

NEPAD - AU 5% AGENDA

Attracting Institutional Investors in
African Infrastructure Development

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INTRODUCTION - NEPAD-AU 5% AGENDA

- ▶ What is NEPAD-AU 5% Agenda?
- ▶ New York Launch September 2017
- ▶ African Institutional Investors - Pension Funds and SWF
- ▶ DFS 2014 Financing PIDA and Regional Infrastructure Projects

WHO ARE AFRICAN INSTITUTIONAL INVESTORS?

- ▶ **Private Institutional Investors** - Insurance companies, mutual funds, hedge funds, pension funds, etc.
- ▶ **Sovereign Institutional Investors** - Public Pension Funds and Sovereign Wealth Funds.
- ▶ Combined Assets > US\$ 500 Billions and Growing fast.
- ▶ 5% = US\$ 25 Billions.

AFRICAN INSTITUTIONAL INVESTORS

Type of investor	2012 (\$ billion)	2020 (\$ billion)
Pension funds	300	1,100
Insurance companies	200	445
Sovereign wealth funds	170	300
Total	670	1,845

PENSION FUNDS (SUPERANNUATION)

- ▶ **Savings Funds for Retirement**
- ▶ **Major Categories:**
 - ▶ **Mandatory Pension Scheme - e.g. NSSF**
 - ▶ **Occupational Pension Scheme - Voluntary**
 - ▶ **Private Pension Scheme - Individual**
- ▶ **Funded and Private Pension** excludes government-backed unfunded schemes, often considered as a component of SWF reserves.

African Countries Pension Funds Assets

COUNTRY	Funded and Private Pension Funds Assets 2016*		Total Pension Funds Assets 2017**
	US\$ Billion	%GDP	US\$ Billion
Algeria	-	-	1.9
Angola	-	-	0.7
Botswana	6.731 (2013)	47.0	6.6
Egypt	5.453	1.8	6.8
Ghana	1.617	4.0	2.2
Kenya	8.905	13.1	7.9
Malawi	0.525	9.7	-
Mauritius	0.529	4.4	3.5
Namibia	9.964	87.0	10.1
Nigeria	20.213	6.0	18.9
South Africa	259.622 (2015)	100.6	309.8
Tanzania	4.155	8.8	3.6
Uganda	2.228	9.0	-
Zambia	0.581 (2015)	3.5	-
Total (12 Countries)	320.523		397.7
World Total	20,487,570		

Investment Practices African Pensions Funds

Foreign Investments 2016 in Selected African Countries

Country	% Total Investment
Namibia	61.4
Botswana	30.1
Mauritius	23.4
South Africa	20.1
Zambia	9.7

Drivers of Growth in African Pension Sector

- ▶ Economic Expansion
- ▶ Population Growth
- ▶ Regulatory Reforms
- ▶ Foreign Investments
- ▶ Private Equity Gateway to Alternative Assets.
- ▶ Regional Integration
- ▶ Infrastructure as a New Asset Class for Investment by Pension Funds

SOVEREIGN WEALTH FUNDS - SWF

- ▶ State owned and operated reserve funds from excess revenues from minerals or trade surpluses.

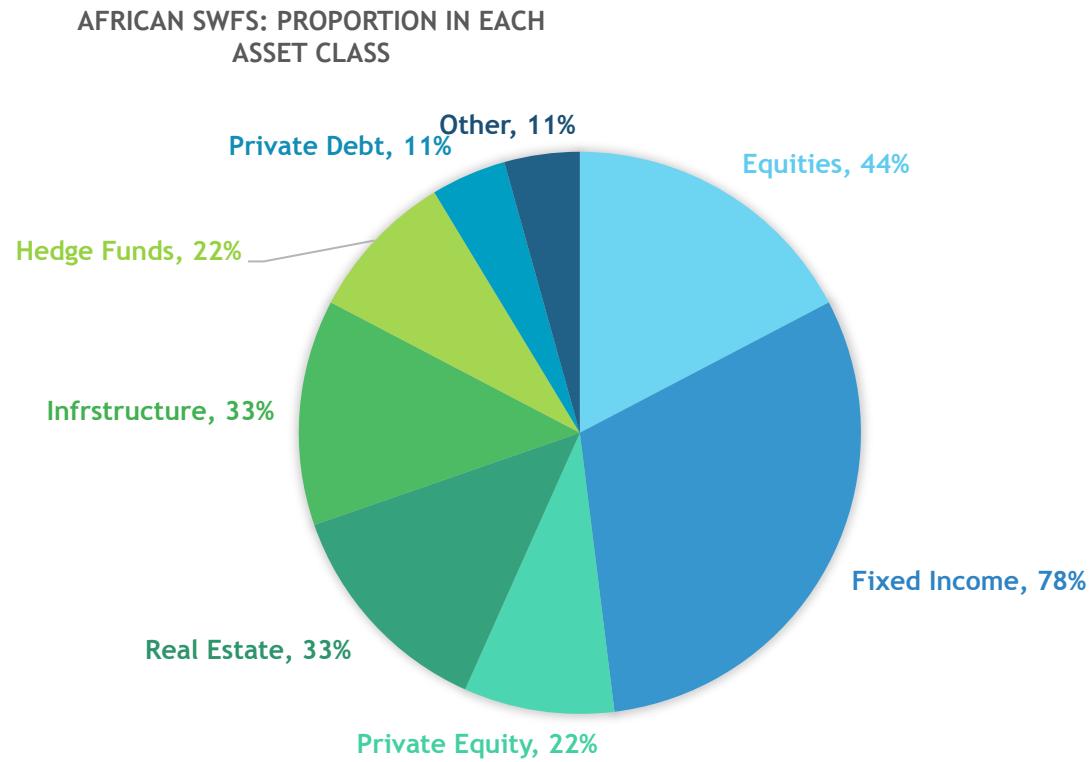
Categories of SWFs

- Stabilization - Fiscal stabilization through the investment of excess budgetary reserves.
- Savings - Wealth preservation, expansion, and inter-generational transfer/savings.
- Reserve Investment - Excess reserve management, beyond that required for stabilization or for direct monetary policy support.
- Pension Reserve - National pension reserve management.
- Strategic Development - Strategic asset management, including privatization.

AFRICAN SWF 2015

Country	SWF Name	Assets (US\$ billions)	Inception	Source	World Ranking
Libya	Libyan Investment Authority	66	2008	Oil	20
Algeria	Revenue Regulation Fund	50	2000	Oil & Gas	42
Botswana	Pula Fund	5.7	1994	Diamonds & Minerals	47
Angola	Fundo Sobrano de Angola	5.0	2012	Oil	50
Congo Republic	Fonds de Stabilisation de Recettes Budgetaries	1.64	2005	Oil	
Nigeria - Bayelsa	Bayelsa Devevelopment Corporation	1.5	2012	Non-Commodity	57
Nigeria	Nigeria Sovereign Investment Authority	1.4	2012	Oil	58
Senegal	Senegal FONSI	1.0	2012	Non-Commodity	62
Ghana	Ghana Petroleum Fund	0.45	2011	Oil	68
Gabon	Gabon Sovereign Wealth Fund	0.4	1998	Oil	69
Mauritania	National Fund for Hydrocarbon Reserves	0.3	2006	Oil & Gas	70
Equatorial Guinea	Fund for Future Generations	0.08	2002	Oil	73
Chad	Fonds de Stabilisation de Recettes Budgetaries	0.03	2006	Oil	
Total Africa		131.8 (1.8%)			
World Total		7,193.2			
Norway		824.9 (11%)	1990	Oil	
China		746.7 (10%)	2007	Non-Commodity	

Trends in Investment by SWFs



Sovereign Wealth Funds and Infrastructure Financing - Synergies

- ▶ Long Term Investment Horizon - Alignment
- ▶ Attractive Returns - Stable ROI
- ▶ Large and Stable Asset Base - Public Good
- ▶ Source of Confidence to Foreign Investment.
- ▶ Weak and Inadequate Financial Markets in Africa - Less Competition
- ▶ Attractive Source of Capital - Lower cost to country

Opportunities for II - Different Funding Mechanisms for Infrastructure Investment

		DIRECT	INDIRECT
EQUITY 10%-25%	listed	Stocks of infrastructure companies	Infrastructure equity funds, index funds, ETFs
	unlisted	Private equity in companies/ projects	Infrastructure private-equity-type funds
DEBT 75%-90%	listed	<ul style="list-style-type: none"> - Corporate bonds of companies - Infrastructure bonds 	Infrastructure bond funds
	unlisted	Project finance/ loans to companies/ projects	Infrastructure debt funds

ATTRACTING INSTITUTIONAL INVESTORS TO AFRICA

- ▶ **Follow-up to Dakar Financing Summit (DFS) 2014:**
 - ▶ German Federal Ministry for Economic Cooperation and Development (BMZ) - 2017.
 - ▶ The G-20 Compact with Africa (CWA) Initiative - 2017
 - ▶ NEPAD CBN Launch of the *5 % Agenda* at NASDAQ in New York City - 2017.
 - ▶ African Development Bank (AfDB) - 2018.
 - ▶ Africa Investor (Ai) and World Pensions Council (WPC) - 2018
- ▶ **Other Recent Initiatives.**

Special Case of Transboundary Infrastructure Projects.

- ▶ UNECA - Model law on transboundary infrastructure development in Africa.
 - ▶ Facilitate private sector investment and financing in Transboundary Infrastructure Projects.
 - ▶ Ensure transparency, efficiency, accountability and sustainability of Transboundary Infrastructure Projects.
 - ▶ Harmonise cross-border regulation of Transboundary Infrastructure Projects.
 - ▶ Promote intra-African trade and open domestic markets to international trade.

Model Law Pilot on DFS PAP 16

- ▶ Application of ISO 31000 for Risk Analysis to 16 PAP Projects
- ▶ 4 Validation Workshop with 4 Countries in GLR - Rwanda, Burundi, DRC and Zambia.
- ▶ Outcome?

WAY FORWARD - FROM FRAMEWORKS TO ACTION ISSUES

- ▶ **Project Availability?** When credible structures, products and projects exist - there is a limited need for credit enhancement - AfDB?
- ▶ **Paucity of Reliable Data - 5% of What?**
- ▶ **Addressing the Resistance of Labour Unions to Pension Sector Reforms - Resistance to change is natural.**
- ▶ **Expanding Pension Coverage - Mandatory Schemes; Informal Sector; etc. Mbao for Jua Kali in Kenya.**
- ▶ **Introducing Private and Funded Pension Systems in French Speaking Countries of Africa????**
- ▶ **Engagement with the African Pension Funds and SWF Trustees and Managers - Key Stakeholders. Building confidence (FONSIS; Ithmar Capital; FSDEA)**
- ▶ **Multiplicity of Initiatives - Implications?**

CONCLUSION

- ▶ Globally, there is no shortage of finance, both public and private. We can attract more of it to Africa, and help close the investment gap, by planning big infrastructure regionally. This generates projects of sufficient size to interest major funds, and enhances the business case. It also makes regional integration tangible and irreversible.
- ▶ We also need to match external capital with African capital. African savings are not being mobilised effectively. This can help reduce risk perceptions, and also ensure we share the upside of profitable deals.
- ▶ **Paul Kagame, 22 June 2018.**