

Investing for Growth
and Prosperity:
*In Africa sovereign wealth
funds focus on G, S and E*



Lagos Island, Nigeria



**FRANKLIN
TEMPLETON**

Executive Summary

Although we must be careful not to try and look at Africa as one country, the continent’s sovereign wealth funds are a distinctive group. They have evolved over the past decade to address the continent’s unique set of challenges: a shortage of domestic and international investment, a widespread lack of trust in institutions, and huge economic development needs.

Unlike their peers in other regions of the world, Africa’s sovereign wealth funds are small. So, instead of seeking to deploy capital overseas, the continent’s funds are seeking to attract international and domestic capital to facilitate economic growth, develop modern industries and create jobs in sectors that will make their economies more resilient: food and water security; healthcare, education, energy security and digitalisation. For the investors they are seeking to draw, Africa is an attractive investment location. It has strong fundamentals: a booming middle class, strong return on investment, a young and growing population and capacity to develop new, transformative domestic industries.

Through a comprehensive survey and interviews with established sovereign wealth funds and leaders looking to set up sovereign wealth funds, the International Forum of Sovereign Wealth Funds and Franklin Templeton have been able to identify the key themes and challenges for Africa’s sovereign wealth funds. This study should help sovereign wealth funds expand their collaborations by outlining their shared challenges and help potential investors understand the benefits that partnering with a sovereign wealth fund in Africa can bring.



We identified three key challenges that Africa's sovereign wealth funds are approaching in a similar way:

- 1. Governance.** For Africa's sovereign wealth funds, robust, independent governance is key to attracting private capital. Most of the funds on the continent are established as independent, professional institutions that have boards consisting largely of non-government directors. For these sovereign wealth funds, it is essential that international private investors see them as peers with aligned interests if they are going to co-invest. Similarly, independence and transparency are essential to building public trust, particularly in countries where the perception of government institutions is largely unfavourable.
- 2. Social Impact.** For African sovereign wealth funds ensuring that they have a material, and measurable, impact on the lives of their people builds legitimacy at home, an imperative that has been made more important by the COVID-19 pandemic. Much of this work is in the largely unseen world of market making – creating financing providers such as insurers, mortgage lenders and import-export financing. These vehicles are essential for individuals and companies to grow their capital bases. Additionally, these sovereign wealth funds are creating instruments and platforms, such as private-equity funds, to facilitate inward investment into their countries. However, African investment opportunities are often sub-scale for many international investors, which has prompted a move towards greater collaboration between funds to attract more foreign direct investment into projects that will have a material impact on the lives of their citizens.
- 3. Environment.** While some sovereign wealth funds in Africa are seeking to crowd in foreign capital by putting in place environmental, social and governance frameworks, or by aligning their investment strategy with the United Nations' Sustainable Development Goals, these types of approaches are not that popular on the continent. A common perception of climate change, for example, was that it was "a way for the West to keep Africa subjugated". Consequently, sovereign wealth funds focus on solving the problems caused by climate change, such as food and energy security – which can drive conflict and ill-health – that have a direct bearing on the everyday lives of their people. Solving these problems is key to improving citizens' lives and driving economic development.

These three issues have shaped a new and innovative sovereign wealth fund model in Africa. The continent's sovereign wealth funds are seeking to leverage scant resources to drive significant economic development and harness the growth potential of a young and increasingly affluent population to generate substantial returns for governments and their co-investors. The challenge for the government owners is to recognise that these are significant obstacles that take time and expertise to address. If this new model is to work successfully, stakeholders should empower their management teams to carry out their strategy independently over the long-term. After all, sovereign wealth funds are, fundamentally, long-term investors.

Contents

From the International Forum of Sovereign Wealth Funds	5
From Franklin Templeton	6
The Research	7
Introduction	8
Governance: The Foundation	9
Where are Africa's Natural Resource Funds?	14
Social: The Mission	16
<i>Case Studies</i>	<i>18</i>
<i>Creating Social Impact through Collaboration</i>	<i>23</i>
Environment: an opportunity	25
COVID-19: Challenge or opportunity?	28
Conclusion	30
Acknowledgments	31

From the International Forum of Sovereign Wealth Funds

Duncan Bonfield
Chief Executive, IFSWF



Since the inception of the International Forum of Sovereign Wealth Funds (IFSWF), part of our mission has been to explain to investors, regulators, politicians, academics and citizens what sovereign wealth funds are and what they do. And over the past decade of our existence sovereign wealth funds have evolved. Mandates have changed, investment beliefs and strategies have matured, and the sources of wealth have expanded.

There has also been significant change of sovereign wealth funds' geographical distribution. Africa has become a focus for the planning and creation of new state-owned investors. But these funds are distinct from those resource-rich funds that made up the early wave of their peers. While some funds such as the Libyan Investment Authority or Botswana's Pula Fund are capitalised by natural-resource revenues, many of the new sovereign wealth funds have sourced capital from government budgets, remittances and increasingly from commercial partnerships by crowding-in funds from investment markets.

With several new funds either created or planned across Africa, IFSWF, together with Franklin Templeton, judged that it was an appropriate time to launch a comprehensive study of sovereign wealth funds across the continent. We have done this, we hope, for the benefit of several stakeholder groups. First, the sovereign wealth funds themselves. Our study, based on direct interviews with leading participants in the sector and analysis of publicly available data, will allow Africa's sovereign wealth funds to review their peers' approaches to everything from mandates to management. For potential investment partners, this study should make transparent the purpose and practices of this new group of sovereign wealth funds. For governments and citizens, the report is designed to help deepen transparency and trust.

In all of these aims and in the preparation of the report, IFSWF must thank the sovereign wealth funds across Africa who participated in the study. Their candour and support have been vital. We would also like to thank Franklin Templeton, who suggested the idea initially and have been our partner in producing it.

IFSWF believes this an important report for Africa and for sovereign wealth funds and part of our ongoing mission to improve knowledge and understanding of these investors – an increasingly vital instrument of public policy.

From Franklin Templeton

*Steve Wallace CAIA, CDDA
Regional Head of
Institutional Relationship
Management CEEMEA*



This research came about, as is often the case, through an open discussion to understand how we could be helpful to sovereign wealth funds. In this instance, we found ourselves in the enviable position of engaging in extremely rich dialogue with leaders at several entities, ranging from those thinking about establishing a sovereign wealth fund to some of the most established sovereign wealth funds in Africa.

It is clear that to properly understand and engage with such institutions in Africa, or elsewhere for that matter, it is imperative to understand the landscape first. What are the structures, policy mandates, challenges and opportunities across the continent? What is important to those running these asset pools or seeking to do so? How has the unexpected headwind of Covid brought about its own set of challenges and opportunities?

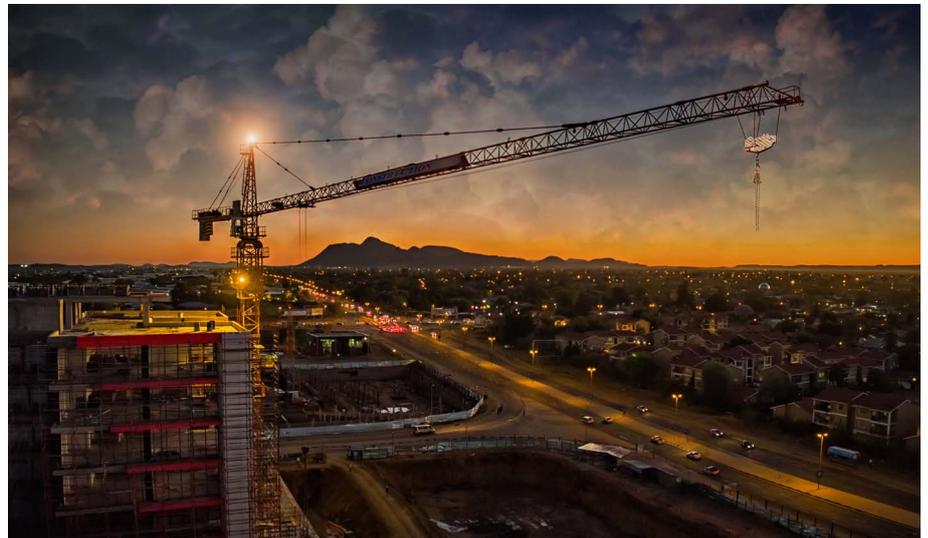
What we found through this process was some of the most dynamic institutional investors we have come across. Through the idiosyncratic nature of capital markets, geopolitics and economics across the continent there is a grit, determination and level of sophistication that all those we spoke to had in abundance; learning to navigate this ecosystem and all it entails has seemed to have bred a level of sophistication that has been overlooked.

Research such as this is not a small project, it takes several people and organisations and here we are extremely thankful to Victoria Barbary, Duncan Bonfield and the International Forum of Sovereign Wealth Funds (IFSWF) for their partnership on this project. Such research is ultimately dependent on the candour and level of feedback from those on the ground and for this we are deeply thankful and appreciative of the support from all those who spoke to us and provided feedback to our survey.

We hope this report is as helpful to those who provided their input as it is to us. We look forward to building on these relationships as we collaborate and partner with institutions across the continent.

The Research

For this project we surveyed eight of Africa’s established sovereign wealth funds from across the continent. These had a range of purposes, mandates, funding sources and investment styles. To add additional context, we also interviewed 11 senior executives and officials at institutions that were either operating a sovereign wealth fund or were planning to establish one.



To allow interviewees to be candid, these interviews were largely undertaken on the basis that they would be used anonymously. Where contributions are attributed, they have been approved by the relevant parties. As far as we are aware, this is the most far-ranging project ever undertaken on Africa’s sovereign wealth funds, and we hope that it will provide valuable insight for inward investors seeking partners to help them access investment opportunities on the continent, but also for the funds themselves to understand each other and their shared challenges and opportunities.

Figure 1: Location of Sovereign Wealth Funds Surveyed



Source: IFSWF-Franklin Templeton Africa Sovereign Wealth Fund Survey 2021

Introduction

The reality for African sovereign wealth funds is that the continent is not capital rich and is short of domestic and foreign investment, which is crucial for growth and sustainable development. Deploying capital in developing countries is a proven way to boost competitiveness, create jobs and reduce inequalities. It is also a fundamental driver of structural economic change, which helps attract other forms of investment, whether private or public, domestic or foreign.¹



To attract foreign direct investment, facilitate economic growth, develop modern industries and create jobs, new and innovative models of sovereign wealth funds are springing up from Morocco to Madagascar. But these goals are not without their obstacles. During our research for this project, it was clear that the funds we spoke to have the common challenge that investment in the fifty-plus countries of Africa is perceived to be either extremely risky or humanitarian. African sovereign wealth funds are, therefore, seeking to mitigate this risk and be legitimate, commercial and professional partners for investors seeking to access the structural and demographic potential of the continent, rather than simply offering financing or tax incentives for projects as governments have done in the past. These institutions also struggle with widespread domestic and international mistrust and a high perception of corruption, which they must overcome. Last, but by no means least, Africa is at the forefront of the effects of climate change; water and food security, deforestation, lack of access to electricity and the conflicts arising from these issues are central to the outlooks of the executives we spoke to for this project.

In this research, we uncovered a distinctive approach to environmental, social and governance issues for sovereign wealth funds in Africa. All three are central to the way that the continent's sovereign wealth funds operate and invest, but because of their unique challenges, these funds operate in an environment where governance comes first. This approach does not denigrate either social impact or environmental issues. Africa's sovereign wealth funds cannot achieve social impact without good governance and given the economic activity of many African countries, environmental protection is inextricably linked to the livelihoods and wellbeing of their citizens.

In this project we hope to help progress the understanding of what sovereign wealth funds in Africa are seeking to achieve and what they are doing to overcome the challenges they face.

¹ [Miriam Weiss, Michele Clara, *Unlocking Domestic Investment for Industrial Development*, United Nations Industrial Development Organization, 2016; United Nations Conference on Trade and Development, *Partnering Public and Private Investment for Development*, 2010](#)

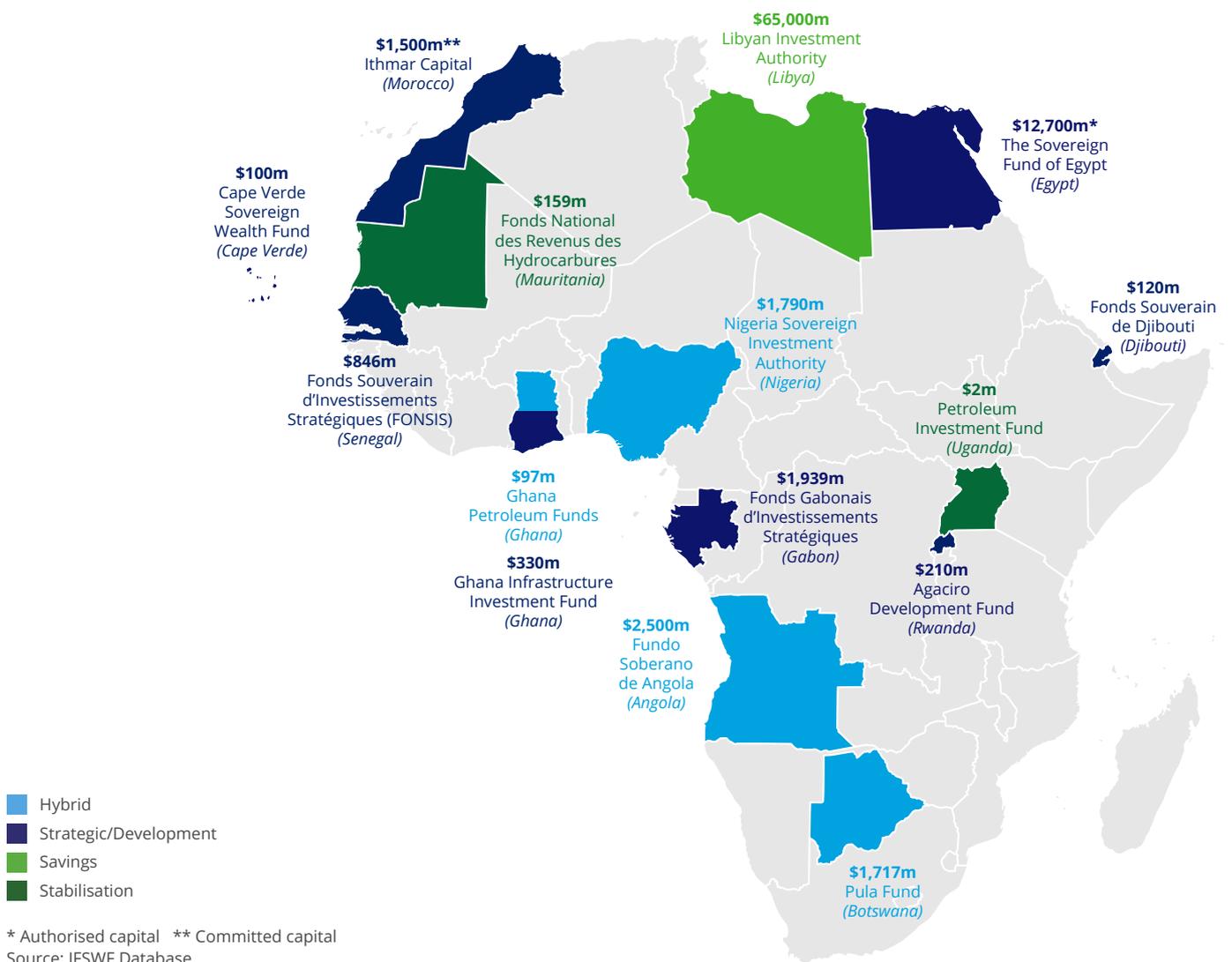
Governance: *The Foundation*

African sovereign wealth funds are minnows in comparison to the giant funds of the Middle East and Asia.

Only the Libyan Investment Authority, whose \$65 billion in assets are still frozen under international sanctions, has substantial assets under management by international standards. Their total assets under management in 2020 (excluding the LIA) was only \$24 billion across 13 funds, of which more than half is accounted for by The Sovereign Fund of Egypt's authorised capital of \$12.7 billion, according to data from the International Forum of Sovereign Wealth Funds.

However, the size of Africa's sovereign wealth funds is commensurate with their economies. According to the International Monetary Fund, in 2019 the combined gross domestic product (GDP) of the fifty-plus countries on the African continent, comprising 1.3 billion people, was \$2.4 trillion. In contrast, the GDP of the United Kingdom, a country of just 67 million people, was \$2.8 trillion.²

Figure 2: African Sovereign Wealth Funds Assets under Management, 2020

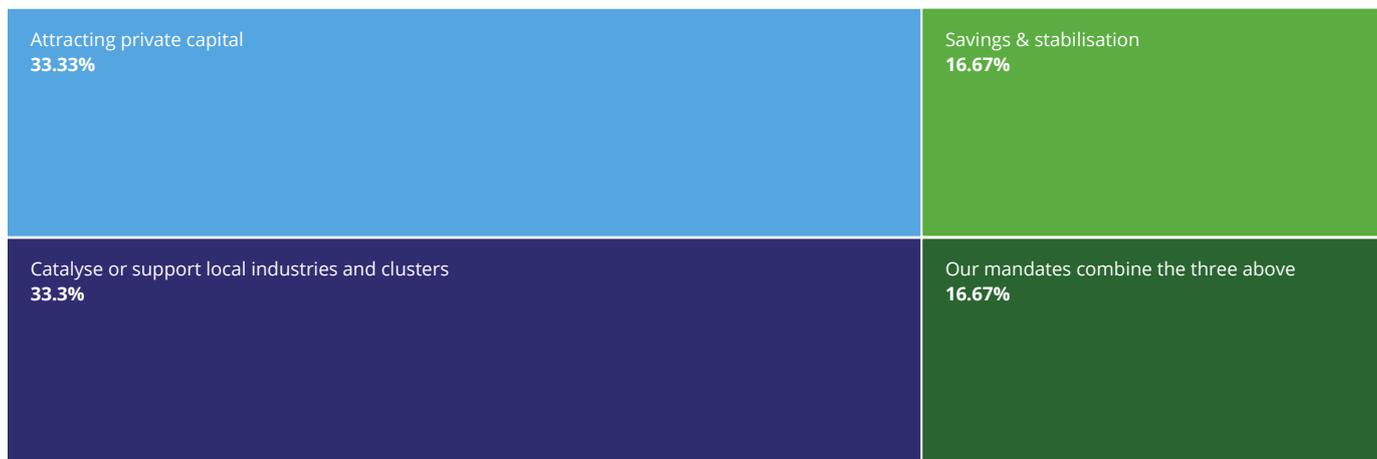


2 International Monetary Fund, World Economic Outlook Database, October 2020

It is perhaps, therefore, unsurprising that one of the defining characteristics of Africa is that it is short of domestically invested capital. While home-grown capital might be scarce, the opportunities for international capital, as most of the senior executives we spoke to pointed out, are abundant. Africa is objectively an attractive investment location. It has strong fundamentals: a booming middle class, strong return on investment, young and growing population and capacity to develop new, more productive domestic industries. These robust underlying growth drivers could be appealing to long-term international investors, particularly in a context of historically low interest rates and bond yields, which are encouraging investors to look for opportunities that generate higher return. However, the countries of Africa suffer from a widespread perception that investment is either “exotic, risky, or humanitarian” according to one of our interviewees.

Africa’s sovereign wealth funds are seeking to overcome these perceptions and attract private capital into the continent. A third of the funds we surveyed said that this was their primary policy purpose. They are broadly agnostic towards the geographic location of potential partners and their capital. What they believed to be substantially more important was ensuring partners have aligned interests: a long-term investment horizon and a willingness to develop into strategic co-investors. These shared goals make it more likely that the government will honour its agreements with investors and become a trusted partner over time.

Figure 3: African Sovereign Wealth Funds Primary Investment Approach

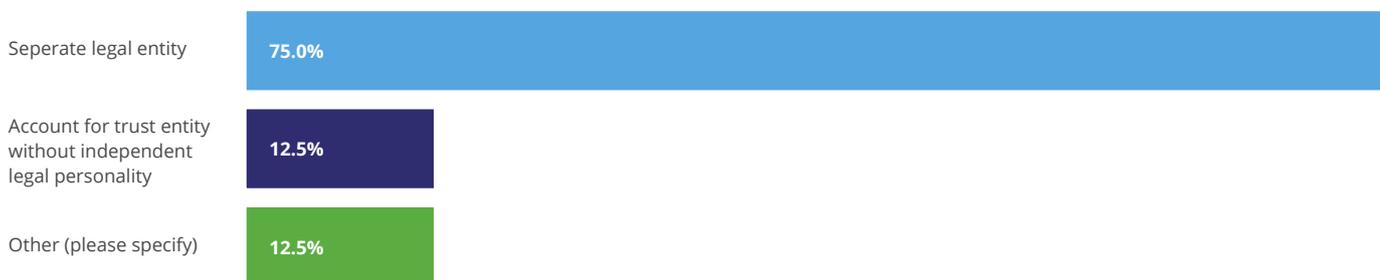


Source: IFSWF-Franklin Templeton African Sovereign Wealth Fund Survey 2021

For African sovereign wealth funds to attract international co-investors they need to have a strong and transparent governance structure. Three quarters of the sovereign funds we surveyed are independent legal entities rather than an “account” or trust entity. All of them have a board of directors or trustees, which oversee the executive management. Some, such as the Nigeria Sovereign Investment Authority and the Sovereign Fund of Egypt also have a higher body that provides oversight and counsel to the board. Overall, these bodies are largely appointed in consultation with some part of a representative government, rather than being directly appointed by the head of state and consist of both public and private sector representatives.³

³ For more details on these governance structures please see the funds’ [Santiago Principle Self-Assessments](#)

Figure 4: African Sovereign Wealth Funds Legal Status



Source: IFSWF-Franklin Templeton African Sovereign Wealth Fund Survey 2021

Having independent oversight enables African sovereign wealth funds to play a key role in mitigating the perceived risks for international investors by being thought to be legitimate, credible and commercial partners for investors. As Patrick Schena of the Fletcher School at Tufts University argues in his assessment of sovereign wealth fund legal structures, based on their Santiago Principle self-assessments, a “separate legal status is useful – if not required – to permit these funds operating flexibility, including the ability to raise capital in international debt markets.”⁴ Such abilities are key to attracting partners to invest in their home economies, as one fund told us, “we have to have the right legal framework so we can play the right role and be able to deliver on the investments they [our stakeholders] define.”

African sovereign wealth funds also have a material challenge in generating the trust of their domestic stakeholders – their country’s citizens – if they are to be able to attract investment. Several of the executives we spoke to across the continent spoke about the widespread public mistrust of institutions. This view is not without foundation. With an average score of 32 out of 100, sub-Saharan Africa is the lowest performing region on Transparency International’s Corruption Perception Index, and this ranking shows little improvement from previous years.⁵ As a result, the continent’s sovereign wealth funds are acutely aware that they needed to ensure their legitimacy and build trust if they are to be successful.

An independent governance structure is, therefore, also important for African sovereign wealth funds to assuage domestic stakeholder concerns around government interference. One fund we spoke to told us that “our governance structure is based on the trust that the politicians will do the right thing. If you don’t have the rules cast in stone, you run the risk of someone coming in and squandering the fund... I wouldn’t recommend it. Trust is good, but it doesn’t always work.”

Sovereign wealth funds in Africa work hard at engaging their stakeholders. One sovereign wealth fund executive told us that “transparency is key to generating trust”. He spoke to us about the need to prove to both the public and the government that his institution could be trusted with the money under its management, as his fund was established on the back of years of misappropriation of government oil revenues. To build this trust, his institution had to “not only to be transparent, but to be naked!”

⁴ [Trends in Transparency: Santiago Principle Self-Assessments 2016](#)

⁵ [Corruption Perception Index 2020: Sub-Saharan Africa](#)



For sovereign wealth funds in Africa, transparency and accountability often starts even before its establishment as it is vital that there is a broad-based consensus about the mandate of the fund from its very outset. As Andrew Bauer of the Natural Resources Governance Institute has noted, sovereign wealth funds “established only between governments, international financial institutions and expert advisors alone are not likely to survive a political transition or even minor pressure to break the rules.”⁶ Africa’s sovereign wealth funds are all too aware of this situation. For example, the Ghanaian government carried out extensive public consultations in advance of the 2011 Petroleum Revenue Management Act to give Ghanaians and other stakeholders a sense of buy-in and stewardship over the law. To ensure this sense of ownership, Ghana established the independent Public Interest and Accountability Committee, to promote transparency and accountability in the management of petroleum revenues. The committee consists of representation from local financial, commercial and legal groups, traditional community-based organisations, trade unions, journalists, religious groups and academics.⁷



This lesson is being learned across the continent, and public consultations, civil society engagement and parliamentary approval are a key part of the process of establishing a sovereign wealth fund. For example, in November 2020 the US Department of State’s Fiscal Transparency Innovation Fund funded a joint programme to build a national dialogue about the Banco de Moçambique’s effort to develop a sovereign wealth fund to manage the projected \$96 billion revenue from the Rovuma Basin liquefied natural gas projects as well as other extractive industries. The explicit aim is to ensure that all Mozambicans understand the role a sovereign wealth fund could play in managing their resources and have a say in how the fund is structured.⁸

Another key part of enhancing public trust in the region’s sovereign wealth funds is being able to attract competent executives with relevant investment experience to manage the funds. For years, African governments have lacked the capacity to invest capital efficiently due to a talent disadvantage vis a vis their international corporate counterparts⁹ partly due to a diaspora brain drain to the developed world. However, in recent years, the continent’s sovereign wealth funds have been able to attract the skills and expertise to oversee investment on a commercial basis, even though this can still be challenging. One executive told us that after working in major financial centres, “believe me, I didn’t want to end up here, but I felt it was important.” For example, Uche Orji, the chief executive officer of the Nigerian Sovereign Investment Authority, undertook his MBA at Harvard and worked in New York in investment banking and Abdalla ElEbiary, the chief investment officer of the Sovereign Fund of Egypt, also worked in investment banking and private equity in the US as well as in his home country.

6 [Sovereign Wealth Funds: Guidance for Policymakers. Natural Resource Governance Institute](#)

7 [Public Interest Accountability Committee](#)

8 [U.S. Embassy and N’weti Consortium Support for the Government of Mozambique’s Sovereign Wealth Fund Proposal](#)

9 [Paul Collier, *The Long View: Making the Most of Africa’s Natural Resources*, Investec Asset Management Investment Institute, 2014](#)

Some funds are also underlining their management’s competence and qualifications by employing executives through an open, commercial and competitive hiring process, like the Nigeria Sovereign Investment Authority, or through established executive search firms. Another fund told us that hiring the right people was key to ensuring that private investors see them as peers, “we need to be able to speak the same language, and that means hiring the right people”. “The agreement with the board from day one,” they said, “has been to hire market talent at market levels of pay to attract the best people.” This fund has a strict hiring policy. “At the beginning of every year we do a manpower plan with a budget and this is run through a board committee of experts, which has no government involvement. When the time comes [to fill a vacancy], we rely on local executive search firms, head-hunters and recruiters to find the right people to fit the job descriptions.” The fund then undertakes an interview process and chooses from a shortlist of at least three people. Adopting this type of commercial approach to filling vacancies is, for many sovereign wealth funds in Africa, key to ensuring that all stakeholders have faith that the management team are qualified to fulfil their mandate.

Figure 5: African Sovereign Wealth Funds Policy Purposes



Source: IFSWF-Franklin Templeton African Sovereign Wealth Fund Survey 2021

It is one thing to obtain trust, but sovereign wealth funds must retain it by fulfilling their mandate. For many sovereign wealth funds this could be challenging because they have multiple goals. Over 60% of the funds we surveyed had more than one policy purpose as governments sought to best use relatively modest resources. Most of these funds said that they had mandates for savings, stabilisation and strategic local development. Governments may intend to leverage sovereign wealth funds for multiple purposes as an efficient way to use scarce resources. However, the challenge of a multi-mandate model is prioritising each outcome and understanding the different structures and skillsets required to deliver on each mandate. One fund with multiple mandates told us that, “We are fighting a battle on two fronts. We have to deal with a challenging macroeconomic environment [post-COVID-19], but we are also trying to work out what the government wants. We should also be a savings fund – this was initially part of its mandate – but the government needs to understand how the fund needs to be structured. Not having the fund distributed accordingly [to its mandate] makes our job really ambiguous.”

Where are Africa's Natural Resource Funds?

*Stephanie Ouwendijk,
Fund Manager,
Emerging Market Debt,
Franklin Templeton*

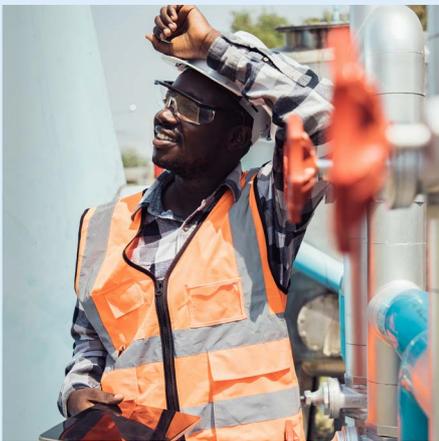


Considering Africa's substantial natural resource wealth, the continent has relatively few traditional intergenerational savings funds like those found in Norway or Kuwait. In fact, the continent is often held up as an exemplar of the "resource curse", whereby resource-rich countries have less economic growth, less democracy, or worse development outcomes than countries with fewer natural resources.

The sovereign funds in the largest natural resource producers in sub-Saharan Africa, such as Angola and Nigeria, in the context of the oil that they produce, are small and were established relatively late in the day. In North Africa, Algeria and Libya are the main oil producers, Algeria's stabilisation fund, which at its peak was \$75 billion in 2012, was entirely depleted by 2017, while the Libyan Investment Authority, set up in 2006 under the regime of Muammar Gaddafi, has \$65 billion in assets under management, but has been frozen under United Nations sanctions for a decade. In fact, you could argue that only Botswana – where the proceeds from diamond mining are saved in the Pula Fund managed by the central bank – acted in a timely fashion to manage its resource wealth.

But why is this? First, it is probably fair to say that there is a degree to which African countries have profited less from oil exploration than, for example, their peers from the former Soviet Union, such as Azerbaijan and Kazakhstan, because they have been less involved in the exploitation of their oil reserves. Whereas many countries developed national oil companies (NOCs) and excluded international oil companies (IOCs), African oil producers have largely relied on IOCs for exploration and production activities. This relationship is partly due to the challenging nature of their oil fields, either due to the type of crude (heavy) or, for example, offshore complexities, resulting in higher production costs than in countries like the former USSR. Consequently, smaller and local companies lacked the technological and financial resources to develop the finds. Governments in Africa's oil-rich nations have, therefore, historically been reliant on signing often relatively disadvantageous production sharing agreements (PSAs) with oil majors, reducing their potential oil revenues and their ability to grow large oil funds, as we see in both Azerbaijan and Kazakhstan.

However, we cannot get away from the fact that governments have not used the revenues they generated from natural resources efficiently to keep debt levels low or build buffers. This failure is partly due to high spending requirements arising from the spending needs of young, large and growing populations, as well as their early stage of economic development. Consequently, governments have either seen high oil revenues as a windfall to their budgets or like in Nigeria, established an excess crude account, which they then use for counter cyclical measures when needed, but which does not necessarily have sufficient oversight to ensure the assets are used wisely.



Additionally, however, we cannot shy away from the fact that billions of dollars from oil revenues in African countries have been misappropriated or misspent. The allegations from Angola have been particularly high-profile since President João Lourenço came to power and exposed the business dealings of the children of his predecessor, Jose Eduardo dos Santos. The former president, who was in power for 38 years, put his children in charge of much of the state apparatus, including the national oil company and the sovereign wealth fund. Allegations of corruption and suspicious investments have followed them ever since. Nigeria has an equally chequered history of managing its oil wealth at all levels of the production and commercialisation of its hydrocarbon resources, from the wellheads with the bunkering of pipelines and theft of oil, to the export of crude oil, including capital flight to tax havens.

Equally, on the other side of the balance sheet, many of these resource-rich countries are highly indebted. Despite the efforts of the International Monetary Fund and the members of the Paris Club, between 2013 and 2018, the number of countries in Africa that the International Monetary Fund deemed to be in “debt distress” or at high risk of it doubled to 14. According to the International Institute of Finance, African countries issued \$147 billion of debt between 2009 and 2020. This has been driven by these countries wanting to lock in attractive borrowing costs as global interest rates fell to historical lows and they were able to do so as international investors’ search for yield and diversification led to an outsized appetite for higher-risk, higher-return sovereign debt securities.

With the stock of debt growing at a rapid pace, the IIF estimates that as of the first quarter of 2021, African countries face repayments of close to \$100 billion between 2021 and 2032. Furthermore, despite US dollar and Euro borrowing costs for these countries being at a historical low, and in most cases well below local rates, overall debt servicing costs of these bonds have become extremely high in local terms, as some of Africa’s currencies have undergone sharp devaluations. This has put further pressures on their balance sheet.

Under these circumstances, it might make sense for resource-rich countries to use their natural resource revenues to pay down expensive debt loads, as part of a sovereign asset-liability management strategy to put their economies on a more sustainable footing. However, we have yet to see material evidence of African countries using such an approach. Nevertheless, as we reveal in this study, there is evidence that some countries, are looking to manage these revenues with more robust governance and more productively and put a portion of them to work to encourage investment in their countries to drive economic development. In turn, over time, their challenging debt circumstances may ease.

Social: *The Mission*

Three quarters of the sovereign wealth funds we surveyed had some form of mandate for domestic development. Their preferred choice of partners underlines the importance of development outcomes: development finance institutions were the most preferred partner for most sovereign wealth funds (31% of responses), followed by other state-owned African financial institutions such as central banks and pension funds (25%).

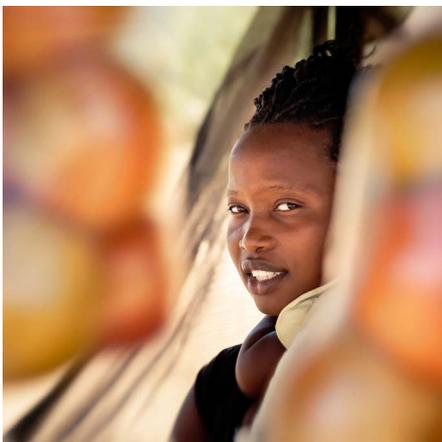
Several of the sovereign wealth funds we spoke to had specific aims, for one it was “to enhance the economic output and contribution to GDP for the benefit of our people” for another, their aim was “job creation and FX [foreign exchange] generation”. Other funds, like the Nigeria Sovereign Investment Authority, have a focus on infrastructure. NSIA runs a ringfenced infrastructure fund that has clearly defined criteria: alignment with national priorities; potential for attractive commercial returns and high social impact; ability to attract both domestic and foreign private sector participation; and alignment with the sectoral regulatory environment.¹⁰

Many of the funds with a development purpose invest in line with a national development plan. Senegal's Fonsis helps to transform identified infrastructure projects into bankable public private partnerships by acting as a catalyst for attracting funding that will have a knock-on effect for the development of the country. The fund also invests in small- and medium-sized enterprises to drive value creation and help develop national champions in line with the national development plan. New sovereign wealth funds, such as the proposed sovereign wealth fund of Madagascar, are also closely aligned with their government's development aims.

However, to execute these development plans successfully there needs to be a robust financial market infrastructure in place to attract and facilitate investment and trade. A well-functioning financial market is a central condition for fostering industrial development. Financial market making activities might not attract a great deal of attention or generate much credit for the institution, but they are key in helping it deliver on its mandate. For example, the Nigerian Sovereign Investment Authority has worked hard to develop the country's financial markets infrastructure. The fund has establishing important institutions such as Infrastructure Credit Guarantee Limited (InfraCredit) to facilitate local financing for major projects, the Nigerian Mortgage Refinance Company, and Family Homes Funds Limited to help to provide affordable homes and mortgages.¹¹ Another sovereign wealth fund we spoke to was also working closely with major domestic private-sector banking institutions to help improve small- and medium-sized enterprises' access to financing to help them expand their business and create jobs.

¹⁰ [Nigeria Sovereign Investment Authority, 2019 Annual Report.pdf](#)

¹¹ [Nigeria Sovereign Investment Authority, 2019 Annual Report.pdf](#)



African sovereign wealth funds are also working on providing investors with the instruments to access new investment opportunities, demonstrating a professionalisation and commercialisation of government involvement in the development of their economies. Several of the sovereign wealth funds we spoke to, such as Senegal's Fonsis, the Nigeria Sovereign Investment Authority and the Sovereign Fund of Egypt, have established and anchored private-equity funds for sectors such as healthcare and renewable energy to attract foreign investors to investment opportunities to which they might not otherwise have access. For example, Fonsis anchored Téranga Capital, a multi-sector investment fund dedicated to Senegalese small- and medium-sized enterprises with high growth potential to combine value creation with social and environmental responsibility in line with the United Nations' Sustainable Development Goals.¹² Such funds also provide a recognised institutional framework through which the government can take substantial equity shares alongside their partners and thus have so-called "skin in the game" (sharing both upside and downside risks). As one executive told us, "For international investors that haven't invested in [our country before], having partners with local knowledge and a government link that have a similar experience can reduce the risk [of investing here]."

In addition to improving market depth and accessibility, some sovereign wealth funds are looking to follow the example set by established state-owned investors from the Arabian Gulf, such as the Abu Dhabi Investment Authority, and those in Asia, for example the Korea Investment Corporation, and act as a tool to upskill their domestic workforce in financial services and develop the financial markets infrastructure that will enable the country to trade on a more even playing field with major international markets.¹³

Financial market tools, skills and infrastructure are key enabling tools for economic development. Without such initiatives foreign investors are unable to access new and complex markets. We were also told by a number of funds that they saw such initiatives as appropriate for a sovereign wealth fund as "we need to avoid competing with the private sector... We need to invest in sectors that the private sector won't because of the risk or returns." Another executive reiterated this point, "We ask why us? If the private sector can do it, we'll let them get on with it. Is there a developmental angle? is it something we can benefit our people? If yes, then our partners should want to invest alongside us."

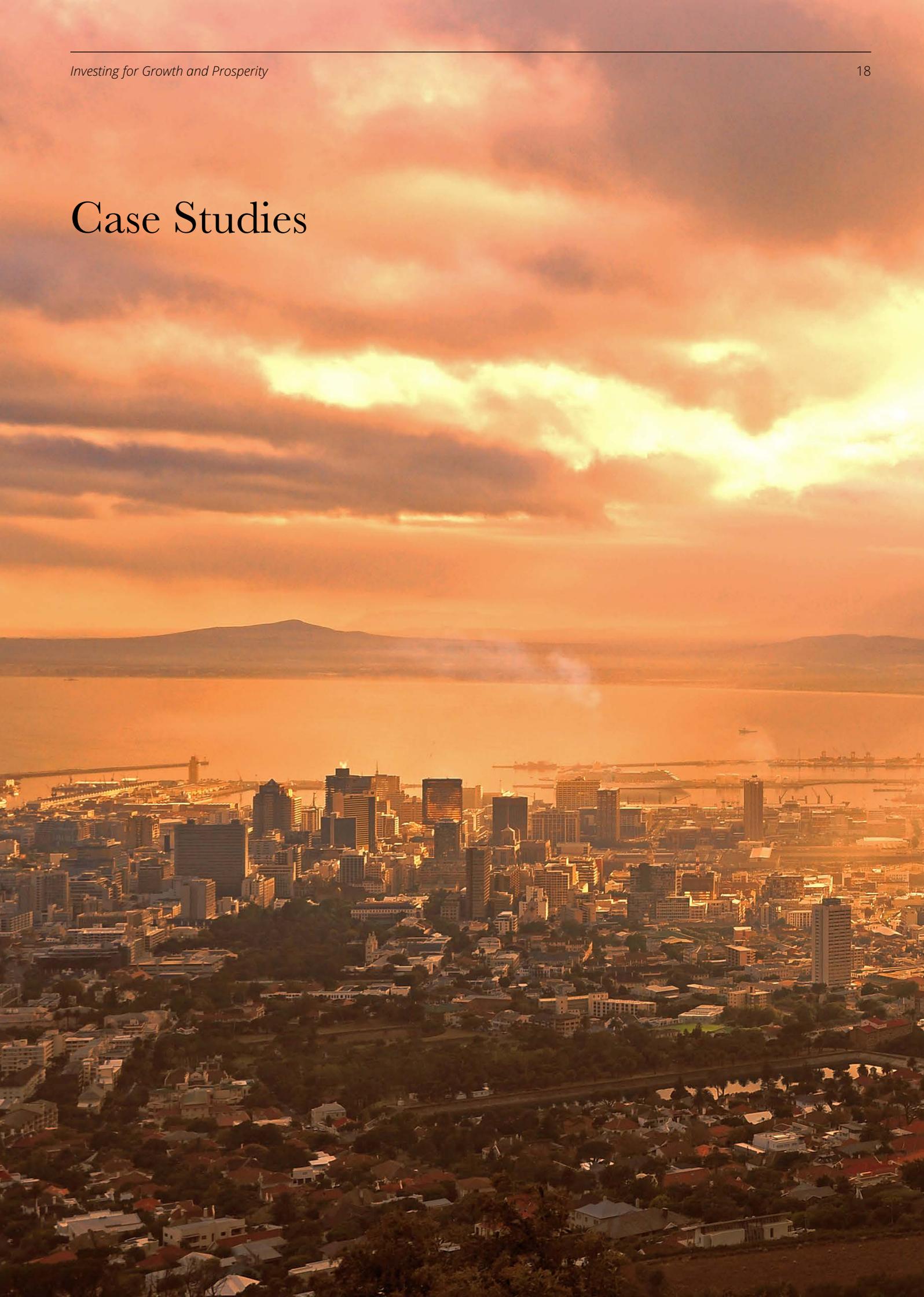
To help attract private-sector investors, some sovereign wealth funds are creating innovative new investment structures that will help attract private-sector capital into new sectors. One sovereign wealth fund told us that they were trialling different co-investment structures, such as taking the first loss or structuring an asymmetric return arrangement to attract investors. "We try to invest equally with investors," it told us, "but if the difference in return requirements is close then we'll try to bridge the gap." But all the executives we spoke to said that accountability and clarity were key in such arrangements, and preferred taking direct equity stakes in investments, rather than setting up a private-equity style general partner-limited partner structure, which some said was not transparent enough to maintain stakeholder trust.

The sovereign wealth funds we spoke to were aligned on the key sectors that are currently underfunded by private investors and into which they needed to attract private investment. These sectors have been chosen to make their countries more resilient: food and water security; healthcare, energy security and digitalisation.

¹² [Teranga Capital](#)

¹³ Interview with Dr Mbuyi Wagacha, Former Economic Advisor, Executive Officer of the President of Kenya

Case Studies





Fonsis and Energy

Since inception, the energy sector¹⁴ has been a key focus for Fonsis¹⁵ given the importance of power for stimulating economic growth. Demand for energy in Senegal is also growing rapidly. By 2050, the country's population is estimated to more than double from 16.7 million to 39 million, with 50% living in urban cities, with three regions accounting for 47% of the population.

Our strategy seeks to expand the supply and diversification of the energy sources, as well as increase investment in the sector. Fonsis's first investment in the sector was a 30MW solar plant, Senergy. The project, which became operational in 2017, was, at the time, the most important in West Africa. Senergy provided the opportunity to reform the independent power producer (IPP) model and enable the private sector to invest in solar power production. The investment model was built with a sovereign guarantee alongside the equity investors, the debt provider, the construction company, and the off taker.

Since Senergy, Fonsis has made three other investments in solar energy: Ten Merina, Kael Solar and Kahone Solar. The latter are part of the Scaling Solar Program. Construction started in 2020 and will be completed in the first half of 2021. The four solar farms represent more than 50% of the solar capacity of Senegal, and a potential to save 160 tons of carbon dioxide annually and supplies nearly a million households.

In addition to solar energy, Senegal is looking to satisfy the country's growing energy demand by exploiting its recent gas discovery to produce power domestically. Fonsis, through Réseau Gazier du Senegal (RGS), founded with Senelec the national electricity company, and Petrosen), will ensure the transport of natural gas, from production sites to potential clients, including Senelec and other energy-intensive industries.

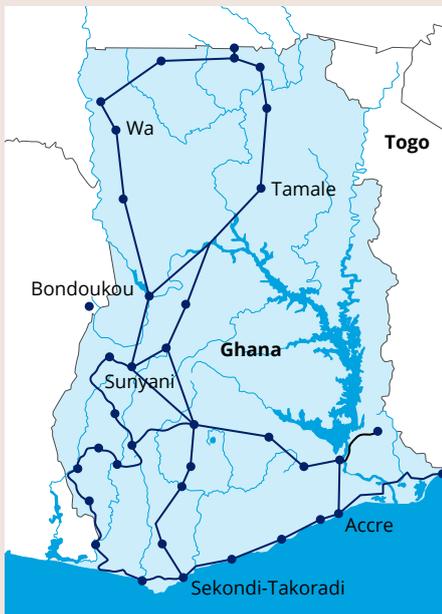
As part of the C40 cities leadership programme, Dakar has committed to be carbon net-zero by 2050. The city's transport plan articulates ambitious green infrastructure projects in train, bus, and road transport, and Fonsis is part of that expected transformation.

To increase the efficiency of its intervention, Fonsis is currently structuring different funds with international and institutional investors; the funds should be operational in 2021:

- Preparation Fund: 50 billion FCFA to finance the preparation phase of infrastructure projects before their financial closure.
- SMEs fund: €100 million to invest in mid-size companies in various growth sectors.
- REEF: \$50 million dedicated to renewable energies and energy efficiency.

¹⁴The Plan Senegal Emergent, on which Fonsis's strategy is aligned, validated in 2012 the necessary diversification of the energy in Senegal. Senegal went from 120 hours of power cuts / year to 11 hours in 2020. The diversification of the mix energy is progressing (objective of 30% in 2025): 0% (2012) 10% (2014) 20% in 2020.

¹⁵The creation was authorised by the 2012-34 law, adopted on the 31 December 2012, Fonsis, Fonds Souverain d'Investissements Stratégiques, is the Senegalese sovereign wealth fund. It has been operational since 2014.



Source: Broadspectrum Ltd

Ghana's GIIF Upgrades Communications Infrastructure

Across the world, the COVID-19 pandemic has highlighted the importance of digital communications for the economy. But, in Ghana, the need for digital communications has been at the forefront of the government's desire to expand information and communications technology as an enabler of change connectivity, ease of doing business and economic development.

In 2017, the Ghana Infrastructure Investment Fund (GIIF) committed \$51 million to a public-private partnership with Broadspectrum, a local telecommunications company, to establish Spectrum Fibre, which laid 880 kilometres of in-land fibre optic cables for an extensive high-quality, fast, reliable and affordable broadband network in the west of Ghana, which connects major towns such as Takoradi, Atuabo, Elubo, Enchi, Amoya, Asawinso, Sefwi Wiawso, Awaso to high-speed internet services.

The Western Corridor Project, which created approximately 12,000 direct and indirect jobs during the construction phase, involved the development, finance, construction and operation of an ultra-modern back haul and broadband communication infrastructure.

For rapidly developing economies like Ghana, reliable high-speed broadband can improve access to quality education and facilitate the development and modernisation of a wide range of other industries, for example the mining and the oil and gas operations. The scale of this project, as shown in the graphic above, demonstrates its ability to have a material impact on the lives of Ghanians.

Although this scheme was led by the private sector, the involvement of the GIIF was key in anchoring the project by identifying the investment gap and providing necessary funding and financing to make the project a reality. The GIIF is the only institution in Ghana that has the scale and credibility to not only invest in equity capital but to and raise external finance for its projects. For example, GIIF has an \$ 85 million facility from the French Development Agency (AFD) for on-lending to eligible projects in Ghana to help facilitate broader development across the country.





Upgrading Africa's Agricultural Value Chain

Ithmar Capital, as a sovereign investment fund, acts as a relay between long-term national/regional priorities and private investors. It seeks to achieve an attractive return on investment while meeting the socio-economic development requirements.

The agricultural value chain fits perfectly into this investment philosophy given its importance for African economies, and the development perspectives the sector presents.

Indeed, primary agriculture contributes to over 15% of the continent's GDP and employs up to half of its population. Developing the sector consequently contributes to improving the living conditions of rural populations and addressing food security, one of the major challenges of the continent.

However, despite the sector's critical importance, Africa is struggling to achieve food self-sufficiency and the sector's added value and contribution to international trade remain low compared to the other regions.

It is mainly explained by the important challenges agriculture is still facing in the region, related to water scarcity, sensitivity to drought, reduced size of farmlands and other factors that prevent intensification and significantly impact productivity. Addressing all these challenges would need significant investments to scale up the sector by, among other things, improving mechanization rates, aggregating lands, generalizing irrigation, improving seeds' quality and introducing technology.



On the other hand, Africa remains home to 60% of world's arable land and AfDB estimates that total new African agri-business revenues could amount to \$100-125bn by 2025. To seize these opportunities, one of the approaches that could be taken is the establishment of a vehicle dedicated to the sector to invest in greenfield and brownfield agricultural assets (i.e. farmlands) across the continent. The vehicle should be managed by an experienced external manager, with a strong global network to connect the African agriculture with international markets and sector expertise. The manager's objective should be to improve the acquired/developed agricultural assets by upgrading farms' infrastructure, diversifying and targeting higher value crops and introducing better soil and productivity monitoring measures in order to extract a maximum value from the investments.

That being said, focusing only on primary agriculture would not allow the transverse impact needed along and beyond the agricultural value chain. Indeed, besides the challenges faced by primary agriculture, the sector's value chain in Africa is itself facing many other challenges. For example, the lack of cold chain equipment forces farmers to channel fresh products to the market immediately upon harvest, leading to a collapse in prices and thus a decrease in potential earnings. It also sets climate change in motion and exacerbates post-harvest loss effects as over-production generates expensive waste and losses in terms of chemical inputs, water, and other energy resources needed for the transport and distribution of perishables.

For all these reasons, agriculture needs to be more seriously considered by institutional investors as an asset class, as it offers highly attractive coupon like risk-adjusted returns and contributes efficiently to achieving Sustainable Development Goals, for a more inclusive growth to the benefit of future generations.



Enhancing Nigeria's Healthcare System

Since inception, healthcare has been designated a focus sector for investment through the Nigeria Investment Authority's (NSIA) Nigeria Infrastructure Fund (NIF).

Research had shown that the sector is characterised by numerous challenges including but not limited to poor and inadequate infrastructure, inaccessibility, insufficient financial investment, poor customer service, substandard pharmaceutical products and fake drugs, and a dearth of skilled/adequately trained personnel. With this, most Nigerians were saddled with bearing the burden of a dysfunctional and inequitable healthcare system.



NSIA prioritised the tertiary healthcare segment of the sector and began implementing a strategy to bridge the gaps in the industry. In the first instance, NSIA is focused on addressing non-communicable diseases characterised by high incidence, high mortality rates and high medical tourism. The four target sub-segments were Oncology, Orthopaedics, Renal and Cardiovascular diseases. In addition to improving access to quality healthcare, NSIA also sought to reverse medical tourism by Nigerians – estimated at \$1 billion per annum as of 2015 – and thereby ease the pressure on the country's foreign exchange reserves. The Authority also sought to create a feeder system for the healthcare sector by creating an enabling environment for capacity building.

NSIA incorporated a wholly owned special purposed vehicle, NSIA Healthcare Development and Investment Company (NHDIC), to operationalise its healthcare strategy and invest in Nigeria's healthcare sector covering tertiary healthcare and pharmaceuticals. One of its objectives was to catalyse private sector investment for the sector and to improve key health indicators of the country.

So far, NHDIC has completed three projects with the first in cancer treatment and the other two in diagnostics. The first facility is the NSIA-LUTH Cancer Care Centre (NLCC) located within the premises of the Lagos University Teaching Hospital, Idi-Araba, Lagos. NLCC is a \$12.5 million investment to upgrade, equip, maintain, and operate an outpatient cancer treatment facility, the first of its kind in Nigeria. The upgraded facility enabled the expansion of the Centre's services to include advanced external radiotherapy, brachytherapy, and chemotherapy. The centre is also fitted with a world-class training facility for oncology professionals. So far it has treated over 4,000 patients since commissioning in May 2019.

Each of the two diagnostics centres – NSIA-Kano Diagnostic Centre, Kano State (NKDC) and NSIA-Umuahia Diagnostic Centre, Abia State (NUDC) – is a \$5.5 million investment in first-rate diagnostic services. Both are designed to provide timely, cost-effective, and high-quality diagnostic care in safe, satisfying and secure environments. The centres were commissioned and operationalised in March and August of 2020, respectively. A cumulative of over 20,000 patients have received services from the centres.

Having tested the proof of concept with the first three centres, NSIA now aims to roll out 34 healthcare facilities over the next few years thereby creating access to quality healthcare for at least one million patients per annum. This healthcare investment pipeline includes 22 diagnostic centres, two multispecialty hospitals, nine single specialty centres and a pharmaceutical manufacturing company.



Creating Social Impact through Collaboration

Because Africa’s sovereign wealth funds are small, they are increasingly looking to collaborate to develop cross-border projects of a scale that will attract major international investors and be transformational for the region’s economy. One sovereign wealth fund told us that “In Africa, the size of projects isn’t that big, so to attract major investors you need to pool projects to be visible. An \$100 million project with \$30 million of equity isn’t interesting to big investors... [it] doesn’t justify mobilising a team out of London or Dubai to deal with the project.”

However, this collaboration is only in its infancy. As another sovereign wealth fund told us, collaboration is currently “lacking in a strategic regional thinking about how we can unlock the financial needs of the continent.” Eighty-three per cent of our survey respondents said that current collaboration between the continent’s sovereign wealth funds was insufficient. However, the respondents agreed that collaboration is not only valuable but necessary and that more should be done. It may be that the COVID-19 pandemic had put the ability to form such communities under pressure.¹⁶

Figure 6: African Sovereign Wealth Funds’ View on Collaboration



Source: IFSWF-Franklin Templeton African Sovereign Wealth Fund Survey 2021

¹⁶ See Norbert Fiess, Arthur Gautier, *Development Finance in Sub-Saharan Africa in the Time of Covid-19*, Direction générale du Trésor, Ministère de l’économie, des finances et de la relance, March 2021

We had expected that there would already be more collaboration as is the case among the central bank population, especially given many nascent and extant sovereign wealth funds have close relationships with their central bank. Given a quarter of the funds surveyed list fellow African financial institutions (including sovereign wealth funds) as their preferred partner, the consensus opinion that collaboration between sovereign wealth funds and central banks in Africa was insufficient suggests a strong area of opportunity as this gap begins to close.

As a result, Africa's state-owned investors are only just realising their unique situation and the ability to progress at their fingertips should they wish to join forces and leverage the African Continental Free Trade Area, which came into operation on 1 January 2021. This collaboration on the continent will, in the eyes of every one of the surveyed funds, benefit the pan-African development of governance best practices. Such knowledge sharing will play a critical part in not only achieving scale, but also avoiding pitfalls which could set back projects and returns.



Environment: *an opportunity*

Africa is a continent at the forefront of climate change, and it is having a material impact on its peoples' lives. In recent years, the Sahel has been subject to droughts, driving conflict and Islamist insurgency and migration across the Mediterranean. According to the Food and Agriculture Organization of the United Nations, in drought-prone sub-Saharan African countries the number of undernourished people has increased by 45.6% since 2012.

Dust from the Sahara Desert now results in the most extensive and most intense dust storms found anywhere on the planet – one fund told us that these were a cause of childhood asthma in its country.¹⁷ East Africa has been beset by plagues of locusts and Tropical Cyclones Idai and Kenneth resulted in severe humanitarian impacts, including hundreds of casualties and hundreds of thousands of displaced persons in Malawi, Mozambique, and Zambia.¹⁸ Deforestation is also a major issue in Africa. Between 1990 and 2015 18,000 km² of forest disappeared in Africa,¹⁹ and this has only accelerated during the COVID-19 pandemic. According to Global Land Analysis and Discovery, forest loss alerts in Africa and Asia have increased by 77% compared to the average between 2017 and 2019.²⁰

Consequently, in Africa it is difficult to discuss climate change as academics, financiers and policymakers do in developed countries. One sovereign wealth fund executive told us that “Africa sees climate change as a way for the West to keep it subjugated... People don't want to hear it.” Instead, he said, you need to “talk about things that impact locally... We think about the benefits of sustainable development, rather than the damage it [climate change] does.”

It is worth mentioning, however, that although this view is prevailing, it is not universal. At least two of the funds we spoke to understand the need to have a strong strategy on environmental, social and governance (ESG) issues and message to attract private-sector capital and development finance institutions to their projects. One fund told us that, “most institutional investors, and multilaterals integrate ESG into their processes. So, when we roadshow, we have to show that our projects have a real impact... It is a catalyst for us to find investors.” For two of our interviewees, the UN Sustainable Development Goals were an important guide for both their national development plan and their own investment strategy, as this enabled them to benchmark and measure their impact in an internationally recognised way.

¹⁷ [How Africa will be affected by climate change, BBC News](#)

¹⁸ [World Meteorological Organization State of the Climate in Africa 2019](#)

¹⁹ [HumanProgress, Forest Area](#)

²⁰ [“Global deforestation accelerates during pandemic”, Financial Times, 9 August 2020](#)



A clear example of harnessing climate-friendly technologies to kickstart economic development is the development of renewable energy, particularly solar power, by several African sovereign wealth funds – the continent is endowed with more than half of the world's renewable energy potential.²¹ Energy provision underpins economic activity, and yet, according to the International Energy Agency, half of the people living in sub-Saharan Africa do not have access to electricity.²² Therefore, for Africa's sovereign wealth funds, increasing solar power generation is not just about reducing carbon emissions, but it is a cost-effective and “the fastest way” to increase access to energy, according to one of the executives we spoke to.

Africa's sovereign wealth funds are concentrating on large-scale solar plants that can have a material effect on the economy and would not otherwise be able to attract financing, rather than mini-grids and solar home systems, which are often mentioned in the development literature. For example, Senegal's Fonsis has major interests in solar energy (see case study). The Nigeria Sovereign Investment Authority has also recently started developing the Kano Solar project, a 10-megawatt solar power plant, which will be the largest solar farm in Nigeria and will provide energy to between 3,000 and 5,000 households.²³ Electrifying households is pressing in Nigeria; 75% of the country's primary energy supply is biofuels and waste – solid fuels such as wood, crop waste, or charcoal.²⁴ It is no surprise, therefore, that the United Nations Environment Program estimates over 70% of people living in sub-Saharan Africa depend on forests and woodlands for their livelihoods.²⁵ Biofuels in Africa are used for cooking at home, and the emissions from cooking with biofuels are linked with increased incidences of diseases including stroke, ischaemic heart disease, chronic obstructive pulmonary disease and lung cancer.²⁶

Agriculture is another key sector for African states. Fifty-nine per cent of the sub-Saharan African population – more than 656 million people – lived in rural areas in 2019 and more than half of the region's workforce is employed in agriculture, according to World Bank data.²⁷ Much of the agriculture on the continent is inefficient or unsustainable, consequently commercialising and professionalising the industry is key to growing the region's economies. As one sovereign wealth fund, with a particular interest in this sector told us, it generates low-skilled jobs in rural areas. However, agriculture is also a sensitive sector, as food security is becoming an increasingly important issue for many countries on the continent. But water security is also paramount, as a reliable water supply is the key component of a healthy agricultural sector. But water provision is not necessarily an attractive sector for investors, “as there is a financial model challenge because it has to be free or cheap [at the point of delivery] and investors want returns.” But for the region's sovereign wealth funds seeking to attract foreign investment into the agriculture sector, they need to fund a sustainable water supply. As a result, some sovereign wealth funds in the region are looking to invest in water distribution to “run water at a government level, and with this type of visibility can attract private investors.”

21 [Working Paper 269, Climate Change and Renewable Energy Generation in Africa, African Development Bank](#)

22 [International Energy Agency, Solar PV – Renewables 2020 – Analysis](#)

23 [Nigeria Sovereign Investment Authority, 2019 Annual Report.pdf](#)

24 [International Energy Agency, Africa – Countries & Regions](#)

25 [UN Environment Programme, Our work in Africa](#)

26 [World Health Organization, Household air pollution and health](#)

27 [Agriculture & Rural Development, World Bank Data](#)

Historically there have been many local concerns over foreign investment in African agricultural land, focused on land rights, due to a lack of land ownership regulation and a high risk of residents being displaced, as well as food security. This situation has presented serious operational and reputational risks for investors.²⁸ But recently, Africa's sovereign wealth funds have started to address these challenges and develop a more viable long-term investment environment. One sovereign wealth fund told us that it would take a substantial equity stake in agricultural projects to give them greater control and the ability to engage with the local population to ensure that the projects are managed for the best interest of the workers and the country's food security, rather than seeing produce exclusively exported abroad.

The final way that we heard that sovereign wealth funds were starting to look at alleviating environmental concerns is by addressing land degradation due to deforestation. One executive told us about the impact that the high levels of deforestation – both for domestic power use and commercial logging – is having on his country's rural economy. He described in detail how the massive deforestation was leading to water stress and inter-community conflict as cattle herders and farmers increasingly came into contact. He told us that his sovereign wealth fund was looking at ways to mitigate these problems by looking at using degraded and deforested land, which had little-to-no agricultural value for small-scale farmers, for large-scale cash crops such as palm oil or cocoa.

By contrast, however, for those funds that do not invest directly in their home economies, the established concept of ESG had not, overall, been considered until very recently. Two funds we spoke to had recently discussed this at investment meetings and told us that they would be considering establishing an ESG policy at their next strategy review. Similarly – and emphasising the point about the unique concept of ESG in Africa – for one central bank we spoke to that was looking to establish a natural resources savings fund, did not consider ESG to be relevant or important in the way that they were planning on managing their money.



²⁸ Oxford Business Group, *Changes in GCC-Africa investment provides the Gulf with stable supply*

COVID-19: *Challenge or opportunity?*

The COVID-19 pandemic had a wide range of impacts across the African continent. For some sovereign wealth funds, it has had little impact on their investment strategy and activities. For others it has changed and/or challenged how they put their capital to work. While for others still, the pandemic has been an opportunity to accelerate some of the investment themes they had already identified.



Sovereign wealth funds from Angola, Botswana, Ghana and Nigeria – largely those with a stabilisation and savings mandate – have been drawn on by their governments during the COVID-19 pandemic to finance public spending.²⁹ For one fund, which had been working on a new investment strategy, the withdrawal “changed how we were thinking about how we were going to allocate the portfolio. We had to start from scratch again.” For another, the withdrawal had not changed their strategic asset allocation, but it had to “rebalance the portfolio, and look to cash in on some of the gains” from their equity holdings in the second quarter of 2020. However, for this fund, the withdrawal had also prompted a wider conversation at the institution about its governance structure, and whether the withdrawal rules needed to be strengthened to protect the value of the fund.

The economic impact of the COVID-19 pandemic had caused some African sovereign wealth funds’ inflows to slow to a trickle, which prompted them to think about their risk and return appetites. The few African sovereign wealth funds with a purely savings and stabilisation mandate told us that their portfolios were largely invested in low-risk securities. “We are more on the conservative side,” one interviewee told us, but “now we cannot afford to be so conservative because of low interest rates”. Two sovereign wealth funds spoke to us about needing to increase returns by allocating more to emerging markets, such as China, or by finding alternative sources of income from their portfolio. For example, one executive told us that his institution was thinking about “which parts of the portfolio are low risk, and where we can take in more risk, or whether we can act as a fund of funds and manage third-party capital” to increase returns. The pandemic’s impact on these investors, therefore, seems to be encouraging a more diversified portfolio approach, which expands their range of asset classes and risk appetite. By diversifying their portfolios, those African sovereign wealth funds without a local development mandate are looking to mitigate the risk of future negative economic shocks.³⁰

Our interviews revealed that, for those sovereign wealth funds that do invest domestically, the pandemic has been a boon. The demands of the pandemic stimulated domestic industries in which they were already invested, such as healthcare, agribusiness and digital technology, because their products were in high demand in 2020, particularly as importing essential goods, such as medical supplies and basic foodstuffs, became more challenging. Several of the funds we spoke to were already investing in these sectors, and as a result the pandemic had not only proven their investment strategy but had enabled them to grow those sectors for the long term. For example, two funds told us how their existing investments in medical facilities, pharmaceuticals and medical supplies had paid off as demand increased. As a result, they were planning on investing more in the sector and thus improve their countries’ healthcare services overall. Such investments will make these countries more resilient to economic and health shocks in the future.

²⁹ [Natural Resource Governance Institute, How Have Governments of Resource-Rich Countries Used Their Sovereign Wealth Funds During the Crisis?](#)

³⁰ For parallels in the African pensions industry see [Jacqueline Irving, How the COVID-19 Crisis is Impacting African Pension Fund Approaches to Portfolio Management, International Finance Organisation, 2020](#)

Other sovereign wealth funds told us that “we don’t want to waste a good crisis. It’s an opportunity. It’s a turning point.” Another executive told us that the pandemic had “been a catalyst for investments in digital technology. The IT system wasn’t adequate, so we are investing in cables to reduce the cost of internet access and get more people online.” The aim of this investment programme is to enable the country to leverage its young and well-educated population to develop a technology outsourcing industry that would rival India’s, providing well-paid high-tech jobs for young people and slowing the brain drain abroad.

The COVID-19 pandemic has accelerated many trends, such as digitalisation, and for Africa’s sovereign wealth funds, the situation has forced them to act more swiftly to address changes that were already happening. One example is Rwanda’s Agaciro Development Fund, to which the government transferred shares in 30 state-owned companies in 2018 and 2019.³¹ The transfer implied a shift in mandate for the fund to play a more substantial and active role in the domestic economy. The pandemic has encouraged the fund to sharpen its focus on how it will manage these stakes and streamline its portfolio. Agaciro is now focusing on which state-owned enterprises are strategic holdings that add value to the country, which are commercially profitable stakes and whether it wants to be an active manager or a passive investor, and which companies would be better off in private hands and generate value when it exits.

In the wake of COVID-19, however, there is no doubt that Africa’s sovereign wealth funds are going to have to work hard to stabilise and develop their economies. Although some countries on the continent, particularly in North Africa, have enough fiscal headroom to borrow on the international bond markets to finance recovery, for many, despite the lowest interest rates in over a decade in local currency terms, increasing the debt burden is not always feasible.³² In some countries local pension funds are beginning to increase their level of longer-term domestic investment to maximise returns and diversify risk while mobilising local capital to rebuild the economy, but continent-wide more reforms are needed for this to have a material effect.³³ For those countries that already have hefty debt burdens, sovereign wealth funds will need to play an important role in attracting international capital into their economies to stimulate post-COVID-19 economic growth.



³¹ [Rwanda Government Transfers More Shares to Agaciro, The East African, 5 November 2018](#)

³² “Feeble growth and chunky debt piles hold back emerging economies”, *Financial Times*, 15 March 2021; Benjamin Hilgenstock, Garbis Iradian, Elina Ribakova, *Macro Notes – Africa and the Eurobond Market in 2021*, Institute for International Finance, February 2021

³³ [Jacqueline Irving, How the COVID-19 Crisis is Impacting African Pension Fund Approaches to Portfolio Management, International Finance Organisation, 2020](#)

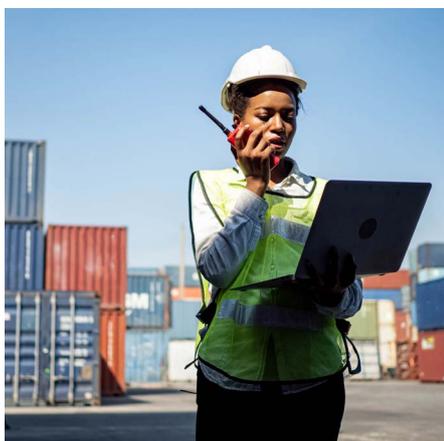
Conclusion

The sovereign wealth funds of Africa are at the forefront of a new breed of state-owned investors that are looking to attract capital into their home economies to accelerate economic development, rather than deploy capital into global financial markets.



This is a challenging task in the context of Africa, which international investors perceive to be risky, and where they are unfamiliar with the investment opportunities. Consequently, African sovereign wealth funds are seeking to emulate their potential partners so that, in each investment, their interests are aligned and that they understand each other.

The foundation for this relationship is structuring these institutions for success. Good governance is key. The sovereign wealth funds we spoke to underline the importance of professionalism and independence from their government owners to generate trust from their partners, and their citizens. Such legitimacy is particularly important in a context in which trust of public institutions is low. The challenge for these sovereign wealth funds, many of which have only recently been established, is how they can deliver. The key is being accountable to their stakeholders, which requires transparency. For many of the sovereign wealth funds we spoke to, implementing the Santiago Principles, and having that recognition is necessary, but it is insufficient to generate that trust. Emulating the governance structure and processes of their private-sector counterparts was a common message, but it is essential that Africa's sovereign wealth funds earn their stripes and deliver on their mandate through proven performance. However, all sovereign wealth funds are long-term investors, and it is important that management teams are given the autonomy and the time to deliver on their goals.



Similarly, the mandates of Africa's sovereign wealth funds centre on social impact, focusing on sectors such as food and water security, energy generation, healthcare and digitalisation, that will have a material impact on their citizens' lives. The challenge for these investors is to make the right decisions and to ensure that the impact of their investments is felt by the public. This can either be directly, through the provision of jobs, or indirectly, through the development of the financial markets, which enables more capital to be put to work. However, it is important for these funds to hold themselves accountable to their stakeholders by publicly reporting against appropriate key performance indicators and benchmarks for these goals. It is only through this public display of performance that they can overcome the widespread public distrust they face.

Africa's sovereign wealth funds are small in the context of their global peers. As such, they do not necessarily have the scale to deliver material social impact in the way they would like. This is the primary motivation behind their need to attract foreign capital. However, throughout our conversations there was plenty of discussion about the need to collaborate to deliver continent-wide impact. Currently, according to our survey, most sovereign wealth funds in Africa agree that the degree of collaboration between them is insufficient, and that working together more closely would not only enhance governance on the continent, but also development outcomes. There are currently moves to enhance pan-African sovereign wealth fund cooperation, but leadership is required to ensure that the appropriate fora – either extant or new – are leveraged to ensure that these funds can co-operate, collaborate and co-invest in a productive manner that will have a material impact on the economic development of the continent.

Acknowledgements

The International Forum of Sovereign Wealth Funds and Franklin Templeton would like to thank the executives from the following organisations who gave their time to contribute to this report.

- Agaciro Development Fund
- Banco de Moçambique
- Bank of Botswana
- Dwennimmen, advisors to the Ghana Infrastructure Investment Fund
- Fonds Souverain d'Investissements Stratégiques (Fonsis)
- Fundo Soberano de Angola
- Ithmar Capital
- Nigeria Sovereign Investment Authority
- Office of the President, Republic of Madagascar
- The Sovereign Fund of Egypt
- Dr Mbui Wagacha, Former Economic Advisor, Executive Officer of the President of Kenya
- Southbridge Group

We would also like to thank Dr Victoria Barbary, Director of Strategy and Communications at the IFSWF for preparing the text, with assistance from Steve Wallace, Anil Jilka, Khalid Murgian, and Mark Ward from Franklin Templeton. Stephanie Ouwendijk, Portfolio Manager for Emerging Market Debt at Franklin Templeton, kindly provided her expertise to flesh out the broader context.

We would also like to thank Duncan Bonfield, Chief Executive of IFSWF, Sandeep Singh, CEO, Franklin Templeton Investments (ME) Ltd and Matthew Williams, Senior Director and Head of Institutional Sales, EMEA, Franklin Templeton for their kind support in getting the report completed and Enrico Soddu, Head of Data and Analytics for his assistance with analysing the survey data and contributing from the IFSWF database.

Contributors

About the International Forum of Sovereign Wealth Funds (IFSWF)

The International Forum of Sovereign Wealth Funds (IFSWF) is a global network of sovereign wealth funds (SWFs) established in 2009 to enhance collaboration, promote a deeper understanding of sovereign wealth fund activity, and raise the industry standard for best practice and governance.

About Franklin Templeton

Everything we do at Franklin Templeton is focused on delivering better client outcomes. It's why we've built a world-class investment firm that aims to offer the best of both worlds: global strength and boutique specialization. Franklin Templeton brings together an unmatched collection of independent specialist investment managers to provide our clients with deep expertise and specialization – within and across asset classes, investment styles, and geographies. And we offer hundreds of strategies across active, smart beta and passive approaches – in a full range of vehicles.

