REGULATING SOVEREIGN WEALTH FUND IN ETHIOPIA: LESSONS FROM CHINA INVESTMENT CORPORATION

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Abstract

This paper examines the regulatory framework and governance challenges of the Ethiopian Investment Holding (EIH), established under Regulation No. 487/2022, focusing on identifying challenges and providing recommendations for improvement. The primary objectives are to evaluate Ethiopia's EIH's framework, identify potential challenges in regulatory and governance structures and explore lessons from international best practices, particularly China's Sovereign Wealth Fund administration model. A qualitative-comparative approach was adopted analyzing relevant policy and legal documents as primary sources. Secondary data sources including scholarly literature, and reports from institutions, were analyzed to provide a robust contextual understanding. The paper investigates the potential of EIH to centrally manage Ethiopia's state-owned assets and its alignment with national development goals, such as economic growth, transparency, and attracting foreign investment. Key challenges including insufficient diversification strategies and the need for stronger transparency, independence and risk management system are identified. Additionally, the comparison made with international best practice, particularly the China Investment Corporation (CIC) offers valuable lessons on governance, transparency and diversification strategies. By learning from the CIC experience, the paper suggests strategies for reforming EIH's governance structure, improving transparency, diversifying investments and building human capital to enhance its performance. The findings underscore the importance of adapting global best practices to Ethiopia's unique socio-political context to ensure the fund's sustainability and its contribution to the long-term economic development of the country. Detail regulations on investment procedures, dispute resolution and cross-border partnerships are also required.

Key Words: Sovereign Wealth Funds (SWFs), Governance challenges, Regulatory gaps, China's SWF model.

1. Introduction

1.1. Understanding Sovereign Wealth Fund

A Sovereign Wealth Fund (hereinafter, SWF) is a state-owned investment fund or social wealth fund that invests in real and financial assets such as stocks, bonds, real estate, precious metals, or alternative investments such as private equity funds.[1] The funding for SWFs can come from a variety of sources, including surplus reserves from state-owned natural resource revenues,

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[1] World Bank, *State-owned Investment Funds: An Overview* (World Bank 2022).

trade surpluses and bank reserves that may accumulate from budgetary excesses, foreign currency operations, money from privatizations, and government transfer payments.[2]

Andrew Rozanov, who coined the term SWF, described them in the following terms: "Typically, sovereign wealth funds are a by-product of national budget surpluses, accumulated over the years due to favourable macroeconomic, trade and fiscal positions, coupled with long-term budget planning and spending restraint."[3] Basically, the government of a country creates a SWF to invest the nation's money to build up a pool of funds that can be used in the future. There's a consensus on the idea of a SWF, but different organizations define them differently. All of them have the same underlying criteria for identifying a SWF, but they may have different levels of strictness.

The way different organizations classify sovereign wealth funds can vary. For example, the Sovereign Investment Lab (hereinafter, SIL) requires that the fund is directly owned by a government. This means the number of SWFs can change depending on who is counting. Generally, SWFs are created by governments to meet certain economic goals, like getting a higher return on foreign exchange reserves or protecting an economy from price shocks. Usually, funds are invested both at home and abroad the relative strictness with which they enforce a particular criterion is different.[4] For example, while the SIL mandates 'direct ownership by sovereign government' as necessary pre-requisite for an organization to be classified as an SWF, IFSWF and SWFI consider ownership either by central or state government as a sufficient condition for an entity to be classified as an SWF.[5] The number of SWFs is different as per each of these definitions SWFs are also investment vehicles created by governments to meet some pre-defined economic objectives.[6] The macroeconomic objectives of SWFs may also range from the need to simply earn a higher rate of return on foreign exchange reserves of one's country or insulating one's economy from price shocks and such, especially when the economy is commodity dependent. Additionally, SWFs might invest

[2] ibid.
[3] Andrew Rozanov, 'Who holds the wealth of nations?' (2005) Central Banking Journal.
[4] International Forum of Sovereign Wealth Funds (IFSWF), Investing for Resilience: IFSWF Annual Review 2019 (IFSWF 2020) <https://ifswfreview.org/> accessed 3 January 2025.
[5] ibid.
[6] Sovereign Investment Lab (SIL), *Follow the Money: Sovereign Wealth Fund Annual Report 2011* (SIL 2012) https://www.bafficarefin.unibocconi.eu/wps/wcm/connect/0b69405e-201e-458c-9d57b2ce0e4ba510/Annual+report+2011.pdf accessed 3 January 2025.

their funds both domestically and in countries abroad, though the latter is a more common practice.[7]

1.2. Sovereign Wealth Fund in Ethiopia

In Ethiopia, there are different sovereign wealth funds under state owned investments. The Oromia Sovereign Fund and Abay Investment Holding are prominent examples of regional sovereign wealth funds. The Oromia Sovereign Fund is created through institutional restructuring of the Public Enterprises Bureau. On the other hand, Abay Investment Holding is the SWF in the Amhara National Regional State established under Proclamation No. 300/2025 and Regulation No. 225/2025 for the purpose of providing the institutional and legal basis for organizing and supervising regional public and state-owned assets, mobilizing capital, facilitating domestic and foreign investment, and ensuring corporate governance and financial compliance under internationally recognized standards as part of the region's broader investment and economic development framework.

At the federal level, Ethiopian Investment Holding (hereinafter, EIH) is the SWH. It replaced Public Enterprises Holding and Administration Agency (hereinafter, PEHAA). It is a strategic development of SWF which aims to maximize the value of state-owned assets through professional management leveraging international best practice.[8] Art. 54 of Proclamation 1263/2021 on Definition of Powers of the Ethiopian Council of Ministers approved the establishment of Ethiopian Investment Holding. The Ethiopian Sovereign Wealth Fund is administered as per Regulation no. 487/2022 which is adopted in accordance with Proclamation No. 1263/2021.

The EIH aims to serve as a strategic investment arm of the government of Ethiopia and contribute to sustainable economic development, through professional management of its funds and assets achieving the optimal use thereof in accordance with international best practice and corporate governance principles. In addition to that it will provide a strategic vehicle for foreign investment.[9] Recent governmental decisions have expanded EIH's portfolio to include eight additional enterprises, raising the total to 40.[10]

[7] Andrew T Lenihan, 'Sovereign Wealth Funds and the Acquisition of Power' [2014] 19(2) New Political Economy 227–257.
[8] *The Definition of Objectives and Function of the Ethiopian Investment Holdings Council of Ministers Regulation*, Regulation No. 487/2022, 2022.
[9] ibid.
[10] These newly added entities include the Ethiopian Development Bank, Ethiopian Railway Corporation, and Ethiopian Electric Power Corporation—key institutions vital to the country's infrastructure and financial sectors.

Tewodros Meheret's exploration of public enterprises in Ethiopia provides foundational insights into their characteristics and governance.[11] His work highlights ambiguities in defining public enterprises and addresses the multiplicity of interpretations associated with these entities. By outlining their salient features, Tewodros attempts to clarify the conceptual framework of public enterprises, especially in the Ethiopian context.[12] His study, however, is primarily focused on the legal framework and does not extensively examine the institutional mechanisms or the management of these enterprises under the Public Enterprise Administration Agency, which historically oversaw their regulation and administration.[13]

Other researchers have built on this foundation, examining related dimensions of public enterprises in Ethiopia. For example, Tsegaw's analysis delves into the legal status and categorization of state-owned enterprises under Proclamation No. 25/1992, as well as subsequent regulations such as privatization proclamations.[14] Tsegaw underscores the dual governance mechanisms, some enterprises operate under the Public Enterprise Proclamation, while others are governed by the Commercial Code. This duality reflects the Ethiopian state's approach to regulating diverse forms of economic enterprises.[15]

Furthermore, research by Asrat and Shiferaw examines the historical and policy evolution of public enterprises in Ethiopia. Their analysis highlights shift in the state's role, particularly after 1991, when a mixed economic approach began to dominate. This shift redefined the purpose and operation of public enterprises, focusing more on privatization and regulatory alignment with market-oriented principles.[16]

This paper focuses on the regulatory framework for EIH in Ethiopia. The paper addresses a gap in the literature in relation to the regulatory framework for EIH. The author analyzed EIH's structure and function. By exploring into China's Investment Corporation, the author attempted to show how a state-owned investment vehicle can effectively combine strategic national objectives with global investment practices. By bridging the gap between

Furthermore, subsidiaries such as the Industrial Parks Development Corporation, Ethio Engineering Group, Ethio Post, Ethiopian Industrial Inputs Development Organization, Ethiopian Pharma Group Company, National Institute of Animal Health Protection, and Shield Vax are now under EIH's management

[11] Tewodros Meheret, '*The Concept and Characteristics of Public Enterprises in Ethiopia'* [Dec. 2014] 8(2) Mizan Law Review.

[12] ibid.

[13] ibid.

[14] *Federal Government-Owned Enterprises*, Proclamation No. 1314/2024, 2024 repealed Proclamation No. 25/1992.

[15] Tsegaw E., 'The Legal Status of State-Owned Share Companies in Ethiopia' [2015] 7 Beijing Law Review 212.

[16] Asrat and Shiferaw, *Policy Evolution of Public Enterprises in Ethiopia: A Historical Perspective* (2019).

Ethiopia's SWF regulation and the international best practice, the paper provides essential insights for policymakers, stakeholders and scholars in the field.

The paper is organized into six sections. After this introductory section, the author defines sovereign wealth funds and their typologies. The proceeding section will highlight EIH's predecessor framework. After elaborating the legal and institutional frameworks for Ethiopian sovereign wealth fund in section 3, section 4 will cover the discussion on China's SWF regulation, model, its structure and good practices. Under the fifth section, the author will explain how EIH may benefit from drawing lessons from best practices from the China's Investment Corporation in regulation and governance. Finally, after concluding on main findings, the author will forward recommendations for improvement of the regulatory and administration of Ethiopia's sovereign wealth funds.

2. Looking back to pre-EIH

Historically, the regulation of Ethiopia's State-owned Enterprises (hereinafter, SOEs) has undergone several transformations, reflecting the country's shifting economic and political priorities. During the socialist era, Ethiopia adopted a centrally planned economic model that emphasized state ownership of key industries. Following the fall of the Derg regime, Ethiopia transitioned to a more market-oriented economic system under the Ethiopian People's Revolutionary Democratic Front (EPRDF). The Public Enterprises Proclamation No. 25/1992,[17] replaced earlier legislation, granting SOEs greater operational autonomy while maintaining state oversight. The Public Enterprises Proclamation provided the legal framework for managing SOEs, which were tasked with driving industrialization and public service delivery.

PEHAA's period saw efforts to enhance efficiency and attract foreign investment through public-private partnerships (PPPs) and partial privatization of some SOEs. However, inefficiencies, bureaucratic challenges and mismanagement led to underperformance in many sectors.[18] Challenges such as weak governance, financial mismanagement, and limited regulatory capacity continued to hinder the performance of these enterprises.[19] During the era of PEHAA, SOEs were managed with a high degree of centralization and political

[17] *Public Enterprises Proclamation*, Proclamation No. 25/1992.
[18] Dessalegn, M., *State-Owned Enterprises in Ethiopia: Challenges and Prospects* (Addis Ababa University Press 2008) 25.
[19] Alemayehu, G., *Public Enterprise Reform in Ethiopia: Performance and Policy Issues* (Ethiopian Economic Association 2015) 54.

appointments were the norm for leadership positions. While privatization and public-private partnerships were introduced in the 1990s as part of broader economic reforms, many SOEs continued to operate with significant financial inefficiencies.[20] One of the strengths of the earlier system was its direct state control over strategic sectors, ensuring that key industries, such as energy and telecommunications, remained under national ownership. However, this control also led to a lack of market-oriented management and hindered entrepreneurial decision-making.

3. Regulatory and Governance Structure of Ethiopian Investment Holding

3.1. Legal Framework for Ethiopian Investment Holding

The legal foundation for EIH is primarily based on Regulation No. 487/2022, which provides a comprehensive structure for the establishment, operation, and oversight of the entity.[21] It aimed at providing a legal and organizational framework defining the objectives and functions of Ethiopian Investment Holdings as established under Proclamation No. 1263/2021. The Ethiopian Investment Holdings is established to serve as a strategic investment arm of the government of Ethiopia. The primary objectives of EIH, as outlined in this regulation, include the professional management of state-owned assets to generate maximum value and contribute to sustainable economic growth.[22]. It also targeted to enable stronger attraction of private investment and enhanced public–private joint investment, in ways that serve the strategic needs of the national economy by creating an enabling institutional environment.

The establishment of EIH under Regulation No. 487/2022 represents a transformative step in Ethiopia's economic governance. This regulation grants EIH the authority to manage, consolidate, and optimize state-owned assets in a way that aligns with national economic development goals. According to Article 3 of Regulation No. 487/2022, EIH's primary mandate is to effectively oversee and manage public sector investments and assets.[23] The regulation tasks EIH with managing the assets of SOEs and ensuring that these assets are strategically utilized to generate long-term economic returns. In line with this mandate, Article 5 outlines the scope of EIH's responsibilities, including the diversification of its portfolio, the

[20] ibid.
[21] *Ethiopian Investment Holdings Regulation*, Regulation No. 487/2022, 2022, Art.1.
[22] ibid.
[23] ibid Art. 3.

promotion of public-private partnerships, and the strategic planning and evaluation of investments.[24] This legal framework ensures that EIH's operations are guided by principles of transparency, accountability, and profitability. For instance, Article 10 specifically addresses the governance structure of EIH, detailing the roles of its Board of Directors and Executive Management.[25] These provisions empower EIH to operate as an efficient, professional investment entity, tasked with promoting economic growth and improving the management of state assets.

The regulation specifies the initial authorized capital of EIH as Birr 100 billion, with Birr 25 billion to be paid in cash and kind. Additionally, the Board of Directors holds the power to adjust this capital when necessary.[26] EIH's sources of funding include state-owned assets, returns from investments, and proceeds from the sale of assets. These resources can also be complemented by loans, financial instruments, and other sources approved by the Board.[27] Furthermore, state-owned assets and enterprises may be transferred to EIH, subject to the Board's approval.[28] Hence, the regulation represents a significant departure from previous frameworks, aiming to professionalize the management of state assets and reduce political interference. The regulation mandates financial audits, annual reporting and transparent management, signaling a shift towards a more market-driven and accountable approach to asset governance.

Regulation No. 487/2022 operates within a broader legal context that includes other important frameworks. Proclamation No. 1314/2024 on Federal Government-Owned Enterprise replacing the Public Enterprises Proclamation No. 25/1992 regulates the operations of all public enterprises, including their governance, asset management, and financial reporting practices.[29] This proclamation provides the foundation for the operational autonomy of public enterprises and is integral to EIH's establishment and management. Additionally, the Investment Proclamation No. 1180/2020 offers a legal framework for both domestic and foreign investments in Ethiopia.[30] This proclamation ensures that investments within the

[24] Ibid Art. 5.
[25] ibid Art. 10.
[26] ibid.
[27] ibid.
[28] ibid.
[29] *Public Enterprises Holding and Administration Agency Proclamation*, Proclamation No. 25/1992, 1992.
[30] *Investment Proclamation*, Proclamation No. 1180/2020, 2020.

country are treated fairly, equitably, and transparently, while also providing the legal protections necessary to attract foreign investment.

EIH was founded to address significant inefficiencies in Ethiopia's decentralized SOE governance model. Centralizing the management of SOEs and strategic national assets, EIH seeks to address longstanding inefficiencies, enhance economic productivity, and position Ethiopia as a competitive investment hub. Historically, SOEs operated under fragmented oversight, managed individually by the Public Enterprise Holding and Administration Agency. This arrangement led to operational redundancies, weak accountability mechanisms, and suboptimal performance. The centralized model aims to integrate SOE governance under a unified framework, streamlining decision-making and aligning operations with national economic priorities.[31]

Economic diversification is another critical driver behind the establishment of EIH. Ethiopia's economy has traditionally relied on agriculture, leaving it vulnerable to external shocks such as climate variability and global market fluctuations. EIH is designed to leverage profits from strategic assets, such as telecommunications and industrial parks, to invest in high-growth sectors, including renewable energy and technology. This strategy aligns with the government's broader vision of reducing reliance on agriculture and fostering a more resilient, diversified economy.[32]

The reform also aims to attract foreign investment by fostering transparency and adopting best practices in SWF management. Drawing lessons from successful models like Singapore's Temasek Holdings, EIH aspires to instill investor confidence by adhering to robust corporate governance standards and international reporting practices. The strategic integration of transparency and accountability mechanisms signals Ethiopia's readiness to engage in global markets, which is essential for stimulating private-sector involvement.

The duties of EIH include the management and optimization of state-owned assets, the creation of sub-funds, and the implementation of capital market activities.[33] The regulation emphasizes the importance of transparency and good corporate governance in the management of these assets.[34] The EIH operates under the principle that it is a private business entity, despite

[31] ibid.
[32] *Ethiopian Investment Holdings Regulation*, Regulation No. 487/2022, 2022, Art. 4.
[33] ibid.
[34] ibid.

government ownership, and adheres to the Ethiopian Civil Code and the Commercial Code.[35] EIH is also tasked with attracting foreign investments and unlocking value from underutilized government assets, including enterprises.[36]

Additionally, as EIH is a business entity, the Commercial Code of Ethiopia (2021) provides essential guidelines on corporate governance, financial reporting, and the operational management of businesses, which are crucial to the effective functioning of state-owned enterprises under EIH's management.[37] The Commercial Code reflects modern corporate governance standards, including the introduction of more robust provisions on shareholder rights, board responsibilities, and financial disclosure.[38] These legal instruments, when taken together, provide a solid foundation for EIH's operations and ensure that it functions within a legal framework that is both domestically and internationally recognized.

3.2. EIH's Governance Structure

The establishment of EIH is grounded in Regulation No. 487/2022, which defines its objectives, governance mechanisms, and operational mandates. According to the regulation, EIH operates as a sovereign wealth fund tasked with consolidating and managing Ethiopia's strategic public assets.[39] EIH's core institutional functions include the management of diverse asset portfolios, investment evaluation, and the facilitation of public-private partnerships (PPPs). The regulation empowers EIH to manage key assets in telecommunications, energy, logistics, and industrial parks, focusing on maximizing their value and ensuring long-term financial returns.

Governance under EIH emphasizes a balance between autonomy and governmental oversight. A board of directors, appointed by the Prime Minister, oversees EIH's strategic direction, investment decisions, and policy implementation.[40] This governance structure is designed to provide operational flexibility while maintaining alignment with Ethiopia's national development priorities. Potential political interference may undermine the fund's autonomy and efficiency. Transparency and accountability are also integral to EIH's operations. Regulation No. 487/2022 mandates annual financial disclosures, independent

[35] ibid.
[36] ibid.
[37] *Commercial Code of Ethiopia,* Proclamation No. 1243/2021, 2021.
[38] ibid.
[39] *Ethiopian Investment Holdings Regulation*, Regulation No. 487/2022, 2022, Art. 6.
[40] ibid Art. 8.

audits, and the publication of performance reports.[41] These measures are intended to enhance public trust and ensure compliance with international standards.

The institutional framework of the EIH is designed to create a coordinated, efficient, and accountable structure for managing state-owned assets and investments. EIH is responsible for overseeing the entire portfolio of public sector investments and assets.[42] EIH's institutional structure aimed to ensure that Ethiopia's state-owned assets are managed in a way that maximizes their value while contributing to national economic growth. The organizational structure of EIH is designed to ensure effective governance and management. EIH is managed by a Board of Directors, a Chief Executive Officer, and other executive staff.[43] An Independent International Advisory Board may also be established if necessary.[44]

Regulation No. 487/2022 also establishes a clear governance structure for EIH, which is essential for ensuring the effective management of its activities. The Board of Directors, as stipulated in Article 10, is responsible for setting the strategic direction of the organization and providing oversight over its operations.[45] The board includes members with expertise in finance, business management, and public policy, ensuring that EIH benefits from diverse perspectives and sound decision-making.

In addition to the Board of Directors, EIH has an Executive Management team responsible for implementing the day-to-day operations of the holding entity. The Executive Management team is tasked with managing the investment portfolios, evaluating potential investment opportunities, and ensuring that EIH's activities are in compliance with national regulations and international best practices.[46] To further enhance transparency and accountability, EIH is mandated to establish an Independent Audit Unit. This unit is responsible for auditing EIH's financial reports, ensuring that all financial practices meet both domestic and international accounting standards.[47]

The Board of Directors is composed of six members appointed by the Prime Minister for a term of three years, with the Prime Minister serving as the chairperson.[48] The CEO participates

[41] ibid Art. 12.
[42] ibid Art. 2.
[43] ibid.
[44] ibid .
[45] ibid Art. 10.
[46] ibid.
[47] ibid.
[48] ibid.

in Board meetings but does not hold a voting role.[49] The powers and responsibilities of the Board are comprehensive, including setting strategic direction, approving annual plans and budgets, and ensuring that EIH operates in a manner consistent with its objectives.[50] The Board also oversees the performance of EIH and makes decisions regarding mergers, acquisitions, and restructuring.[51] It is also responsible for approving dividends, audit reports, and remuneration policies for EIH staff.[52]

3.3. Legal and Institutional Challenges

Despite its ambitious objectives, there are some regulatory and governance challenges that may hinder effectiveness of EIH. Ethiopia's SWF legal and governance foundations are still evolving and much work remains to establish a comprehensive institutional framework that incorporates global best practices. One major issue can be lack of clarity in the legal framework regarding the operational independence of EIH and how it interacts with political institutions. The predecessor system lacked robust accountability mechanisms and financial transparency. Although Regulation No. 487/2022 addresses these issues by requiring financial audits and annual reports, the effectiveness of these measures depends on institutional will and the capacity of oversight bodies. Hence, stronger enforcement mechanisms for non-compliance with regulatory provisions are necessary. Regulation No. 487/2022 also lacks detailed provisions on asset valuation, risk management, and investment strategies. The absence of these guidelines could expose EIH to mismanagement and reduce its ability to achieve sustainable financial returns. Hence, internal directives or guidelines should address these issues.

Institutionally, transitioning from a relatively decentralized to a centralized governance model may create significant operational disruptions. For instance, integrating diverse SOEs under a single framework requires harmonizing policies, addressing overlapping functions and overcoming resistance from stakeholders accustomed to the old system. Financial sustainability also remains a pressing concern as debt and operational inefficiencies inherited with SOEs may limit EIH's potential to effective governance. Addressing these issues requires significant restructuring, which could strain EIH's resources and delay its progress. EIH is also expected to generate immediate revenue to alleviate Ethiopia's debt burden while reinvesting in high-

[49] ibid.
[50] ibid.
[51] ibid.
[52] ibid.

growth sectors to ensure future economic stability. Striking this balance can be complicated due to limited institutional capacity and competing national priorities. Finally, management of large-scale investments effectively may also test capacity of EIH.

4. China's Sovereign Wealth Fund Model: The Case of CIC

4.1. Introduction

China's China Investment Corporation (CIC) was established in 2007 to manage the country's substantial foreign exchange reserves, the world's largest at the time. With an initial capital of $200 billion, CIC aimed to enhance returns on these reserves while supporting China's long-term development goals. CIC's establishment marked a significant shift in China's economic strategy, transitioning from passive reserve management to active global investment.[53]

China Investment Corporation (CIC) is a globally significant SWF (SWF) established to manage a portion of China's extensive foreign exchange reserves, which rank among the largest in the world. Created in 2007, CIC emerged as a strategic response to the challenges of effectively utilizing these reserves, with an initial capitalization of $200 billion derived from foreign exchange holdings.[54] The primary objective was to achieve higher returns on these assets, which had historically been invested in low-yield instruments like U.S. Treasury bonds.[55]

The scope of CIC's activities has grown significantly since its inception, encompassing a diverse range of global investments across equity markets, fixed income securities, alternative assets, and direct investments.[56] The fund operates with a dual mandate: to preserve and increase the value of its assets while supporting China's broader economic stability and growth.[57] This dual focus ensures that CIC's investment strategies align with both commercial objectives and national economic goals.

CIC's operations extend across various sectors, including infrastructure, real estate, private equity, technology, and renewable energy.[58] This diverse portfolio reflects CIC's

[53] Sovereign Wealth Fund Institute, 'China Investment Corporation Profile' <https://www.swfinstitute.org/> accessed on 25 September 2024.
[54] China Investment Corporation, 'About Us' (China Investment Corporation Official Website) < https://www.china-inv.cn/en/> accessed on 25 September 2024.
[55] Y. Wang, *The Role of SWFs in Global Markets* (Tsinghua University Press, 2010) 45.
[56] CIC, *Annual Report* (2023) 10.
[57] ibid.
[58] M. Davis, 'The Global Impact of CIC Investments' [2018] 23(3) Journal of International Finance 112–117.

strategy of balancing risk and return while contributing to the development of critical global industries. In addition to its financial objectives, CIC plays a strategic role in fostering international cooperation, often participating in joint ventures and co-investments that align with China's diplomatic and economic interests.

The governance structure of CIC is a cornerstone of its success. The fund is organized as a commercially oriented entity, with significant operational autonomy.[59] It is overseen by a board of directors that sets strategic priorities and ensures alignment with national objectives, while an executive management team handles the day-to-day operations.[60] CIC's adherence to transparency and accountability is exemplified by its compliance with the Santiago Principles, a globally recognized framework for the governance of SWFs.[61] Regular reporting and disclosure of its activities foster trust among stakeholders and enhance its reputation as a credible and responsible global investor.

The regulatory framework governing CIC is both comprehensive and dynamic. The fund operates under the strategic oversight of China's State Council, which ensures that CIC's investments align with national priorities while allowing sufficient autonomy for market-driven decision-making.[62] This balance between oversight and independence enables CIC to respond swiftly to global market opportunities while maintaining alignment with China's economic and strategic interests.

CIC's performance and governance model offer valuable insights for other countries aiming to establish or reform their SWFs. Its ability to generate sustainable financial returns while contributing to national economic development has positioned it as a benchmark in global SWF management.[63] However, CIC's evolution has not been without challenges, including navigating complex geopolitical dynamics, ensuring transparency in politically sensitive investments, and managing the risks associated with global financial volatility.[64] These experiences underscore the importance of robust governance, strategic clarity, and adaptability in SWF operations.

[59] ibid.
[60] CIC, *Annual Report* (2023).
[61] International Working Group of Sovereign Wealth Funds, *Sovereign Wealth Funds Generally Accepted Principles and Practices* (Santiago Principles) 2008.
[62] ibid.
[63] J. Lee, 'China's CIC: A Model for Emerging Markets' [2019] 29(1) Global Finance Review 45-49.
[64] CIC, *Annual Report* (2023) 30.

4.2. Legal Framework for the Regulation of China Investment Corporation (CIC)

The China Investment Corporation (CIC) was established in 2007 to manage a portion of China's foreign exchange reserves and invest them globally with the objectives of generating returns and aligning with national economic goals. The legal and regulatory framework that governs CIC includes national laws, administrative regulations, and internal governance structures that ensure the corporation operates effectively within the bounds of China's strategic priorities. This section explores the relevant laws and regulations governing CIC, and discusses their application and challenges.[65]

4.2.1. Establishment Law: The CIC Charter

The primary legal foundation for CIC's operations is its charter, which defines its purpose and organizational structure. The CIC charter mandates that the corporation manage part of China's foreign exchange reserves and make investments to generate long-term returns. The charter outlines CIC's dual objectives: first, to maximize the value of these assets, and second, to contribute to the broader economic goals of China, such as supporting technological innovation and ensuring resource security. These objectives are reflected in the strategic direction set by CIC's management team and board, ensuring that CIC's investments align with national economic goals and priorities.[66]

4.2.2. Regulation by the State-Owned Assets Supervision and Administration Commission (SASAC)

CIC, as SOE, operates within the regulatory framework established for all SOEs in China. The State-Owned Assets Supervision and Administration Commission (SASAC) of the State Council oversees CIC's activities. SASAC's role is crucial in ensuring that CIC's operations adhere to state policies and governance standards for SOEs. The regulatory framework for SOEs is primarily governed by the State-Owned Assets Law of the People's Republic of China. This law outlines the responsibilities and rights of government bodies in the management of state-owned assets and aims to safeguard the financial and strategic interests of the state.[67] Additionally, the Company Law of the People's Republic of China applies to CIC as a corporate entity, setting out the governance structure, the duties of directors, and operational

[65] *China Investment Corporation Establishment Charter* (2007).
[66] ibid.
[67] ibid.

management. SASAC ensures that CIC's performance is consistent with state directives, while also overseeing its compliance with the broader economic policies of China.[68]

4.2.3. Foreign Exchange Management: Role of the State Administration of Foreign Exchange (SAFE)

CIC's initial funding comes from China's foreign exchange reserves, which are allocated to the corporation by the State Administration of Foreign Exchange (SAFE). SAFE is a key regulatory body under the People's Bank of China and is responsible for managing the country's foreign exchange reserves. It sets the guidelines for how these reserves can be invested, and CIC is required to comply with these regulations in its investment activities. The Regulations on Foreign Exchange Reserves and the Foreign Exchange Control Regulations of the People's Republic of China govern the management and allocation of foreign reserves, with strict oversight to ensure that the reserves are used in a manner that does not undermine China's currency stability or its broader financial strategy. SAFE monitors CIC's investments to ensure they are consistent with national economic priorities.[69]

4.2.4. Investment Guidelines and Strategic Oversight

CIC's investment activities are guided by the National Development and Reform Commission (NDRC) and the Ministry of Finance (MOF). These agencies are responsible for ensuring that CIC's investments align with China's long-term development strategies, which include enhancing the country's technological capabilities, securing energy resources, and expanding its global economic influence. CIC is expected to invest in sectors that contribute to the national economic transformation, such as energy, technology, and infrastructure development. Furthermore, CIC's investments must also support the objectives of the Belt and Road Initiative (BRI), a global development strategy that aims to enhance China's trade and economic relations with other countries. These directives are in line with the Budget Law of the People's Republic of China, which ensures that public funds, including those managed by CIC, are used in a manner that contributes to sustainable economic development and the country's fiscal health.[70]

4.2.5. Internal Governance and Compliance Framework

CIC is governed by a robust internal framework designed to ensure compliance with national regulations and promote accountability. This framework includes a Board of Directors and

[68] *State-Owned Assets Law of the People's Republic of China*, 2008.
[69] ibid.
[70] ibid.

Supervisors, who are responsible for overseeing CIC's operations and ensuring that the corporation's activities are aligned with its legal and strategic mandates. The board sets policies, approves investment strategies, and monitors the performance of the corporation. Additionally, CIC adheres to the Guidelines for Risk Management in Financial Institutions, which require the corporation to employ sound risk management practices in its global investments. CIC also complies with the Accounting Law of the People's Republic of China, which sets out the requirements for financial reporting and auditing. The corporation undergoes internal and external audits to maintain transparency and ensure that it meets regulatory standards.[71]

4.2.6. International Compliance and Standards

In addition to domestic regulations, CIC also adheres to international standards of governance for SWFs (SWFs). CIC is a member of the International Forum of Sovereign Wealth Funds (IFSWF), which advocates for best practices in SWF governance, including transparency, accountability, and sustainability. Although the Santiago Principles, which were developed by the IFSWF, are not legally binding, CIC aligns its operations with these principles to maintain global credibility and to ensure that its investments are managed in a transparent and responsible manner. By following these international standards, CIC enhances its global reputation and fosters investor confidence in its operations.[72]

4.3. Structure of China Investment Corporation (CIC): Administration and Supervision

The China Investment Corporation (CIC), established in 2007, is China's SWF responsible for managing the country's foreign exchange reserves and other state assets. Its structure is designed to ensure the effective management of these assets while aligning with national economic objectives. The governance framework of CIC involves several key bodies that oversee its operations, ensuring both operational efficiency and strategic alignment with China's long-term economic goals.[73]

4.3.1. Board of Directors and Supervisory Board

The Board of Directors is the highest decision-making body within CIC, tasked with setting the overall strategic direction of the fund and overseeing its operations. The Board is composed

[71] ibid.
[72] *Santiago Principles* (n 61).
[73] China Investment Corporation, *Annual Report* (2022) 8.

of senior figures from government and finance, appointed to ensure a blend of expertise and alignment with national interests. The Chairman of the Board, who is typically a senior government official, holds significant sway over the corporation's policies and long-term planning. The Chairman is appointed by the State Council, China's central government body, underscoring the direct governmental involvement in CIC's management.[74]

Other members of the Board include experienced financial professionals and government representatives, often from the State-Owned Assets Supervision and Administration Commission (SASAC), which supervises state-owned enterprises (SOEs) in China. This ensures that CIC's investment decisions reflect both market opportunities and national development priorities.[75]

In addition to the Board, CIC is also overseen by a Supervisory Board, which is responsible for monitoring the financial and operational performance of the fund. The Supervisory Board ensures that CIC adheres to legal and regulatory requirements, conducts independent audits, and maintains transparency in its activities. It provides an additional layer of accountability, safeguarding CIC from potential mismanagement or policy misalignments.[76]

4.3.2. Executive Management and Operational Control

The Chief Executive Officer, appointed by the Board, leads CIC's daily operations and implements its investment strategies. The CEO is responsible for ensuring that CIC's investments are aligned with both its financial targets and broader national objectives. Beneath the CEO, CIC's senior management team consists of experts in finance, economics, and global investment strategies. The operational structure includes departments dedicated to risk management, finance, legal affairs, and compliance, all of which report directly to the CEO.[77]

Departments and Divisions: CIC's operational management is divided into specialized departments that handle critical functions such as global investments, risk management, and asset consolidation. The Investment Department plays a central role in identifying and managing investment opportunities, while the Risk Management Division is responsible for

[74] ibid.
[75] Liu Xin, 'The Role of SASAC in China's State-Owned Enterprises' [2019] Journal of Chinese Economic Studies 54.
[76] Zhang Huan, 'China's Sovereign Wealth Fund: Governance and Accountability' [2021] Financial Review 117.
[77] China Investment Corporation, *Investment Strategy and Governance* (CIC 2023) 15.

assessing and mitigating financial risks. Other departments focus on legal, compliance, and financial reporting.[78]

4.3.3. State-Owned Assets Supervision and Administration Commission (SASAC)

The SASAC plays a critical role in the oversight of CIC, as it is the government agency responsible for managing state-owned assets and ensuring that SOEs, including CIC, operate in a way that benefits the national economy. SASAC sets high-level strategic guidelines for CIC and other SOEs, ensuring that they align with national policies such as the Made in China 2025 initiative and the Belt and Road Initiative. This oversight is essential for maintaining the link between CIC's financial activities and China's broader geopolitical and economic strategies.[79]

SASAC's oversight is further reinforced by its ability to approve major strategic decisions made by CIC, including large investments or changes to its governance structure. This ensures that CIC's operations remain aligned with both governmental priorities and international financial standards.[80]

4.3.4. Regulatory Oversight and Compliance

CIC operates within a robust regulatory framework, guided by several laws and regulations to ensure compliance with both domestic and international standards. Among the key regulations are the Company Law of the People's Republic of China, which governs the structure and operation of companies, and the State-Owned Assets Law, which provides the legal basis for managing state assets. CIC is also governed by the Budget Law, which defines the fiscal responsibilities of state institutions, and the Foreign Exchange Control Regulations, which regulate the management of foreign currency reserves.[81]

In addition to these domestic laws, CIC follows the Santiago Principles, a set of guidelines developed by the International Working Group of Sovereign Wealth Funds. These principles emphasize transparency, accountability, and responsible investment practices for SWFs globally. By adhering to these standards, CIC ensures that its operations are aligned with

[78] Zhang Huan (n 76) 130.
[79] Li Jie, 'SASAC's Oversight of State-Owned Enterprises' [2022] Public Administration Review 47.
[80] Yang Zhi, 'Government Influence on Sovereign Wealth Funds' [2021] Asian Economics Journal 110.
[81] ibid.

international best practices, further enhancing its credibility and attracting foreign investment.[82]

4.3.5. International Engagement

CIC's international operations are subject to the regulatory frameworks of the countries in which it invests. As one of the largest SWFs globally, CIC interacts with various international bodies, including the International Monetary Fund (IMF) and the World Bank, to ensure that its investments comply with global financial regulations. CIC's international presence is also influenced by geopolitical factors, with investments often made in countries that are strategically important to China's economic interests, such as those involved in the Belt and Road Initiative.[83]

4.3.6. Strategic Decision-Making and Reporting

CIC's governance structure includes a rigorous decision-making process for strategic investments and asset management. The Board of Directors, in consultation with the CEO and senior management, evaluates potential investments based on their alignment with national development goals and financial returns. Major decisions, particularly those related to large-scale investments or new asset classes, are subject to detailed reviews and approvals from both the Board and the Supervisory Board.[84]

CIC also places a strong emphasis on reporting and transparency. It publishes annual reports and financial statements, providing a detailed account of its performance. These reports are scrutinized by external auditors, ensuring that the fund's activities remain transparent to both the government and the public.[85]

5. Lessons from CIC to Ethiopia's EIH

The establishment of Ethiopian Investment Holding and its associated SWF framework, regulated under Regulation No. 487/2022, marks a significant step toward managing Ethiopia's national assets more effectively. However, several key loopholes exist in the EIH-SWF system, primarily concerning governance, transparency, risk management, and legal clarity. Drawing comparisons with China's China Investment Corporation (CIC)—a model SWF with a robust

[82] *Santiago Principles* (n 61).
[83] Jin, Feng, 'CIC's International Operations: A Global Perspective' [2022] Global Finance Review 212.
[84] China Investment Corporation, *Annual Report* (2022) 24.
[85] Zhang Huan (n 76).

regulatory and operational framework—helps identify best practices that could address these gaps.

5.1. Governance Structure and Oversight Mechanisms

A notable loophole in Ethiopia's SWF framework is the unclear governance structure of EIH. While the regulation defines a board of directors appointed by the Prime Minister, in fact, for instance Art. 12 and 13 of the Regulation required board members to act with due care and maintain confidentiality, it should be noted that EIH's effectiveness, particularly in making impartial, market-driven investment decisions require autonomy, political-insulation and strong professionalization at the governance level. Governance structures lacking independence can significantly limit the ability of SWFs to operate effectively and in line with global standards.

5.2. Risk Management and Investment Diversification

The lack of a comprehensive risk management strategy is another significant loophole in the EIH-SWF framework. Regulation No. 487/2022 does not specify how EIH should handle investment risks, such as market volatility or sectoral concentration. EIH's current framework lacks detailed provisions for portfolio diversification, putting the fund at risk of significant financial losses due to fluctuations in specific sectors or markets. In fact, since May 2022, EIH has voluntarily adhered to the Santiago Principles. EIH's governance is aligned with international best practices and standards, such as the Santiago Principles. These principles, established by the International Working Group of Sovereign Wealth Funds (IWGSWF), emphasize transparency, accountability, and the long-term investment horizon of sovereign wealth funds.[86] EIH's commitment to these principles enhances its credibility in the international investment community and ensures that it operates as a responsible and effective manager of Ethiopia's sovereign wealth. In particular, Principles 18–22 require a sound risk management framework and public disclosure of risk policies. Operational measures such as co-investment and de-risking platforms for foreign partners and the preparation of partial listings on the Ethiopian Securities Exchange serve as practical risk-mitigation tools, even in the absence of formal statutory rules. Additionally, integrating ESG criteria into EIH's investment strategy could not only reduce risks but also improve its alignment with international investment standards, thus enhancing its appeal to global investors.

[86] *Santiago Principles* (n 61).

The CIC, by contrast, has implemented a well-established risk management framework. The fund conducts regular risk assessments and has a dedicated risk management team to monitor and mitigate potential threats. CIC's portfolio diversification strategy spans across different asset classes, sectors, and geographic regions, ensuring that risks are spread out and that the fund is less vulnerable to external shocks or economic downturns. Moreover, CIC follows ethical investment principles, including Environmental, Social, and Governance (ESG) criteria, ensuring that its investments are sustainable and contribute to global development goals.[87] Liu suggests that CIC's diversified investment strategy has been instrumental in stabilizing the fund during periods of market volatility.[88]

In principle, investment diversification is a central and well-established feature of EIH. The EIH aimed to broaden investments across asset classes, regions, and sectors, mitigating concentration in traditional SOEs such as infrastructure and finance. While EIH's 40 SOEs are large and multi-sectoral, they do not fully align with the 3D Strategy (Diversify, Drive, Deliver). Asset class diversification is limited, regional/international exposure is minimal, and sectoral concentration remains high.

5.3. Filling the Regulatory Gap

A critical loophole in Ethiopia's SWF regulation is the lack of a detailed legal framework governing the operations of EIH. The regulation outlines the broad objectives of the fund but specific legal guidelines are required for investment procedures, dispute resolution, or cross-border partnerships. This lack of clarity can create legal uncertainties that hinder EIH's ability to attract international investments and form effective partnerships with foreign entities.[89] Hence by-laws are necessary to fill this regulatory gap.

On the other hand, the CIC operates under a well-defined legal framework, established by China's State Council. This framework provides clear regulations regarding investment processes, legal dispute resolution, and guidelines for international collaboration. CIC's operations are aligned with Chinese domestic laws as well as international financial regulations, making it easier for the fund to navigate the complexities of global investment markets and build partnerships with foreign governments and financial institutions[90] Zhang

[87] Liu Xin (n 75)115.
[88] ibid.
[89] Zhang Huan 'CIC's Organizational Restructuring and Its Implications' [2016] Financial Studies 122.
[90] ibid.

emphasizes that CIC's regulatory framework has been crucial in ensuring its success in both domestic and international markets.[91]

For EIH, the adoption of a more detailed legal framework would ensure that the fund operates smoothly and that legal disputes are resolved efficiently. Specifically, the current legal framework lacks clarity in areas such as the dispute resolution mechanism for cross-border investments, detailed provisions for managing sovereign immunity in international contracts, and guidelines on compliance with global environmental and social governance (ESG) standards.[92]

6. Conclusion and Recommendations

The Ethiopian Investment Holding Sovereign Wealth Fund (EIH-SWF) represents a strategic initiative by the Ethiopian government to centralize the management of public assets, enhance economic diversification, and foster sustainable development. However, the initial challenges faced by the EIH-SWF, particularly in governance, transparency, investment strategies, and capacity building, highlight the need for further refinement of its operational and institutional frameworks.

EIH-SWF's mission to centrally manage Ethiopia's state-owned assets is vital for improving governance, boosting economic growth, and attracting foreign investment. The rationale behind this initiative is to overcome inefficiencies that have historically hindered the full potential of Ethiopia's state-owned enterprises (SOEs). However, despite the promising vision set forth by Regulation No. 487/2022, a few challenges have surfaced during the early implementation stages, which could undermine the effectiveness of the fund in achieving its long-term goals.

One key concern is the influence of political dynamics on governance. While the establishment of EIH aims to create a centralized and streamlined management structure, the political context in which this governance model operates presents significant risks. The autonomy of EIH and its ability to make independent and market-driven choices can be

[91] Ibid 123.

[92] Lack of specificity in dispute resolution mechanisms, sovereign immunity management, and ESG compliance requirements is a recurring issue in SWF frameworks, as highlighted in comparative analyses of global sovereign wealth funds.

promoted with lessen interventions. Because political interventions may skew decision-making and hinder the efficient management of assets.

Additionally, transparency in EIH's operations has been a significant concern. Although Regulation No. 487/2022 mandates EIH to operate transparently and in accordance with international financial reporting standards, the fund's performance metrics and investment strategies have not been sufficiently communicated to the public and external stakeholders. Without these measures, there is a risk of undermining public confidence and investor trust, which are essential for attracting both domestic and foreign capital to the fund.

Furthermore, the issue of diversification within the EIH-SWF portfolio has emerged as another challenge. Ethiopia's economy has long been dependent on agriculture, which is vulnerable to climatic variations and price fluctuations. To ensure the long-term sustainability of the fund and mitigate risks, EIH needs to diversify its investment strategy. Diversifying into high-growth sectors like technology, renewable energy, and manufacturing would allow the fund to better align with global trends, reduce risk exposure, and contribute to the long-term economic diversification of the country. This need for diversification mirrors lessons learned from other sovereign wealth funds like CIC, which has managed to achieve a balanced and resilient investment portfolio by spreading risks across multiple sectors and geographical regions. Diversification of EIH-SWF's investment portfolio is crucial for minimizing risk and ensuring the fund's long-term financial sustainability. Given Ethiopia's heavy reliance on agriculture, it is recommended that EIH prioritize investments in high-growth sectors such as technology, renewable energy, and manufacturing. This will not only help reduce the country's vulnerability to agricultural shocks but will also contribute to economic diversification and the creation of sustainable jobs. EIH should also consider investing in international markets to further diversify risks and ensure stable returns over the long term.

Therefore, to replicate CIC's success, EIH-SWF must focus on strengthening its internal capacity. EIH-SWF should adopt a more sophisticated risk management framework that includes both macroeconomic and geopolitical risk assessments. CIC's approach to identifying, quantifying, and mitigating risks associated with international markets can serve as a useful model for EIH. The establishment of a risk management committee and the implementation of state-of-the-art risk assessment tools will allow EIH to proactively address potential threats to its portfolio. In addition, regular monitoring and evaluation of EIH's performance are essential for ensuring that the fund remains on track to meet its objectives. It

is recommended that EIH establish an independent body to assess its progress toward achieving economic diversification, generating sustainable financial returns, and contributing to Ethiopia's development agenda. This body should provide actionable recommendations for improving operations and achieving greater efficiency.