International Forum of Sovereign Wealth Funds
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A Sovereign Wealth Fund for Kenya: Why & Why Now?

On 14 September 2020, the International Forum of Sovereign Wealth Funds held a conversation with Dr Mbui Wagacha, the architect of the Kenya Sovereign Wealth Fund Bill (2014), which was facilitated by Steve Wallace of the Dubai office of Franklin Templeton Investments, the global investment manager. During the discussion, Dr Wagacha explained the mandate of the fund and the benefits it can bring both to Kenya and the wider region.

As currently envisaged in the bill, the Kenyan sovereign wealth fund will have three distinct “windows” with separate mandates – savings, stabilisation and infrastructure and sector development – much like the Nigerian Sovereign Investment Authority. The sovereign wealth fund would be capitalised from several sources including natural resource royalties from new coal and oil finds in the north of the country, rather than being a Temasek-style holding company for parastatal companies.

Establishing this type of sovereign wealth fund for Kenya will have two important benefits to the country that traditional macroeconomic policies, such as operating reserves through the central bank’s balance sheet or reducing the national debt, would not provide. First, the future generation reserve and stabilisation windows will act as a catalyst for developing local financial expertise and skills, leveraging the capabilities of global banks and asset managers. Developing a Kenyan financial services industry will catalyse the growth of more skilled, better-paid service-sector jobs in the country. One aim is to attract the Kenyan diaspora with the promise of well-paid and skilled jobs. Dr Wagacha emphasised that this is a long-term goal and may take 10 or 20 years to achieve, but that it is essential for the well-being of future generations of Kenyans.

Second, the infrastructure window would follow a well-established model of helping to attract foreign direct investment into Kenya. The sovereign wealth fund would act as an anchor investor crowding-in financing for major projects from like-minded, long-term investors, such as sovereign wealth funds, from across the African continent and beyond. The fund would look to develop Kenya’s infrastructure and cross-border infrastructure projects that would benefit both the East African region and the continent more broadly. Dr Wagacha hoped that in the wake of the Covid-19 pandemic that Africa would become a more attractive destination for foreign investment as while it might be perceived as being higher risk, it would provide healthy returns – particularly if the involvement of sovereign wealth funds in those investments could help to reduce perceived and actual risks.

Dr Wagacha emphasised that the fund will be managed to the highest possible international standards, specifically the Generally Accepted Principles and Practices (the Santiago Principles), with the aim of becoming a member of the IFSWF. For example, the future generations reserve would be sufficiently protected from redemption to ensure the protection of assets directed for the future generations of Kenya citizens, and all three windows would be audited by the Public Auditor General of Kenya. By so doing, the Kenyan sovereign wealth fund would gain international recognition that it was a reliable and trustworthy investment partner and provide assurances to the Kenyan people that their money was being responsibly invested. He hoped that the fund's transparency and disclosure standards would be in line with those of Norway's Government Pension Fund Global or the New Zealand Superannuation Fund, which would help to promote understanding of the fund's mandate and trust of both partners and stakeholders.

Dr Wagacha also discussed the importance of upholding high environmental, social and governance standards to its investment processes. He stated that Kenya is committed to achieving its Paris Climate Change Agreement obligations as it was on the forefront of climate change; the country is prone to drought and has been beset by a plague of locusts which have destroyed crops in 2020. The UN Sustainable Development Goals were also an important benchmark for the country and the fund would be looking to understand how it could accelerate Kenya's progress towards achieving them.

Given that the fund will be capitalised from the sources cited above, Dr Wagacha said that to meet its ESG standards and climate-change goals, the infrastructure window of the fund would be looking to invest in clean-coal technologies, such as carbon dioxide sequestering, which he hoped would develop new skills for Kenyans and other countries in East Africa.

Finally, Dr Wagacha addressed the three most important priorities when establishing a sovereign wealth fund. First, he said that having a robust law and ensure that the legal and legislative framework is protected and respected by local politicians. Second, ensure that the mandate of the fund is clear and ringfenced. And third, he emphasises the importance of separating the roles and responsibilities of the owner and the manager of the fund, to ensure that it was managed independent of government interference and on a financial basis as provided in the SWF Bill (2014).

About the International Forum of Sovereign Wealth Funds

The International Forum of Sovereign Wealth Funds (IFSWF) is a voluntary organisation of global sovereign wealth funds committed to promoting good governance and investment management practices through dialogue, research and self-assessment. The IFSWF also seeks to promote a deeper understanding of sovereign wealth fund activity amongst government and financial services institutions.

Find out more at www.ifswf.org

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