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SOVEREIGN WEALTH FUNDS AS INVESTORS IN AFRICA: OPPORTUNITIES AND BARRIERS

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Introduction

- Sovereign Wealth Funds have significantly grown since 2000:
  - 500 billion $ in 1990 ; 4000 Billion $ in 2010 ; 7000 Billion $ in 2019 ?
- Economic linkages South-South intensifying continuously.
- SWFs increasingly interested in developing world.
- Major development opportunity, as long-term and stable.
- However, Africa underinvested, despite big opportunities.

Introduction

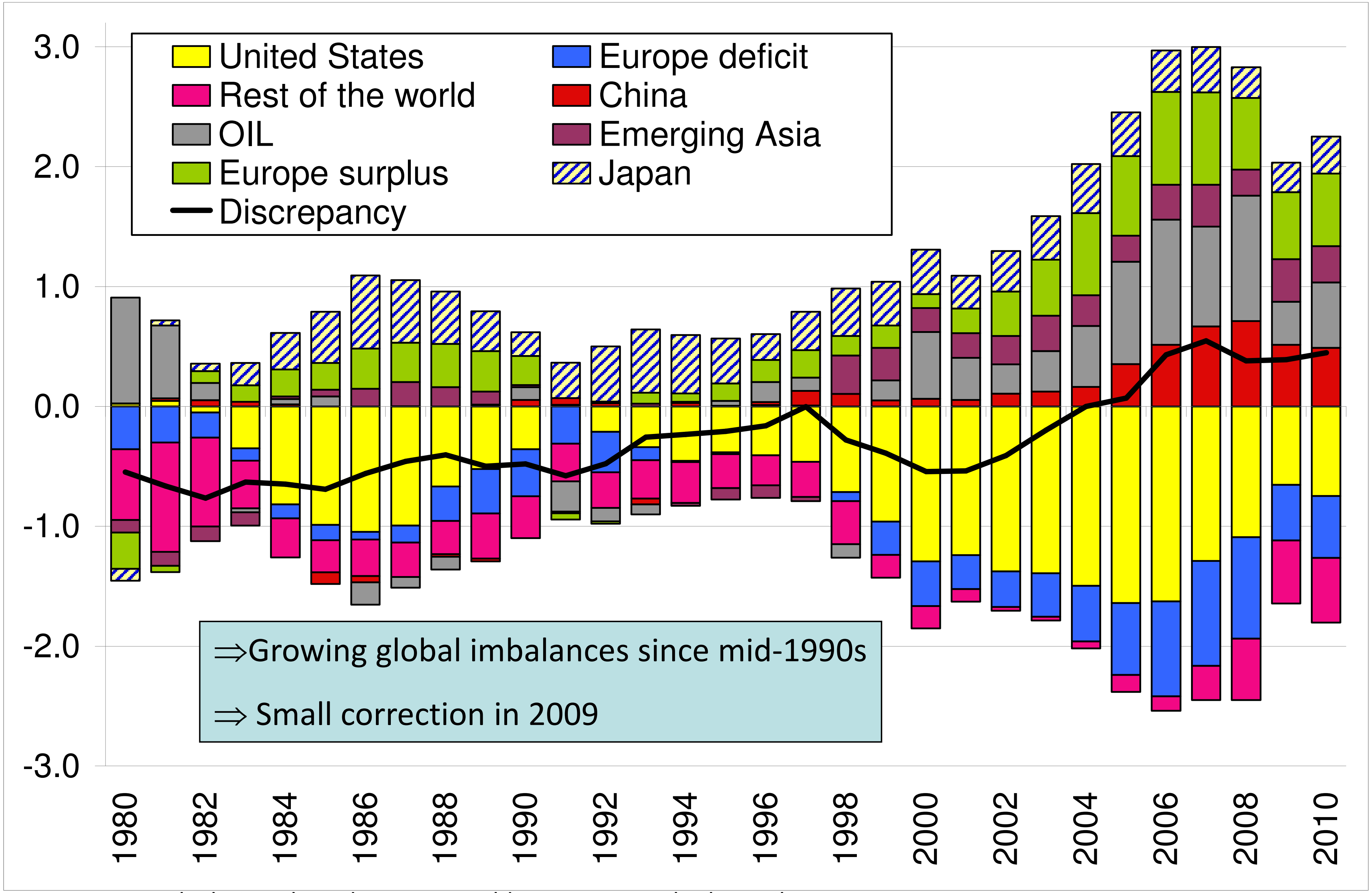
This study:

•analyses the relevance of Sovereign Wealth Fund's investment in the context of African development;

•describes the rising interest of Sovereign Wealth Funds for developing countries, but specific barriers they face in Africa;

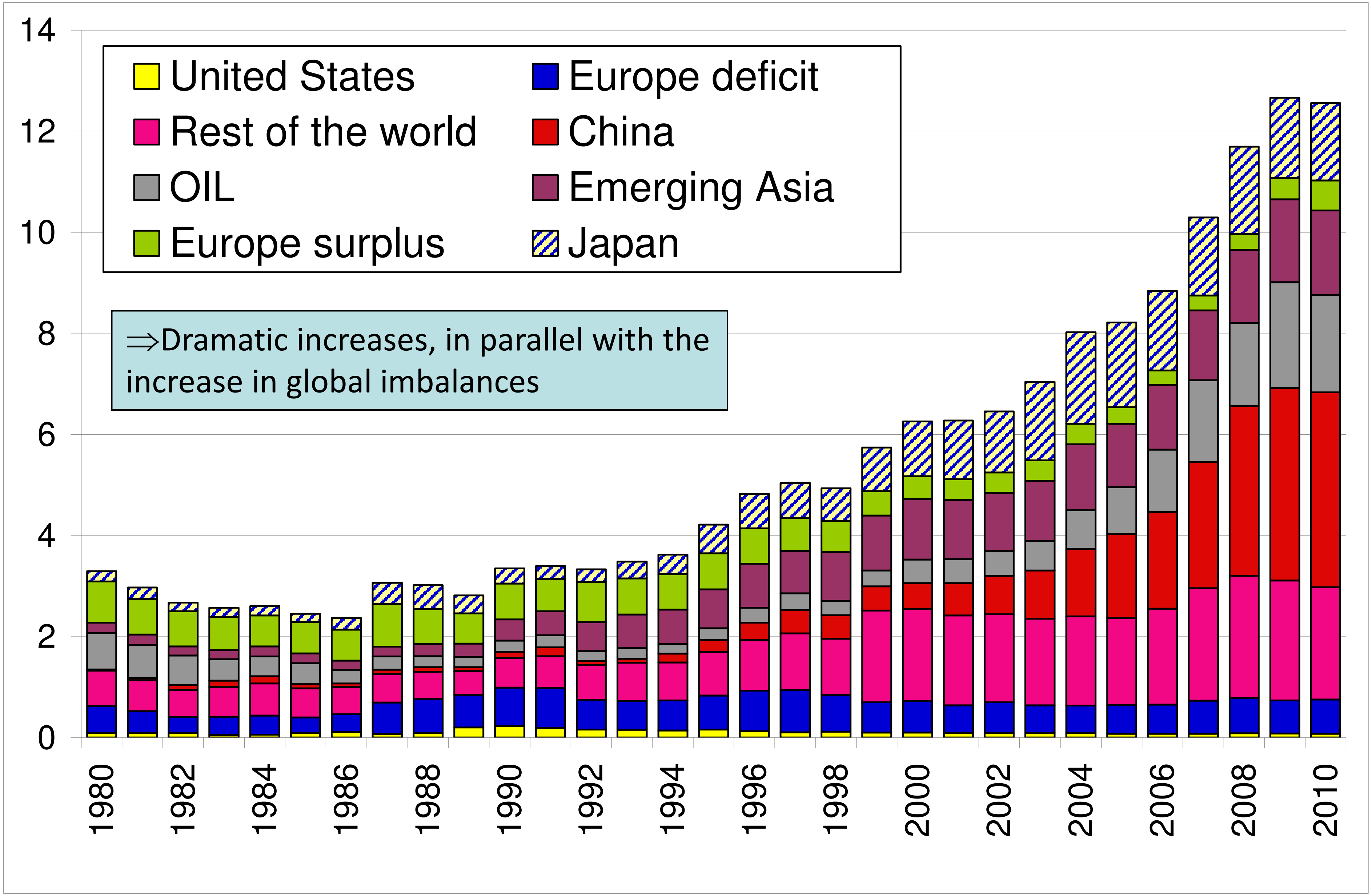
•Provides policy advices on how to attract Sovereign Wealth Funds and make a good use of these investments.

Current Account (% World GDP)



Source: Calculations based on IMF World Economic Outlook, April 2011

Reserves (% World GDP)



Source: Calculations based on IMF International Financial Statistics

WHY SWFs ARE A GOOD INVESTOR FOR AFRICA?

- **Africa still needs external funding for its development**
  - to close the infrastructure gap by 2020: an annual investment of USD 93 billion over the 2010-20 decade (Foster and Briceño-Garmendia, 2009)
  - Public domestic resource: average African tax revenue (% of GDP) increasing since the 1990s, mostly because of taxes on the extraction of natural resources. Structural challenges with respect to mobilising additional public resources (AfDB and OECD, 2010).
  - Private domestic resource: investment climate has improved (IMF, 2010b). But savings largely below investment needs.

WHY SWFs ARE A GOOD INVESTOR FOR AFRICA?

- **SWFs are a good kind of investor in the context of Africa**
  - **The amount may be significant and may leverage other funding**

    If SWFs invest 1% of their assets in Africa (Zoellick, 2010), facilitate joint investments up to about USD 420 billion over the 2010-20 decade (broadly the missing half of required investments in infrastructure to meet MDGs.)

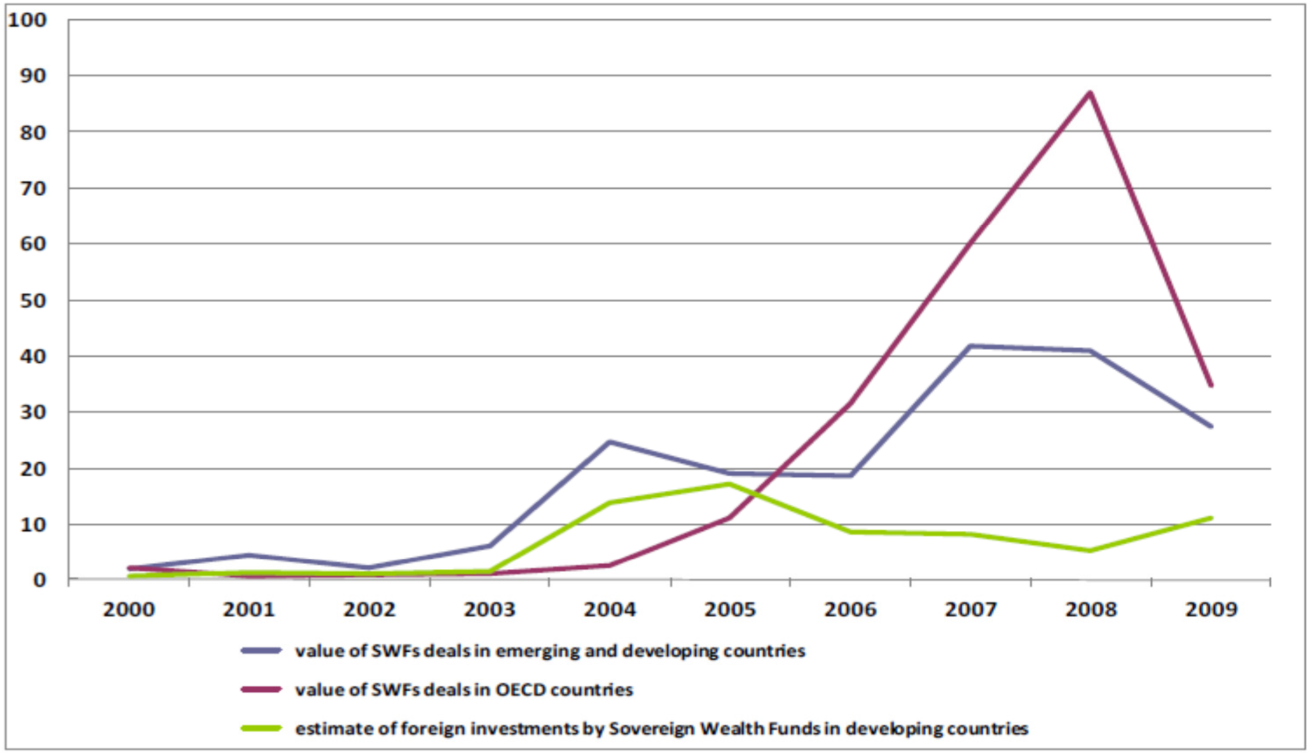
  - **Africa needs long term and stable funding, that SWFs can bring**
    - Long-term liability not similar to private investors;
    - SWFs not subject to the discipline of the market.

    They can invest in illiquid and long-maturity assets that other institutional investors, such as private sectors funds, cannot.

SWFs' INVESTMENTS IN DEVELOPING COUNTRIES AND IN AFRICA

- **SWFs' growing interest in developing countries**

Figure 1. **Sovereign Wealth Funds' direct investments by location between 2000 and 2009**
(USD billion)



Notes: publicly available data for SWF equity and real estate deals, joint ventures and capital injections. Data include some state pension's funds, in particular from Norway, Australia, Ireland and New Zealand.

Source: Monitor-FEEM SWF Transaction Database, own calculations.

SWFs' INVESTMENTS IN DEVELOPING COUNTRIES AND IN AFRICA

- **SWFs' growing interest in developing countries**

Table 1. **Selection of the largest publicly reported cross-border M&A deals outside OECD countries by SWFs between 1995 and 2009**

Year	Value in USD million	Host economy	Industry of the acquired company	SWF's home economy
2009	2 433	China	Banks	Singapore
2005	2 359	Chinese Taipei	Industrial chemicals	United Arab Emirates
2006	2 313	Tunisia	Telephone communications	United Arab Emirates
2006	1 880	Thailand	Telecoms and medias	Singapore
2007	621	Oman	Banks	United Arab Emirates
2006	400	Chinese Taipei	Banks	Singapore
2007	391	Singapore	Shipbuilding and repair	United Arab Emirates
2005	337	Indonesia	Banks	Malaysia
2006	280	Malta	Telephone communications	United Arab Emirates
2006	276	Malaysia	Banks	United Arab Emirates
1998	266	Thailand	Banks	Singapore

Sources: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics) and Monitor-FEEM SWF Transaction Database.

SWFs’ INVESTMENTS IN DEVELOPING COUNTRIES AND IN AFRICA

- **SWFs in Africa**
  - **China increasingly investing in Africa through the CADFund, jointly with SOEs**
  - **Arab funds seem to privilege ‘alone’ acquisitions in local projects**

- **Geographical and sector diversification**
  - **concentration in North Africa (Tunisia, Algeria and Egypt) and South Africa. Progressive diversification towards sub-Saharan countries.**
  - **sector diversification, concerns not only North and South Africa.**

THE AFRICAN CONTEXT: THE BARRIERS TO SWFs' INVESTMENTS IN AFRICA

- **Assessments of the main specific barriers for SWFs in Africa**
  - **The macroeconomic risk and high volatility of returns**

African countries			
Country	**Standard & Poor's**	**Fitch**	**Moody's**
Benin	B	B	B
Burkina Faso	B	-	-
Cameroon	B	B	-
Egypt	BBB-	BB+	Ba1
Ghana	B+	B+	-
Kenya	B	B+	-
Morocco	BB+	BBB-	Ba1
Nigeria	B+	BB-	-
Senegal	B+	-	-
South Africa	BBB+	BBB+	A3
Tunisia	BBB	BBB	Baa2
Uganda	B+	B	-

THE AFRICAN CONTEXT: THE BARRIERS TO SWFs' INVESTMENTS IN AFRICA

- **Assessments of the main specific barriers for SWFs in Africa**
  - **The macroeconomic risk and high volatility of returns**

Emerging and developing countries having received significant cross-border SWFs' investments

Country	Standard & Poor's	Fitch	Moody's
China	A+	A+	A1
Hong Kong, China	AA+	AA	Aa2
Indonesia	BB+	BB+	Ba2
Malaysia	A+	A-	A3
Oman	A	-	A1
Chinese Taipei	AA-	A+	Aa3
Thailand	A-	BBB	Baa1

THE AFRICAN CONTEXT: THE BARRIERS TO SWFs' INVESTMENTS IN AFRICA

- **Assessments of the main specific barriers for SWFs in Africa**
  - **Lack of long-term loans in African economies: mismatches with the perspective of SWFs (World Bank, 2007; discussions on short-long terms)**

THE AFRICAN CONTEXT: THE BARRIERS TO SWFs' INVESTMENTS IN AFRICA

- **Assessments of the main specific barriers for SWFs in Africa**
  - **Size and liquidity of African markets**

African countries			
Country	Stock market capitalisation / GDP	Stock market total value traded / GDP	Stock market turnover ratio
Botswana	61%	1%	2%
Côte d'Ivoire	56%	1%	1%
Egypt	**102%**	**39%**	**29%**
Ghana	18%	1%	2%
Kenya	46%	3%	8%
Malawi	7%	0%	2%
Morocco	86%	36%	35%
Namibia	12%	0%	3%
Nigeria	18%	2%	19%
South Africa	**308%**	**197%**	**60%**
Swaziland	7%	0%	0%
Tanzania	4%	0%	2%
Tunisia	17%	2%	13%
Uganda	1%	0%	5%
Zambia	23%	1%	5%
Average*	**27%**	**4%**	**7%**

THE AFRICAN CONTEXT: THE BARRIERS TO SWFs' INVESTMENTS IN AFRICA

- **Assessments of the main specific barriers for SWFs in Africa**
  - **Size and liquidity of African markets**

Emerging and developing countries having received significant cross-border SWFs' investments

Country	Stock market capitalisation / GDP	Stock market total value traded / GDP	Stock market turnover ratio
China	32%	26%	67%
Hong Kong, China	603%	213%	79%
Indonesia	55%	13%	82%
Malaysia	180%	43%	78%
Oman	44%	9%	27%
Chinese Taipei	203%	461%	222%
Thailand	73%	40%	42%
Average	**170%**	**115%**	**85%**

THE AFRICAN CONTEXT: THE BARRIERS TO SWFs' INVESTMENTS IN AFRICA

- **Assessments of the main specific barriers for SWFs in Africa**
  - **Lack of technological knowledge**

Table 2. **Indicators on technological readiness and innovation, in countries having received significant SWFs' investments between 1991 and 2008 and in African countries**

		Rank in technological readiness	Rank in innovation
All countries having received significant SWFs' investments			
	median ranking	29	29
	80% of countries are better ranked than	76	66
Developing countries having received significant SWFs' investments			
	median ranking	71	47
	80% of countries are better ranked than	87	78
African countries			
	median ranking	116	93
	75% of countries are worse ranked than	100	80
	Tunisia	55	31
	South Africa	76	44

Source: Global Competitiveness report 2010, UNCTAD World Investment Report 2008.

Notes: The ranking is out of 139 countries. Indicators are sub-items of the Global Competitiveness Index constructed by the World Economic Forum (2010).

POLICY SUGGESTIONS

- **Own barrier removal: the role of African countries**
  - **More deepening and integration of financial markets is needed**
  - **The diversification of risks through regional cooperation**
  - **Active government actions to attract SWFs**
  - **Improving frameworks for SWFs' participation, e.g. in government's projects**
  - **Beyond the different frameworks, the need for a coordinated development strategy and the specific challenges for Africa**

POLICY SUGGESTIONS

- **African home-grown SWFs can also help**

    - Libya, Algeria, Nigeria, Botswana, Cap Verde

    - Ghana, Angola, Gabon, Equatorial Guinea, Chad, Uganda (?)

POLICY SUGGESTIONS

- **Multilateral Development Banks and others as channels**

  - **Cooperation between SWFs through the World Bank**
    - African, Latin American and Caribbean Fund (ALAC):
      - find commercially viable opportunities to finance growth and jobs in the developing world, by buying stakes in (normally mid-cap) companies.
    - African Capitalization Fund
      - Strengthen banking sector by increasing capacity for lending by private sector commercial banking institutions,
      - And contribute to increase efficiency and access to finance,
      - seek a minimum of 5% ownership through equity or equity-related investments (jointly with IFC or other funds managed by IFC Asset Management Company).
  - **Partnership with private financial institutions**
    - joint ventures with private financial institutions to develop projects in Africa.

Possible extensions

- Tests with more robust data
  - on Africa or on other regions (Asia, Latin America)
- Determinants of investments in non traditional sectors in developing economies