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Public Savings in Africa:

Do Sovereign Wealth Funds serve Development?

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6th September 2023

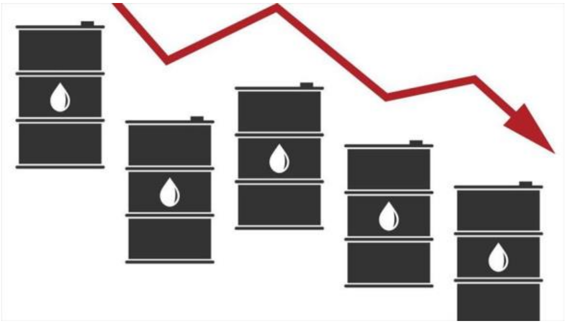
Overview

		
Number of SWFs	**>100**	**19** *(20%)*
Asset Capitalisation *(as of 2021)*	**$8 trillion**	**$70 billion** *(0.1%)*

Why ask this question now?

- **Time horizon:** Half of Africa's of Africa's SWFs were created in the 2000s.
- **Usefulness:** Despite their small share of the global SWF capitalisation, the value of African SWFs is not insignificant compared to the continent's financing needs & could contribute to financing the SDGs.
- **Depleting fossil fuel reserves & reducing demand:** Much of the capital base of SWFs derived from taxes, royalties, dividends, and licences from oil and gas (O&G) and, to a lesser extent, mining.
- **Rising demand for metals as part of the global energy transition**, which may imply higher public revenues for critical minerals exports in Africa, & raises questions on the suitability of SWFs in the near future.

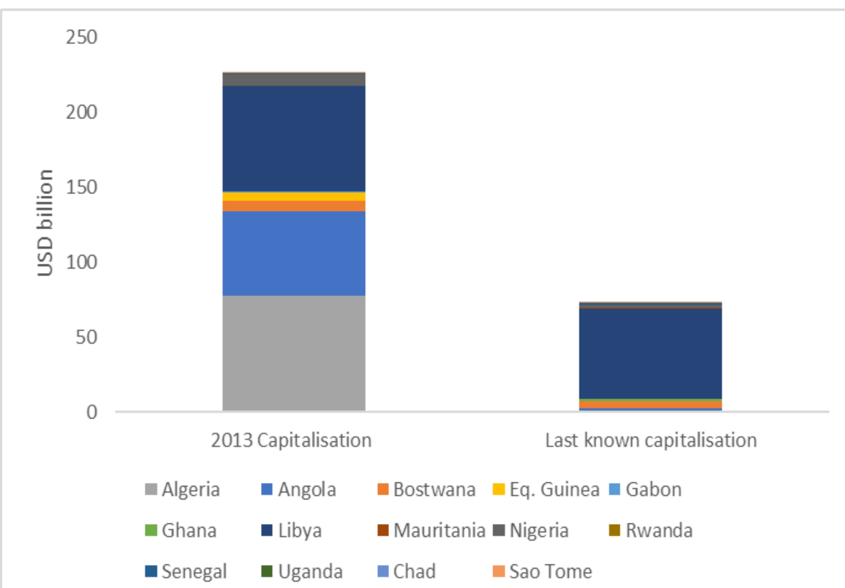
➢ Given these events and trends, now is a good time to reassess the current role and future potential of SWFs in Africa



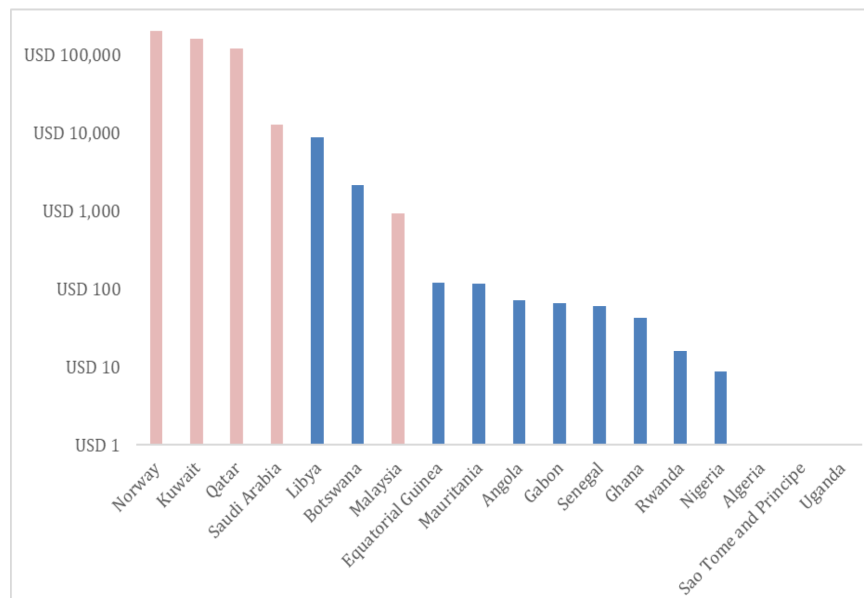
Sovereign Wealth funds in Africa: (shrinking) size

- The 19 SWFs in Africa have a total estimated capitalisation of US$72.9 billion in 2020, which is a staggering 67% decline compared to 2013 ($226 billion).
- In 2013, Africa's largest SWFs were those in Algeria, Libya and Angola (totalling 90% of assets).
- The only large fund that remains today is that of Libya (US$60 billion), followed – at some considerable distance– by Botswana's Pula fund (around US$ 5 billion).
- The close of the 2000s commodities super-cycle is the main driver of the substantial fall (and the COVID-19 pandemic is likely to have seen a further decline).

Evolution of the total capitalisation of SWFs across Africa



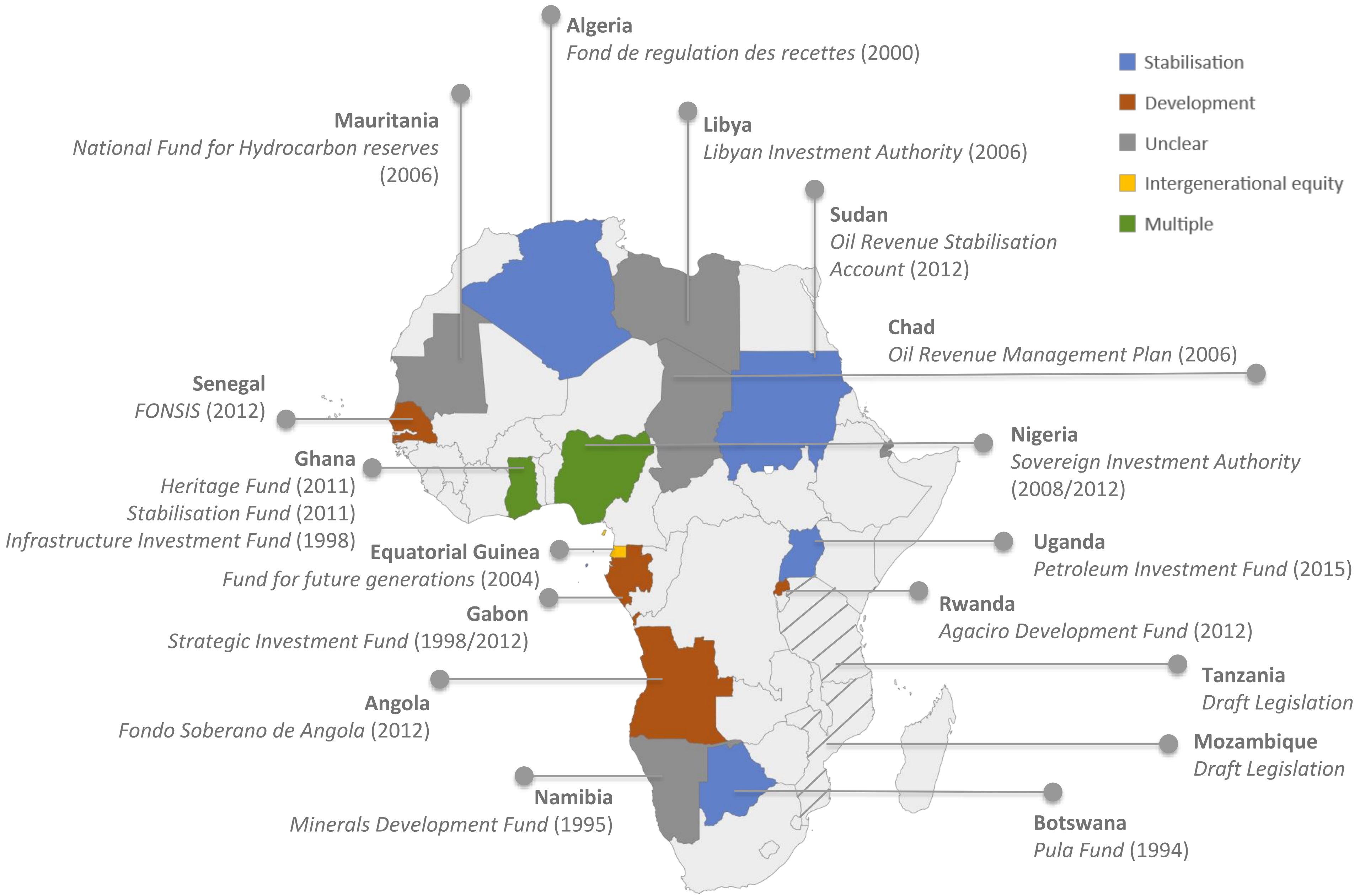
Capitalisation of SWFs on a per capita basis by country



Sovereign Wealth funds in Africa: Types

	Objectives	*Asset types*	
Stabilisation Fund	• Provide a fiscal buffer in the case of a shock, to avoid increasing debt, or at least cushion the impact • Dampen the exchange rate volatility associated with shocks • Aims to prevent the ‘resource curse’ and the Dutch disease more specifically	Liquid & low yielding (e.g. sovereign bonds)	
Intergenerational savings fund	• Transfer some of the current resource wealth to future generations • Potentially meet future liabilities (e.g. pensions)	Illiquid (investment-grade bonds of long duration, sovereign debt, commercial property)	
Development Fund	• Encourage national development by investing in domestic infrastructure & equity of companies with growth potential • Transfer and manage ‘privatised’ assets • Invest in equity abroad to foster technology transfer and JVs with domestic partners	Relatively illiquid (e.g. equity in unlisted start-ups)	

Sovereign Wealth funds in Africa: Types



Sovereign Wealth funds in Africa: Types

Overlaps

- Distinctions between funds are not watertight and a fund set up for one purpose may over time take on another.

- Governments can establish more than one fund, each with its own objective.
  - *The Ghana Stabilisation Fund is intended to cushion public spending during periods of unanticipated petroleum revenue shortfall, the Ghana Heritage Fund is an intergenerational investment fund, and the Ghana Infrastructure Investment Fund is an SDF.*
  - *Nigeria's Sovereign Investment Authority likewise has three funds: stabilization, infrastructure, & a 'Future Generations' fund.*

- SWFs with more than one simultaneous objective for a single fund are also quite common:
  - Botswana's Pula Fund & Mozambique's proposed SWF have both stabilization and intergenerational savings objectives.
  - Running several funds entails additional administration, but has the merit of only one objective against which to match assets.
  - If a single fund has several objectives then its portfolio should reflect the relative weight of each objective to policymakers. When the purpose of the fund is unclear, its governance becomes harder.

Sovereign Wealth funds in Africa: governance issues

- SWFs are vulnerable to mismanagement & corruption.
- Examples illustrate governance challenges of SWFs:
  - *Angola FSDEA*
  - *Equatorial Guinea's Fonds de Réserves pour Générations Futures*
  - *Libyan Investment Authority*
  - *Algeria's FRR*
- Nigeria is highest ranking African country in the 2019 SWF transparency scoreboard and the only country above the SWF scoreboard average.

Table 1: Results of the 2019 SWF scoreboard (African countries)

Country	Fund name	World Ranking	Score
Nigeria	Nigeria Sovereign Investment Authority *	15	83
Angola	Fundo Soberano de Angola *	20	77
Botswana	Pula Fund *	42	62
Rwanda	Agaciro Development Fund *	44	58
Senegal	Fonds Souverain d'Investissements Stratégiques *	48	53
Ghana	Ghana Petroleum Funds	53	47
Morocco	Ithmar Capital *	54	47
Kiribati	Revenue Equalization Reserve Fund	49	35
Algeria	Revenue Regulation Fund	61	26
Libya	Libyan Investment Authority *	63	23
Equatorial Guinea	Fund for Future Generations	64	11
Global Average (64 funds)			66

Source: Maire et al. (2021)

*. Member of IFSWF.

Which SWFs offer a better use of resource revenues in Africa?
Is it even desirable for African countries to set up SWFs, in contrast to alternatives such as paying off public debt, setting up a national development bank?

Stabilization Fund

- ✓ Helps deal with unanticipated external shocks
- × Unlikely that LIC or MIC would have a fund of sufficient scale to cushion effects of a large shock (e.g. Nigeria with COVID or oil price shock)
- × Need an international monetary system that provides adequate help.
- × Short-dated liquid assets may have low returns (US treasury bonds)

If the country has no access to financial reserves and support in case of external shock

Paying down debt

- ✓ reduce the cost of sovereign borrowing by improving credit ratings, which, in many African countries, is in excess of what they can earn on liquid financial instruments:
  - ➢ reduce the current debt service
- × Assumption that capital markets remain open to African economies in case of a shock (esp. global shocks)

If the interest rate on sovereign debt exceeds returns on investments of the SWFs

Intergenerational Fund

- ✓ Can support intergenerational equity for non-renewable resource revenues.
- ✓ Could be sold down in cases of emergencies
- × If sold, risks that asset prices turns against sellers (e.g. GFC).
- × If assets are intended for future public liabilities (e.g. pensions), crisis sales could endanger the capital base & require recapitalisation
- × High opportunity costs for current generations and for wealth transfer through productive development and improving living conditions

If the needs of current generation in terms of living conditions are already met.

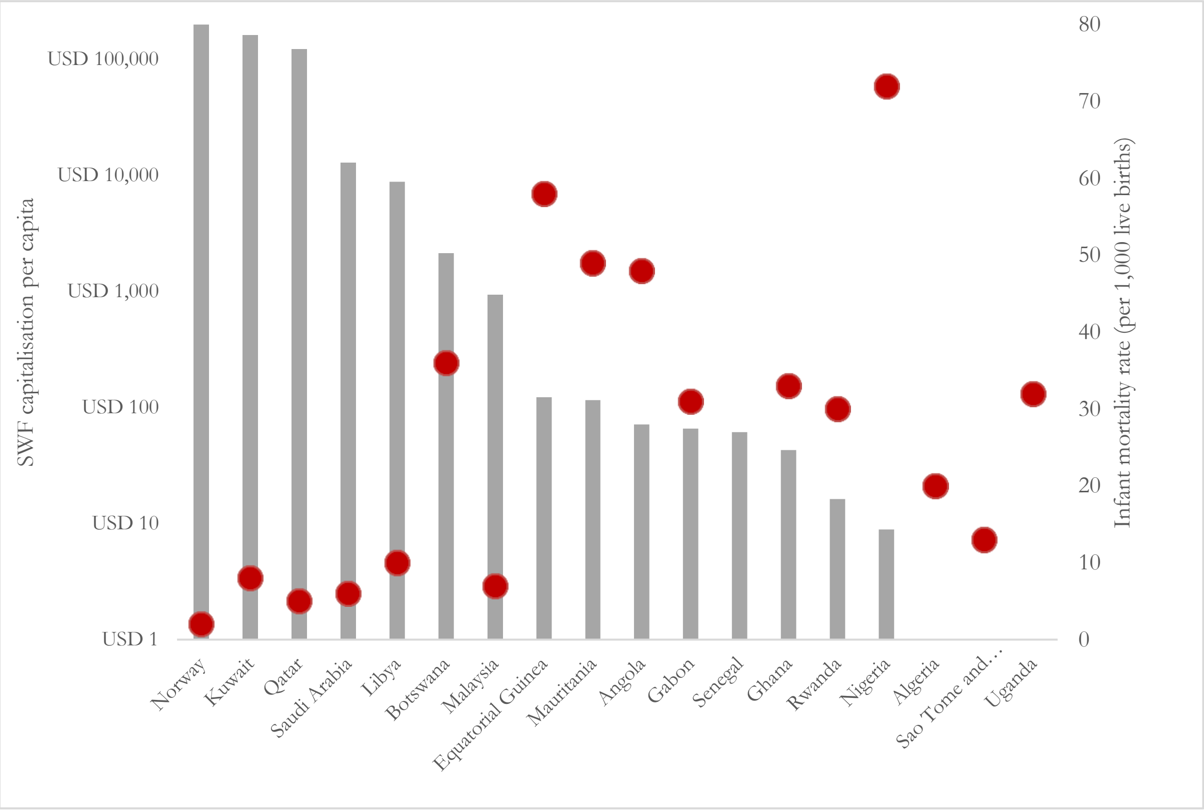
Development Finance fund *(SDF & NDB)*

- ✓ Can draw on private capital by issuing bonds, and partner with foreign investors.
- ✓ Helps overcome market failures prevent investments in productive capacity development
- ✓ NDBs face more scrutiny than SDFs as the former have commercial credit ratings if they issue bonds
- × Success depends on containing state failure & political capture, building the requisite institutional capacity to evaluate prospective investments and loans together with the necessary transparency & oversight

If institutional capacity exists (or is expected to be built within a reasonable time frame) to contain state failures

Are SWFs really a good way to use resource revenues in Africa?

Figure 7: Infant mortality rate in relation to SWFs capitalization per capita



Source: authors' construction using their own calculations and data from the World Development Indicators

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The implications of the climate crisis for the role of SWFs

- The climate crisis also affects the best use of publics savings in Africa, where high commodity-dependence makes countries exceptionally vulnerable to adverse effects of climate stress as well as global decarbonisation

- Climate risks: Agriculture and food security

- Transition risks: Fossil fuels represent around 40% of African exports, with countries such as Algeria, Angola, Chad, Nigeria and Sudan being highly dependent on them as a source of revenue.

➢ **Orienting sovereign wealth towards productive investments for economic diversification.**

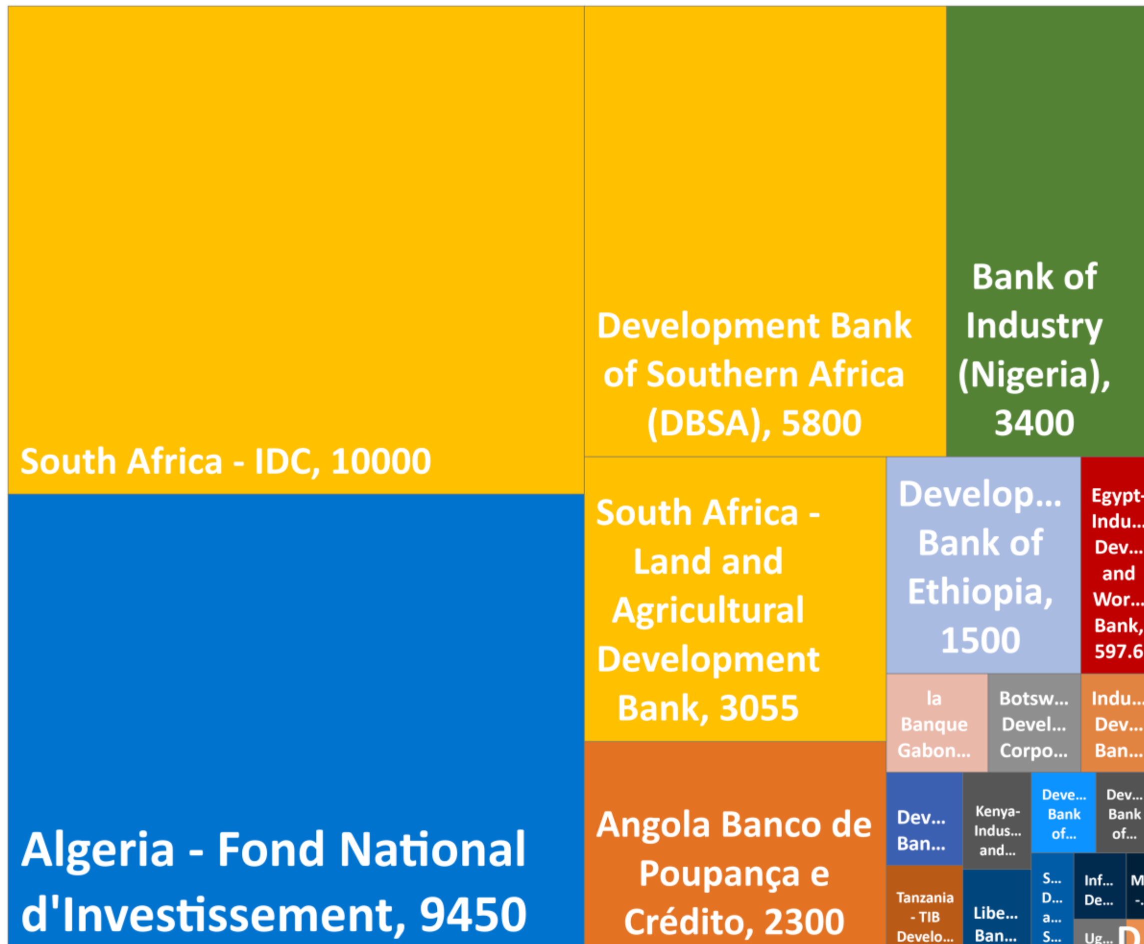
National Development Banks in Africa

Overview

- Although many African countries have NDBs, most are quite small, with limited access to finance (average mean asset size of $1.8 billion)

- The capitalisation of African NDBs varies tremendously

NDBs in Africa by size of assets (in USD thousands)
Total: 38.8 USD billion



National Development Banks in Africa

How do NDBs compare with SWFs in Africa?

- The paucity of the data on their capitalization makes the comparison a rough one.
- In total, the capital base of SWFs is larger, but their assets have shrunk at a very fast pace compared to the capital of Africa's NDBs.
- There is therefore considerable scope for rethinking the transfer of public savings from SWFs to NDBs

SWFs

19 in Africa

73.6 USD billion (2020)

NDBs

23 in Africa

38.8 USD billion (2011-2015)

National Development Banks in Africa

How do NDBs compare with SWFs in Africa?

- The paucity of the data on their capitalization makes the comparison a rough one.
- In total, the capital base of SWFs is larger (more countries have them), but their assets have shrunk at a very fast pace compared to the capital of Africa's NDBs.
- There is therefore considerable scope for rethinking the transfer of public savings from SWFs to NDBs

SWFs	NDBs
18 in Africa (excluding Libya)	23 in Africa
13.6 USD billion (2020)	38.8 USD billion (2011-2015)

Takeaways and concluding remarks

- **SWFs have stalled in Africa**, and their capital base is in decline. Nevertheless, SWFs are still on the policy agenda of O&G and/or mineral-rich economies

- Fiscal stabilization funds are useful and necessary but entail **considerable opportunity costs,** & a stronger framework of multilateral financial assistance would reduce such 'self-insurance need'.

- Returns on **investments in human capital and critical infrastructure** far exceed those on financial investments and offer superior intergenerational wealth transfer in addition to benefiting the current generation (many of whom live in dire poverty).

- The case for an **intergenerational savings SWF is generally weak**, except for middle-income countries with very large revenues.

- There is a stronger case for **a Sovereign Development Fund (SDF) and/or a National Development Bank (NDB)** to fund productive investments, provided that they have clear mandates, strong governance and legislative oversight.

- **Recognising political realities:** It is difficult for governments to pursue a consistent public savings strategy. Political expediency can win out, especially around election time and fiscal rules introduced with the best intentions often break down.

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WIDER Working Paper 2022/159

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