastructural development in Nigeria.
(d) Protect and stabilize the budget and economy from excess volatility in revenue/exports
(e) Diversify from non-renewable commodity exports
(f) Earn greater returns than on foreign exchange reserves
(g) Assist monetary authorities dissipate unwanted liquidity
(h) Fund social and economic development
(i) Sustainable short-term and long-term capital growth for target for national development
(j) Increase savings for future generations

Oil exporting economies including Nigeria experienced good fortune during the review period with the rising price of crude oil at the international market (Table 1) this was attributed to excess demand for crude oil occasioned by supply constraints and speculative trading. For example, crude petroleum from Nigeria was sold at monthly average prices of US $81.07 US $114.15 and US $113.68 per barrel in 2010, 2011 and 2012 respectively after the reported drop in crude oil price to US $63.25 per barrel in 2009 following the global recession.

7. Sustainable Development

Sustainable development has the capacity to fundamentally strengthen adaptive capacity and safeguard these economies long-term prospects in the face of depleting natural resources and under the weight of the response measures (Hamilton & Clement, 1999).

Sustainable development has many definitions but with the same central message i.e. today's development should not be at the expense of the future (Craig, 2003). The most widely accepted definition is that "sustainable development is the development that meets the needs of the present without compromising the ability of the future generation to meet their needs" (Brundtland, Report).

Sustainable development perspective has encouraged policy makers in Nigeria to look at the socio-economic wellbeing holistically and in both short-term and long-term through the notion of development sustainability, which refers to the maximization of the present flow of income without diminishing the total stock of assets.

8. Conclusion

There is no point in arguing the fact that Nigeria need Excess Crude Account (ECA) in the short-term and Sovereign Wealth Fund (SWF) in the long-term to sustain her developmental stride. There is certainly more wisdom in saving excess funds to provide for infrastructure, help macro-economic stability and leave something substantial for future generations of Nigerians who may be born when oil would have been depleted than in consuming every available revenue.

ECA and SWF are regarded as potent strategic tools established by the Nigerian government to serve as stabilization instruments for the economy. Both are also meant to serve as secondary sources of funding supporting the short-term and long-term development plans and they are also handy in the periods of budgetary deficits. However, an important characteristic of the SWF that differentiate it from the ECA is that it is intended to function independently of political pressures for withdrawals and transparency regarding the use of fund.

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Table 1: Price of Selected Crude Oil Products

Crude Oil Products	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Algeria Saharan Blend	74.66	98.96	62.35	80.35	112.92	111.52
Angola Girassol	70.88	95.64	61.81	79.53	111.57	112.24
Iraq Basra Light	66.40	92.08	60.50	76.79	106.17	108.00
Kuwait Export	66.35	91.16	60.68	76.32	105.63	108.98
Libya Ess Sidar	71.41	96.65	61.45	79.13	111.90	111.88
Nigeria Bonny Light	75.14	100.60	63.25	81.07	114.15	113.68
Qatar Marine	69.30	94.86	62.38	78.18	106.53	109.31
Saudi Arab Light	68.75	95.16	61.38	77.82	107.82	110.27
UAE Murban	72.87	99.03	63.78	79.94	109.77	111.80
Venezuela Merey	61.80	86.73	55.90	69.70	97.94	100.11
OPEC Reference	69.08	94.45	61.06	77.45	107.46	109.50

Source: OPEC, 2012.