

THE **INVESTABLE**
AFRICA
WE WANT
&
AGENDA
2063

**POST-PANDEMIC ASSET OWNER
PARTNERSHIP PROPOSALS**

TECHNICAL PARTNERS:

Ai **capital** AND **RISCURA**

FOREWORD



Framing the **Investable** Africa We Want

African sovereign wealth funds have been crucial to form new and innovative multi-stakeholder partnerships; address climate change; the economic recovery of COVID-19; increase investment in African infrastructure; and realise the aspirations of the African Continental Free Trade Area (AfCFTA).

African institutional investors have important perspectives on how to build back better in the wake of this health and economic tragedy. We are experts at long-term investing and planning, and in the service of our continent and today's interdependent and inter-connected world, we see this as a watershed moment to generate and document our invest forward better and greener insights, that could support public and private sector policy breakthroughs.

This and past pandemics have taught us that no geography, or sector, or social class is immune, and if a pandemic is not defeated everywhere, it's not defeated anywhere.

I believe that investor leadership initiatives taken during this COVID-19 crisis must be deliberate and lead to a burst of innovation and productivity, more resilient industries, smarter government partnerships with the investment community at all levels, and the emergence of a digitally integrated African trade system and reconnected world.

It has therefore been a privilege to chair the African Sovereign Wealth and Pension Fund Leaders Forum COVID-19 Consultative Roundtables on the role and response of African institutional Investors against the COVID-19 pandemic. This was held in collaboration with the African Union's Continental Business Network (CBN) that I also Chair.

In combating the economic impacts of COVID-19, we recognised that efforts must be informed by two urgent and mutually reinforcing components:

- i. Immediate priority responses to protect African capital markets, micro-, small and medium-sized enterprises (MSMEs), supply chains and the AfCFTA from the economic fallout of COVID-19; and
- ii. Multi-stakeholder partnerships across government and industry, to foster industry shifts and a regulatory requirement

The consultative process and its outcome recommendations were captured in a call-to-action statement (ASWPFLF policy statement), that was issued to policymakers and the investment community:

The statement highlighted six key response areas, namely to:

1. Pursue ESG-aligned infrastructure co-investment partnerships
2. Create the infrastructure necessary for African MSMEs, youth and women entrepreneurs to thrive in the new digital economy
3. Engage in policy partnerships with policymakers on framing the new regulatory environment and investment needs of the post-COVID-19 economy
4. Leverage the expertise and insight of African institutional investors
5. Consider directing funding for the economic recovery toward SWFs to invest in their local and regional economies
6. Coordinate and correlate responses with global peer institutional investors and private sector industry bodies.

At the request of policymakers and stakeholders, the statement was expanded into this comprehensive and actionable investment partnerships recommendations report.

This report is our asset owner industry roadmap on economically futureproofing Africa through asset owner investment partnerships, to invest forward better and greener, and build resilience for achieving Agenda 2063 against the

backdrop of COVID-19.

This report is a testament to the African investment community's strong commitment and support for Agenda 2063; the African Union's 5% Institutional Infrastructure Investment Agenda; the **African Green Infrastructure Investment Bank** (AfGIIB) initiative, and the AfCFTA.

As the ultimate African asset owners' statement of interdependence, the report is a rich feast of action-oriented and immediately implementable proposals, with over 200 asset owner investment partnership recommendations, 100 futureproofing initiatives and 500+ investment products for asset owners and investment decisionmakers, including trustees and board members, and African governments, Ministers of Finance, central banks and development finance partners that can be pursued today. For our social media fundis, we have included hashtags throughout the report so you can follow the conversation online.

The report sets out the required ingredients and recommendations to assist Africa in clearing its infrastructure deficit of USD 100 billion per annum for the next 10 years, through expanded trade, the 5% and the 1% domestic and global infrastructure capital mobilisation agenda, re-orienting development partners' programmes and technical assistance, and increasing Africa's infrastructure budgets to 5% of GDP.

I would like to personally thank Dr Mbuyi Wagacha and Malcolm Fair, RisCura MD, for their invaluable technical and strategic contribution to this initiative. My gratitude also extends to ASWPFLF leaders, RisCura, African Union Development Agency (AUDA-NEPAD), the CBN, colleagues at Africa investor (Ai) Capital, and the numerous technical reviewers, for your invaluable insights, which made this instrument possible.

I would also like to applaud asset owners across the continent for their leadership and tireless and diligent efforts to protect and preserve the assets and well-being of their members, future generations, employees, staff and stakeholders.

As we say on the continent, it takes a village to raise a child.

We at the ASWPFLF look forward to engaging all stakeholders and interested parties on the proposals and recommendations in this report, and to collaboratively achieve Agenda 2063 and the 'Investable Africa We Want'!

Because when all is said and done – Ai investment matters!

Hubert Danso

Chairman, the African Sovereign Wealth and Pension Fund Leaders Forum (ASWPFLF), the AU Continental Business Network (CBN), CFA New York Society Global Asset Owners Council.

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ABOUT OUR TECHNICAL PARTNERS

ABOUT AI CAPITAL (AI)

Africa investor is an investment holding platform that aligns its client base of sovereign wealth funds, pension funds, family offices and long-term investors with vetted infrastructure, private equity and technology investment opportunities in Africa. Ai was founded in 2002 to facilitate investments across Africa and do one thing: be the pan-African specialist advisory service, to assist and advise African project developers access international capital and provide foreign investment and transaction advisory services to African governments, the private sector and global investors. This remains our singular purpose today, underpinned by deep fundamental research, the pursuit of investment insights and continuous innovation, facilitated with over 70 years of industry experience working across every market on the African continent. The Ai Group provides, secure easy to use transaction platforms and investment advisory services, strategic research, investment indices and investment communication services, to support its clients investment programmes in Africa. Africa investor advises clients from around the globe, acting as a principal investor in strategic assets on the continent through Ai Capital.

Ai also benefits from specialist insights and the operational experience of the Ai Advisory Board and Ai Academy Leaders Forums on Sovereign Wealth and Pension Funds, Family Offices, Infrastructure Project Development and Emerging Investment Managers.

www.africaninvestor.com

ABOUT RISCURA

RisCura is a purpose-driven global investment firm that offers investors unique insights and guidance to help shape the future world we all want to live in whilst still achieving and exceeding financial goals for its clients. A global leader in frontier and emerging markets, RisCura has US\$250bn of client assets under advice and management. RisCura is known for its leading focus on liability-driven investing, responsible investment practices, investment transparency, reliable valuations, independent risk assessments, world class performance standards and excellent returns, which has brought about a systemic shift in the frontier market investment landscape. Through constantly exploring new ways to invest with care and meet the needs of clients, the firm has developed innovative investment solutions spanning investment advisory, investment management, institutional platform services, investment analytics, alternative investment and compliance services that bring about unique investment opportunities for its clients, including some of Africa's biggest institutional investors.

www.riscura.com



GLOSSARY



AfCFTA	African Continental Free Trade Area
AfGIIB	African Green Infrastructure Investment Bank
AI	Artificial Intelligence
AIGM	African Infrastructure Guarantee Mechanism
AML	Anti-Money Laundering
ASWPF	African Sovereign Wealth Pension Funds Forum
AU	African Union
AUC	African Union Commission
AUDA-NEPAD	African Union Development Agency
CBDC	Central Bank Digital Currency
CBN	Continental Business Network
DFI	Development Finance Institution
DLT	Distributed Ledger Technology
ESG	Environmental, Social, and Corporate Governance
FDI	Foreign Direct Investment
FinTech	Financial Technology
GEMS	Government Employees Medical Scheme
ICC	International Chamber of Commerce
ICT	Information and Communication Technologies
IIPP	Institutional Investor Public Partnership
IoT	Internet of Things
PICI	Presidential Infrastructure Champion Initiative
RaaS	Regulation as a Stimulus
RegTech	Regulatory Technology
SME	Small and Medium Enterprises
SupTech	Supervisory Technology
UN	United Nations

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SECTION ONE

INTRODUCTION



1.1. PURPOSE

1.1 PURPOSE

1.2 VISION

1.3 SCOPE

1.4 APPROACH



The aim of this report is to help chart a course for institutional investor public partnerships to achieve the goals of **Agenda 2063 – The Africa We Want** against the backdrop of COVID-19.

The report draws on the key findings from the COVID-19 Consultative Roundtable Series and process that the **Ai African Sovereign Wealth and Pension Funds Forum (ASWPFF)** held online during April 2020 and which brought together heads of some of the continent's most influential sovereign wealth funds and pension funds, as well as a number of their global peers (see text box below for a description of the ASWPFF).

Africa's asset owners (made up of the sovereign wealth and pension fund community) can make a vital contribution in shaping the continent's post-COVID-19 economy. ASWPFF initially set out to develop a roadmap for how African sovereign wealth funds and pension funds, in partnership with African governments and development finance institutions, can help the continent recover from the economic crisis brought about by the COVID-19 pandemic.

The report discusses the role and response of African institutional investors across **the following two themes:**

- 1 Immediate priority responses to protect African capital markets, small and medium enterprises (SMEs), supply chains and the African Continental Free Trade Area (AfCFTA) from the economic fallout of COVID-19; and
- 2 Partnerships with policymakers to foster a new regulatory environment that can help African economies to grow and thrive.

It is not enough to consider what changes can be made to enable short-term investment flows. **To ensure more sustained investment flows to the continent, long-term changes must be made** that have the potential to irreversibly improve the continent's resilience and international investment and trade competitiveness.



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1.2. VISION

To deliver public partnerships with African institutional investors that will help catalyse the continent's response to COVID-19, in partnership with global institutional investors and development finance institutions.

#TheAfricaWeWant: More prosperous, more investible, more resilient, more self-reliant

The unmet needs of the continent, compounded by the impact of COVID-19, demonstrate that the time has come to be bold, just as African leaders have been bold in setting out their vision for Africa in Agenda 2063 as The Africa We Want!

With our vision of Africa as a prosperous, investable and competitive continent, we stand ready to deepen and harness

the power of African asset owners' human and financial capital to catalyse and consolidate our shared vision.

Given projected population growth and modest growth in economic participation, pensions savings are expected to approach USD 379bn by 2063.

Retirement institutions in the northern hemisphere are expected to witness similar surges in capital accumulation in the coming years. It is therefore key that Africa's asset owners identify investment outlets for these long-term savings. Here, through well-designed institutional partnerships with asset owners, both foreign and domestic, Africa has a unique opportunity to crowd-in pools of global capital to foster ambitious co-investment across Africa, thus building the continent of the future.

1.3. SCOPE

As a vast continent made up of 54 unique countries, it is fair to expect each African country or region to focus primarily on those action steps contained in the roadmap that would leave them in a stronger position than before the onset of COVID-19.

1.4. APPROACH

To harness and scale investments on the continent, the ASWPF has opted to take a pragmatic approach in the suggested solutions that appear in the roadmap. Recognising the realities and choices that domestic and global investors have, the recommendations are aimed at improving Africa's competitiveness as a trade and investment destination.

The roadmap begins by considering both what long-term structural improvements Africa can institute to attract capital more easily, and what short-term interventions can be undertaken to help attract the capital necessary for Africa's recovery from the pandemic. It then delves into the ideas asset owners can support that would help accelerate the continent's economic growth and attainment of Agenda 2063.

Both the severe impact of the pandemic and the long-term future of the continent will depend on the decisions and actions taken by Africa's leaders. While many countries have embarked upon structural reforms, the current crisis requires an even more urgent partnership with the institutional investment community if the continent is to move forward. To the right is a list of the various initiatives that the ASWPF and the African institutional investment community are already pursuing.

HIGH-LEVEL PLATFORM FOR AFRICA'S SOVEREIGN WEALTH AND PENSION FUND LEADERS

The African Sovereign Wealth and Pension Fund Forum (ASWPF) serves as a high-level platform for African sovereign wealth and pension fund leaders to network and share best practices on key issues related to improving the environment for long-term intra-African investment.

The ASWPF, its board members and the organisations they represent are involved in a number of initiatives that are relevant to this roadmap. These include:

- ▶ The [African Green Infrastructure Investment Bank \(AfGIIB\)](#) initiative;
- ▶ [Shaping Africa's post-COVID-19 economy, especially in the area of environmental, social and governance \(ESG\), climate, Sustainable Development Goals \(SDGs\) and transitional investing issues \(mining, oil and gas, 4IR\)](#);
- ▶ [The African Union Development Agency \(AUDA\) – Continental Business Network \(CBN\) 5% Infrastructure Investment Agenda and Co-Investment Platform](#);
- ▶ [The Infrastructure Secondary Market Development initiative](#);
- ▶ [The Infrastructure Investment Trust initiative](#);
- ▶ [The AfricaPLC eTrade SME initiative](#);
- ▶ [The African Continental Free Trade Area \(AfCFTA\) – Export Credit Agency Backed Loans initiative](#);
- ▶ [The GEMS Database DFI Partnership Initiative](#); and
- ▶ [The AUDA African Infrastructure Investment Guarantee Initiative \(AIGM\)](#).

These initiatives have also been referenced in the applicable priority response areas identified in the sections following.

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SECTION TWO

FOUNDATIONS



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LAYING THE FOUNDATIONS FOR A PROSPEROUS, RESILIENT, INVESTIBLE AND SELF-RELIANT AFRICA

- 2.1 OVERVIEW
- 2.2 THE IMPACT OF COVID-19
- 2.3 ZERO-COST IMPROVEMENTS – **REGULATION AS A STIMULUS (RAAS)**
- 2.4 TAXATION AND THE TAX BASE
- 2.5 LEGISLATIVE FRAMEWORKS
- 2.6 GOVERNANCE FRAMEWORKS
- 2.7 INSTITUTIONS
- 2.8 CAPITAL MARKETS
- 2.9 DISAGGREGATION AND AGGREGATION MECHANISMS
- 2.10 INCENTIVES AND SUBSIDIES
- 2.11 INDUSTRIAL CAPABILITIES AND INDUSTRY 4.0
- 2.12 INVESTMENT IN TECHNOLOGY



SETTING THE SCENE

MACRO-ECONOMIC, SOCIAL AND GEOPOLITICAL BACKGROUND TO THE ROADMAP

The COVID-19 pandemic hit the globe with a vengeance in 2020, and at a time when key concerns and global imbalances were already evident. **These include:**

1. Climate change;
2. High levels of government debt and increasing financial repression in the global economy;
3. Increasing rejection of globalism and shifts towards nationalism;
4. Increasing political and social polarisation; and
5. Mixed success in the advancement of democracy, equality, the rule of law and social freedoms.

At the same time, Africa has been dealing with a number of long-standing structural issues including:

6. Insufficient levels, breadth and inclusion of economic activity;
7. High levels of both underemployment and unemployment;
8. Corruption, red tape and maladministration;
9. Underdeveloped financial markets along with a lack of capital and inadequate capital formation;
10. Underdeveloped regional and intra African investment;
11. Lack of regional integration, weak supply chains, high business and trading costs; and
12. Inadequate and poorly maintained infrastructure



For each area, we have provided high-level thinking. We have then given some examples of possible specific action items for both African governments and African institutional investors. The focus areas are listed in order of highest to lowest priority.

The improvements that are proposed do not have to be costly to implement. Indeed, many of the reforms will help reduce costs. African nations do not have

To create a more prosperous, more investible, more resilient and more self-reliant Africa, we have suggested **a number of areas that require focus:**

1. Zero-cost improvements
2. Taxation and the tax base
3. Legislative frameworks
4. Governance frameworks
5. Institutions
6. Capital markets
7. Disaggregation and aggregation mechanism
8. Incentives and subsidies
9. Industrial capabilities and Industry 4.0
10. Investment in technology

deep fiscal pockets and reserves that allow the use of the kind of policy tools that the major economies have adopted. Africa, therefore, needs to address the current crisis with the tools currently at its disposal.

In terms of attracting investment, the best strategy would be to use administrative policies, fiscal and monetary policies, tax structures and investment channels to create competitive, favourable

and attractive investment conditions.

All of these measures are within the capacity of every African nation. Political will is required to invest in long-term structural changes, and these will pay dividends in the long run. The current economic crisis brought on by the COVID-19 pandemic presents an opportunity to fast-track the structural reforms underway, and could help introduce some bold new initiatives.

2.2. THE IMPACT OF COVID-19

The COVID-19 pandemic has had a **high human** and economic toll. In its first year, more than 122 000 Africans have lost their lives, though excess death statistics indicate that the true toll is an order of magnitude higher.. Economic growth in sub-Saharan African will decline due to the COVID-19 pandemic, with **GDP contracting 2.1%** in 2020 to 3.4%. The socio-economic impacts of COVID-19 are likely to last for several years and with varying consequences.

The pandemic has exposed the structural vulnerabilities of African economies and forced many countries to focus inwards to deal with their own crises. This has left many aid-dependent countries, in Africa and elsewhere, even more vulnerable. The fact that the virus comes in waves over a lengthy period has further exacerbated the situation.

Once again, major central bankers and governments worldwide have unleashed a range of extraordinary measures to counter the effects of the pandemic. While similar to the monetary policies seen during the 2008 Global Financial Crisis, the COVID-19 measures have been far more extreme, and focus on:

1. **Financial market stability:** primarily counteracting the sharp losses in the equity and bond markets; the related loss of liquidity and investor confidence, and the resulting blow-out of credit spreads etc.; and
2. **Mitigating the economic impact:** both realised and anticipated, especially focused on job losses and business vulnerability.

COVID-19 has resulted in an unprecedented crisis in the global economy, and the measures taken to

mitigate the pandemic's effects have now been compounded by those taken during the Global Financial Crisis, adding to the risk of systemic policy failure. Global interventions of this scale have and will unquestionably distort markets and ultimately call into question much of what we traditionally understand about markets, finance and economics.

But, as with all crises, it also presents new possibilities. Investors will be looking for attractive opportunities that arise, both during, and in the wake of, this crisis. Competition to attract future investment will be fierce. Those countries or regions that position themselves correctly will be the likely winners. The crisis has also shown that decisions can be made and implemented far quicker than previously thought possible, by individuals, corporates and governments.

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2.3. ZERO-COST IMPROVEMENTS

REGULATION AS A STIMULUS (RaaS)

African SMEs are a major source of job creation and economic growth for the continent but have been the hardest hit by the pandemic. Because of their size, African SMEs, especially those that are women and youth-led, are in a vulnerable position. This is particularly so when considering trade barriers, which are a hindrance to the regionalisation and internationalisation that are imperative to the success of Agenda 2063 and the AfCFTA.

African governments do not have the fiscal capacity to provide our economies with the same multi-trillion-dollar cash economic stimulus packages to support and protect their most vulnerable SMEs and economies enjoyed by OECD markets. African regulators are, however, well-placed to seize the opportunity as policymakers, to provide equivalent regulatory stimulus relief, through Regulation as a Stimulus (RaaS), thereby targeting and fast-tracking emergency trade-related regulatory reforms. By eliminating the most pernicious costs stifling African SMEs' ability to trade and compete across borders, it can save this sector of the economy tens of billions of dollars each year.

African regulators have a unique opportunity and impetus to opportunistically modernise customs procedures, domestic regulations and emerging less direct and visible procedural barriers, along with other well-publicised legacy impediments to investment and SMEs, and leapfrog outdated trade and investment practices and regulations, many of which have been overtaken by existing and imminent multilateral and bilateral trade agreements, that just need implementation.

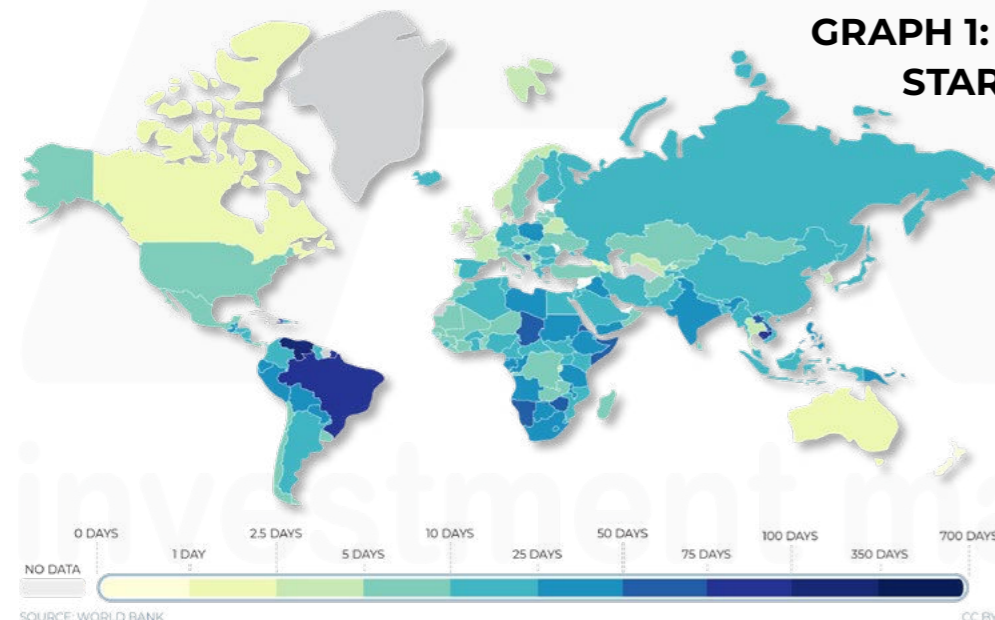
RaaS will therefore constitute and provide defacto cash stimulus support directly to SMEs, in the collective order of those same tens of billions of dollars per annum, to save our African SMEs hit hardest by the COVID-19 pandemic and improve their prospects to survive, compete and support the successful implementation of the AfCFTA.

African policymakers can, as of today, enact regulatory reforms that make a material difference and serve as a stimulus for African SMEs without incurring significant capital outlay. These Regulation as a Stimulus (RaaS) initiatives, would primarily involve removing artificial obstacles such as onerous regulations and burdensome processes that hinder intra-African trade and foreign direct investment (FDI).

Regulatory bodies could take on a nurturing market development role, as opposed to an adversarial or a punitive role, while still effectively ensuring compliance. The goal should be to create an environment ripe for the development of local industries and SMEs. Many African countries rank among the most difficult in the world in ease of doing business – (see graph Time required to start a business, 2017) illustrating how long it takes to start a business. Regulation should aim to improve market conditions by lowering barriers to entry and levelling playing fields. Compliance with regulation adds value both by protecting the interest of the public and through facilitating greater sector participation rather than protecting vested interests.

GRAPH 1: TIME REQUIRED TO START A BUSINESS, 2017

Time required to start a business is the number of calendar days needed to complete the procedures to legally operate a business. If a procedure can be speeded up at additional cost, the fastest procedure, independent of cost, is chosen.



African regulators could exploit RaaS to reduce the cost of compliance, both internal and external, while maintaining standards. RaaS is an area that provides opportunities for African economies, to easily generate a competitive advantage over more developed markets, many of which have expensive, complicated and unwieldy legacy regulatory structures. The objective should be to outperform other jurisdictions, rather than emulate them.

Adopting the use of #RegTech – technology that allows for compliance to be monitored in real-time – could enable Africa to gain a competitive advantage. #RegTech cuts the cost of compliance dramatically and makes monitoring more effective, and timely. With fewer legacy systems and more flexible frameworks, African economies can become earlier adopters of the technology and gain a competitive advantage over other markets.

RECOMMENDATIONS FOR AFRICAN GOVERNMENTS

- ▶ Shift regulatory compliance from being procedural (which is costly) to one of report or investigate. This cuts costs while maintaining standards.
- ▶ Investigate the use of #RegTech to lower costs and improve compliance efficacy.
- ▶ Establish distributed ledger technology (#DLT) systems to streamline regulatory compliance. #DLT is a digital system for recording asset transactions, in multiple places at the same time. Unlike traditional databases, distributed ledgers have no central data store or administration functionality. This increases speed, transparency and traceability of compliance for market participants and regulatory authorities.
- ▶ Overhaul regulation that favours large business over SMEs, lowering barriers to entry and levelling playing fields for small businesses.
- ▶ Shift regulatory bodies into a primarily nurturing role to support and grow their sectors (incentivised with measures that give weight to these goals).
- ▶ Fast-track and implement RaaS to directly support and save African SMEs most affected by the COVID-19 pandemic.
- ▶ Create an external, independent Regulatory Review Commission in partnership with Chambers of Commerce, to assess both overt and hidden compliance costs, across economic sectors and to assess the regulatory value added or detracted from existing activities.
- ▶ Award higher procurement points to request for proposal (RfP) submissions for upgrading regulatory and compliance capability, to those firms that utilise #RegTech.
- ▶ Favour #RegTech that allows for interoperability, open-architecture software application and open cloud-based services, developed by African tech entrepreneurs (#openarchitecture, #interoperability).
- ▶ Establish an African Union (AU) #RegTech policy body to avoid non-standardised approach(es), incompatible systems, and the insufficient integration of systems.



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2.4. TAXATION AND THE TAX BASE

Tax considerations are a major driver of investment decisions. In principle, tax rates should be competitive, and compliance should be uncomplicated and cost-effective to administer. Tax policy should reinforce a savings and investment culture, particularly given the lack of capital in Africa. The largest burden of tax should be on consumption activities, and the lowest burden should be on savings and investment.

Two tax categories should be lowered so as to become more competitive with other markets. The first is taxes on capital, which mainly include capital gains tax (CGT), property transfer duties and death duties. Reducing these taxes creates an immediate and highly-effective competitive advantage over developed world economies.

The second category of taxes is for those that raise the investment hurdle rate and include company profits or dividend taxes and interest earned. Other taxes and levies such as payroll levies and social responsibility requirements should also be given attention as they contribute to the overall tax burden which influences the returns that can be earned. If the burden is excessive, the returns offered by a market become uncompetitive. To this end, it is important for African nations to ensure that the capital generated on the continent is retained and reinvested in Africa, for the benefit of its people.

Lowering the hurdle rate can potentially increase economic activity, which enables investment and growth, strengthens the local tax base sustainably and improves a country's resilience to any externalities. Tax structures must be reformed to enhance value chains and economic multipliers as opposed to suppressing

them. Any focus on maximising revenue collection in the short term, without regard for the extent to which this creates financial repression, would be counter-productive and a hindrance to long-term growth. Cognisance needs to be taken of the Laffer Curve, which demonstrates that tax collection declines when tax rates increase beyond an optimal level.

Of course, lowering taxes impacts a government's ability to fund such things as expenditure, infrastructure for growth and the state's response to COVID-19. Tax policy can be fair and supportive of economic growth at the same time, particularly when backed by an effective administrative capacity. Widening and strengthening the tax base should be a priority. The **Addis Tax Initiative** launched in Ethiopia in 2015, which aims to enhance domestic revenue mobilisation in partner countries, provides a framework to accelerate domestic revenue mobilisation and capacity building. Securing the necessary revenues for public spending must be balanced against the need to have an attractive tax regime that will support investment, both domestic and foreign.

Finally, illicit financial flows can have a devastating effect on developing nations, stripping them of resources that could be used toward much-needed development. It is estimated that Africa loses over USD 50bn annually to illicit financial flows. It is an obstacle that can be overcome through inter-governmental cooperation, regionally and globally. The United Nations Conference on Trade and Development's (UNCTAD) report on **Tackling Illicit Financial Flows for Sustainable Development in Africa**, makes several recommendations to put a stop to illicit financial flows, including the proposal of certain mechanisms to control tax evasion.

RECOMMENDATIONS FOR AFRICAN GOVERNMENTS

- ▶ Cut or eliminate taxes on capital and capital formation that contribute to the overall tax burden, thereby increasing the competitiveness of capital markets.
- ▶ Cut taxes that raise investment hurdle rates, such as company profits tax, dividend taxes and interest earned, which would serve to increase overall market competitiveness and attractiveness.

- ▶ Focus on consumption taxes to compensate for reductions in tax revenue as a consequence of cutting taxes related to capital, savings and investment.
- ▶ Enter into regional and international co-operation agreements to counteract tax evasion and illicit financial flows.
- ▶ Establish tax information exchange networks that streamline efforts to combat tax evasion and related activities.
- ▶ Improve enforcement efforts and enhance transparency regarding ownership, thereby making enforcement efforts easier.
- ▶ Investigate how **#DLT** can be applied to the taxation framework, presenting an opportunity to eliminate underreporting of tax on the continent.
- ▶ Create a shared platform that can register, record and exchange taxation information using **#DLT** in a centralised African taxation registry.

2.5. LEGISLATIVE FRAMEWORKS

Legislative frameworks **should create an environment that is supportive of generating economic growth** and that assists in the formation, and protection of capital creation. Africa requires a proliferation of existing and new industries, many of which may need to be developed from the ground up. The legislation needs to support this fully and not create any unnecessary obstacles.

Well-constructed, supportive legislation that is futuristic, equitable and consistently applied, is key. This will support the development of private sector capability and capacity. The priority is to get industries to come into existence, strengthen existing industries' and sectors' global competitiveness, along with the protection of the public.

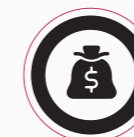
Legislation should not be copied from other jurisdictions that deal with various issues from a different vantage point, especially in the case of developed markets.

RECOMMENDATIONS FOR AFRICAN GOVERNMENTS

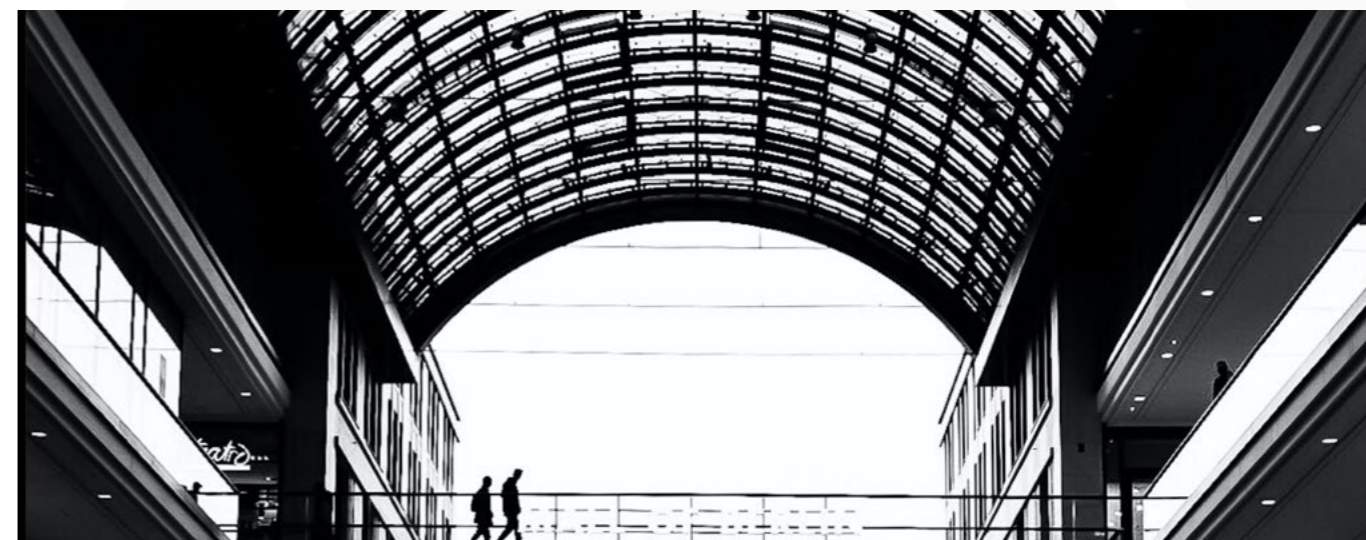


- ▶ Establish a review body for legislative frameworks, including both external asset management and financial services expertise to ensure that frameworks create a supportive economic environment.
- ▶ Overhaul tax and financial market legislation where necessary, to create an enabling environment and lower unnecessary legislative costs.
- ▶ Establish an Africa shared **#DLT** fund under the auspices of the **African Development Bank (AfDB)** to fund the establishment of regional data storage facilities and management repositories. This will help in defraying the cost of provisioning huge computing power.

RECOMMENDATIONS FOR ASSET OWNERS



- ▶ Carry out research to assist policymakers in identifying areas where obstacles exist and business resources are squandered to meet regulatory requirements of questionable value add.
- ▶ Provide expertise to legislators, so that policy frameworks are drawn up optimally to enhance investment attractiveness and competitiveness.
- ▶ Participate in the above processes to widen and enhance the viable investment universe to include African countries on a more substantial footing.



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2.6. GOVERNANCE FRAMEWORKS

To build investor trust and confidence, high levels of investor-friendly governance with appropriate checks and balances need to be in place. Governance structures should enable sensible and speedy decision-making and implementation. Balancing these two potentially competing elements, is critically important, though not easily achieved.

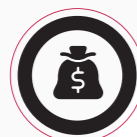
Governance frameworks need to be independent of political interference and powerful lobbying forces. Transparent, robust and independent processes are required. Governance frameworks should be applied in an impartial manner that does not seek to pick winners for market participants or the economic sector. This is the most crucial aspect to address to enable an abundant flow of capital.

RECOMMENDATIONS FOR AFRICAN GOVERNMENTS



- ▶ Nurture a collaborative environment via industry workshops that would allow asset owners to develop draft governance templates and frameworks, based on an analysis of case studies that have been historically successful both in Africa and in developing markets globally.
- ▶ Draw up appropriate legislation or subscribe to existing practice documentation (such as the King Report on Corporate Governance or King IV) to implement the above principles including independence and credibility, among others.

RECOMMENDATIONS FOR ASSET OWNERS



- ▶ Establish industry-specific codes of conduct that complement official requirements.
- ▶ Encourage dual and multiple jurisdiction redress and governance enforcement mechanisms to enhance and complement anti-corruption efforts that are officially implemented.
- ▶ Apply the [CFA SDGs-ESG Infrastructure Investment Impact Framework](#).

2.7. INSTITUTIONS

Credible institutions form part of the checks and balances that allow for good governance, which builds investor trust. Well-functioning courts, a free press and economic freedom are essential. There needs to be a robust appeal mechanism against administrative obstruction, with any punitive framework free from undue influence, and equitably administered.

Efficient, reliable and trustworthy courts and legal systems are essential for investor confidence along with property rights¹. In addition, mechanisms to deal with corruption form an essential part of the institutional systems required for long-term economic success.

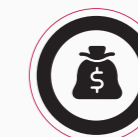
- ▶ Establish a focused financial services or investment court to provide a legal support service to the industry – a strategic objective due to the importance of inward investment and capital attraction.
- ▶ Staff the financial services or investment court with a blend of specialised skills across domestic, diaspora and international markets to enhance efficacy.
- ▶ Bolster and enshrine property rights legislation and institutions to increase market stability and make markets more attractive to domestic and foreign investors.

- ▶ Provide input and research to authorities to ensure that credible institutions are both relevant and fit for purpose. This will bolster investor trust and confidence.
- ▶ Support the establishment of private institutions that complement official institutions such as the proposed African Fiduciary Rating Agency.
- ▶ Assist with the training and identification of appropriate skills for the aforementioned institutions, promoting increased communication between government and the private sector.
- ▶ Provide support for mechanisms to enhance anti-corruption efforts that are officially implemented, in order to increase trust and transparency among market participants.

RECOMMENDATIONS FOR AFRICAN GOVERNMENTS



RECOMMENDATIONS FOR ASSET OWNERS



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¹ African Charter on Human and Peoples' Rights protects the right to property – see Article 14

2.8. CAPITAL MARKETS

Economic recovery and growth will require capital, and capital requires investment channels. Investment channels on the continent, such as equity and other capital markets, are often insufficiently developed to accommodate the magnitude of capital needed for the reconstruction and recovery that African economies need.

This weakness often stems from the shortage on the continent of large businesses and investors. Small subsistence businesses that make up the majority of African economies in most cases bypass formal institutions such as banks, asset managers and insurance companies.

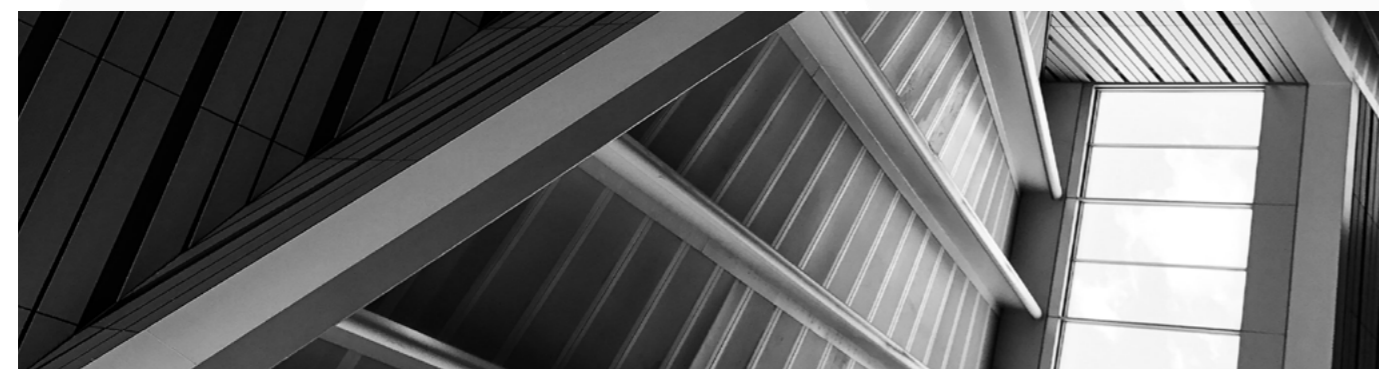
As a result, the continent's financial markets are often poorly developed, or not fit-for-purpose especially for institutional investors. Private pensions funds are under-developed, and public sector pension funds are often not operating to full potential. Where pensions are well managed, the domestic financial markets are often too small to absorb the capital. The over-dominance of governments in their economies perpetuate these problems.

We discuss the development of capital markets further in the section entitled *Building resilience in African capital markets*.



- ▶ Encourage foreign companies that operate in a country to launch secondary listings on the local exchanges, thereby deepening local markets and broadening local public participation through the investment of asset owners.
- ▶ Formulate and maintain credible monetary policies (especially Central Bank independence) for increased macroeconomic stability.
- ▶ Establish independent and credible oversight frameworks or mechanisms for capital markets.
- ▶ Challenge regulators to innovate and create frameworks for globally competitive African markets of the future.
- ▶ Promote the Green Bonds market to assist Paris Agreement undertakings.

- ▶ Consider listings on exiting from investments in private equity, to help broaden and strengthen local equity markets.
- ▶ Build the capacity to participate in private debt issuances that can be helpful in the development of capital markets.
- ▶ Adjust capital allocation and risk budgets to mobilise investment in areas where jurisdictions have created new viable investment opportunities.
- ▶ Foster and fast track the trade of digital assets
- ▶ Invest in new asset classes to allow for the development of new local capital markets and to help diversify the number of asset classes to mitigate risk in portfolios.
- ▶ Promote and support the market to accelerate and increase Green Bond issuances.



2.9. DISAGGREGATION AND AGGREGATION MECHANISMS

The purpose of a disaggregation mechanism is to solve the problem of capital flows that are too large to deploy in economies where the pool of individual investment opportunities is too small to move the needle. Disaggregation mechanisms would be created in a manner that enhances investor confidence and trust. The mechanisms need to be free of political interference and be able to operate with minimal financial repression. They would also require a highly credible governance framework.

The concentration of investment in large investment opportunities reduces social impact, such as job creation. The SME sector is the largest driver of job creation and will not benefit from capital deployed in this manner.

Mechanisms such as bodies, organisations or investment products are needed to create investment channels that can absorb large amounts of investor capital, and then channel it to the SME sector.

At the same time, most African countries would also need to develop additional capital aggregation mechanisms. This is to help aggregate local savings that are not within any formal financial system. Strengthening the private savings pool would include private pension accumulation and other discretionary savings pools. Policies and mechanisms need to be constructed to support the formalisation of savings and capital formation. Aggregated capital allows local savers to participate in otherwise inaccessible capital markets and benefit from investment opportunities that would not have otherwise been available to them. This further aids the development of those capital markets.

African countries also need to explore methods of market aggregation through which sub-regional and regional markets would prosper; thereby unlocking pan-African flows. This would help overcome the obstacles associated with investing in smaller local markets that often lack the depth and liquidity required to attract and retain investment. The [East African Community \(EAC\)](#), [Common Market for Eastern and Southern Africa \(Comesa\)](#), [Economic Community of West African States \(Ecowas\)](#) and finally the [AfCFTA](#), are all market integration initiatives, which can have a material impact on Africa's attractiveness if fully implemented in collaboration with the African institutional investment community.

When it comes to capital market integration, the current [African Exchanges Linkage Project](#) aims to create linkages between several African capital markets. Another example of national and regional aggregation is the [Bourse Régionale des Valeurs Mobilières](#), a regional stock exchange covering countries that are members of the [West African Monetary Union](#). A lack of market integration has also led to a low level of intra-African investment as capital cannot flow freely within the continent to invest in attractive opportunities.

By creating additional aggregation and disaggregation mechanisms, capital allocation efficiency in the economy is likely to improve, which could drive the creation of more and better investment options. Aggregation and disaggregation are powerful tools to support the Agenda 2063 vision of an Africa without endemic unemployment, allowing African SMEs – the drivers of employment on the continent – better access to capital.

RECOMMENDATIONS FOR AFRICAN GOVERNMENTS



- ▶ Consider the different mechanisms available to disaggregate investment flows and identify suitable mechanisms to be deployed with the aim of deeper capital penetration.
- ▶ Establish governance frameworks over aggregation and disaggregation mechanisms that are independent and credible.
- ▶ Invest in and support the establishment of the AfGIIB, to address the fragmentation in Africa's shallow green financing market.

RECOMMENDATIONS FOR ASSET OWNERS



- ▶ Engage with policymakers to assist with the optimal design of aggregation and disaggregation channels to be used by investors.
- ▶ Support investment aggregation channels that present economies of scale and access to a wider range of viable investment opportunities.
- ▶ Invest in and mobilise co-investment capital at scale, for the establishment of the AfGIIB.

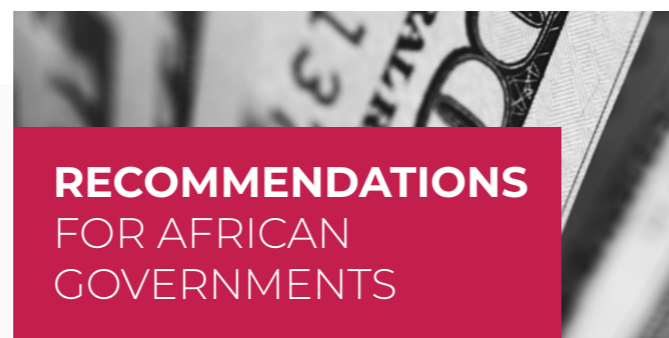
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2.10. INCENTIVES AND SUBSIDIES

In economies with a shortage of capital, poor capital allocation can often compound existing problems. Policymakers should be cautious with the use of incentives and subsidies to support firms, as these often result in the picking of winners or in propping up failures. Capital is therefore not allocated optimally.

The key challenge is that incentives and subsidies tend to focus on what already exists in an economy, rather than on what needs to come into existence to help resolve the problems in the economy. Often, subsidies and incentives end up constraining growth and reducing the attractiveness of an investment destination.

Incentives and subsidies should be considered only once the regulatory burden has been reduced, zero-cost measures have been taken, and reasonable traction has been achieved for the desired outcomes, including the development of nascent industries and establishment of those of the future, especially increasing Africa's competitiveness and share of the global green manufacturing and jobs economy. Incentives and subsidies are not likely to be effective unless they are combined with a constructive, forward-looking policy and governance environment.



RECOMMENDATIONS FOR AFRICAN GOVERNMENTS

- ▶ Review incentives and subsidies to identify those that are in place to compensate for sub-optimal policies.
- ▶ Revise sub-optimal incentive or subsidy policies to reduce the need for such incentives or subsidies, where poorly drafted legislation can be improved upon instead.
- ▶ Impose sunset clauses on all subsidies and incentives and include a strong independent review process.

2.11. INDUSTRIAL CAPABILITIES AND INDUSTRY 4.0

COVID-19 has made policymakers in many countries realise that outsourcing their manufacturing to foreign hubs like China presents a serious risk. For strategic reasons, countries need to look at building internal capability and capacity to ensure future resilience.

Industrialisation is one of the key pillars of Agenda 2063 and contributes significantly to job creation and a number of developing economies are focused on building local industrial capabilities, particularly for the manufacture of essential goods.

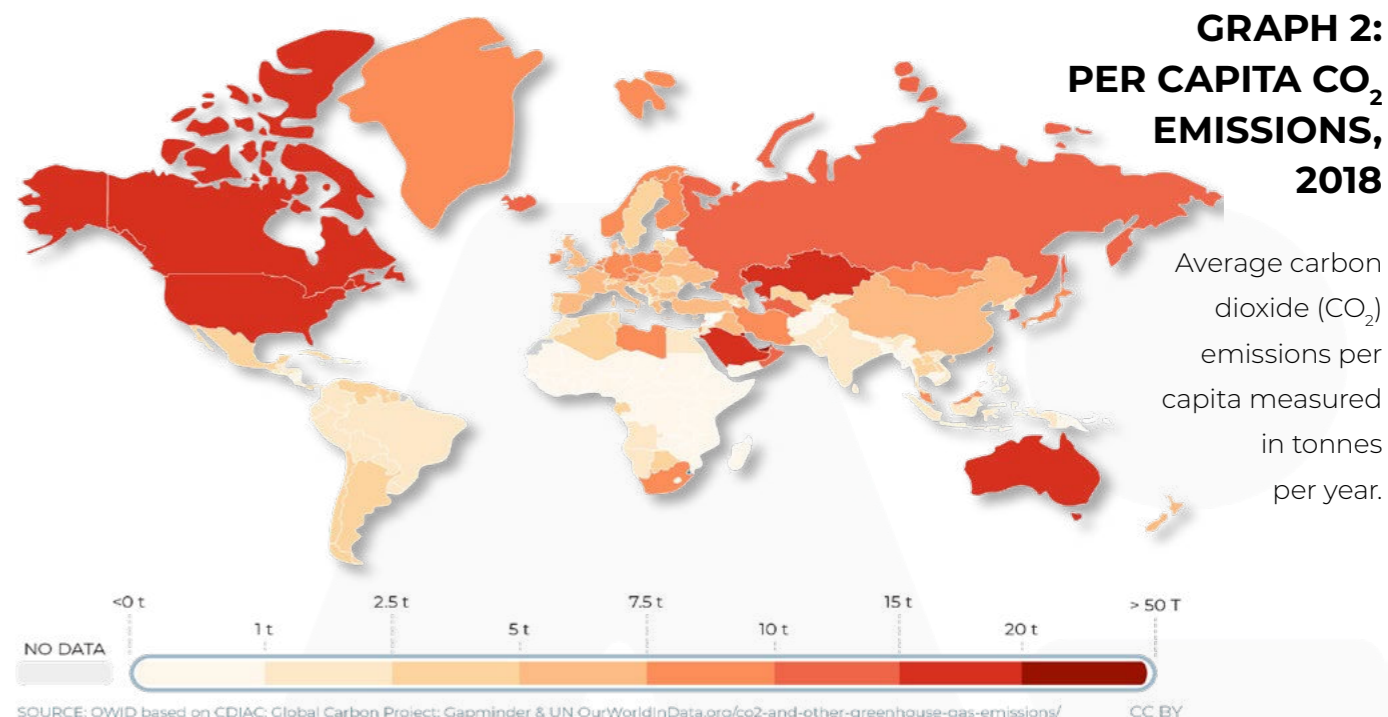
The private sector can drive the process of industrialisation without a high cost to the government. To do so, the state must first remove any regulatory bottlenecks, before considering any subsidies, incentives and protective measures. In addition, regulatory frameworks need to be reconstituted to prioritise nurturing over policing. It may make sense for a regional, rather than a country-specific approach, to be considered.

Yet while industrialisation has the potential to make substantial contributions to increased employment and wealth creation, there is a chronic need for infrastructure that enables and supports, trade and industry initiatives. This includes efficient transportation infrastructure, low-cost and reliable

energy supplies, and robust information and communications technology (ICT) systems.

Special economic and industrial development zones can prove useful in that these zones allow nations to pilot legal and regulatory reform while providing test cases of localised instances of industrial capability that have the potential to scale. The need for infrastructure is also localised to these zones, making infrastructure supply much more manageable to achieve. A successful private-public partnership model is essential to the long-term success of such zones.

Africa has the lowest per capita carbon emissions of all the continents. In part, this is due to Africa's low levels of industrialisation. However, this is also an opportunity in itself for Africa to bypass carbon-intensive industry and leapfrog to low-carbon industrial development through renewable energy infrastructure (*see section entitled Infrastructure resilience for more on renewable energy infrastructure investing*). By mobilising efforts to provide policy and funding support, as well as by partnering with private enterprise to ensure that the required expertise and skillsets are employed, governments can create both climate-resilient infrastructure, and support industrial growth more broadly. These are among the key motivators for the establishment of the AfCIB.



GRAPH 2: PER CAPITA CO₂ EMISSIONS, 2018

Average carbon dioxide (CO₂) emissions per capita measured in tonnes per year.

Finally, accessibility and connectivity will become priorities in a drive toward Industry 4.0 (#4IR). The continent therefore needs to plan accordingly, by investing more in education, training, and technological innovation. Furthermore, governments will need to foster SMEs that create unconventional business models in an increasingly digitised world and have lasting socio-economic benefits.

RECOMMENDATIONS FOR AFRICAN GOVERNMENTS

- ▶ Draft strategic plans with realistic and achievable goals aimed at building local industrial capacity. Prestige projects should be avoided, and plans should be differentiated to suit the separate industries that are considered.
- ▶ Establish partnerships that promote the establishment of special economic and industrial development zones in a diversity of sectors and that are integrated with local industry.
- ▶ Encourage investment in reliable renewable energy generation capacity and encourage the development of local industry around the technologies and means of production.
- ▶ Promote the investment in Industry 4.0 technologies through co-ordinated industrial planning and by taking the lead from such initiatives as the German government's Industry 4.0 high-tech strategy.
- ▶ Develop green supply chains of the future, driven by digital marketplaces to support the implementation of the AfCFTA.

RECOMMENDATIONS FOR AFRICAN GOVERNMENTS

- ▶ Look for entry points into investments that support the development of Industry 4.0 technologies and local industrial development.
- ▶ Consider thematic asset allocation opportunities in industries that develop local industrial capacity e.g. renewable energy or local tech.
- ▶ Invest in green supply chains of the future, driven by digital marketplaces and bankable corporate power purchase agreements (Corporate PPAs), in support of the implementation of the AfCFTA.

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2.12. INVESTMENT IN TECHNOLOGY

Africa is uniquely positioned to play a leadership role in the new tech driven global economy, with many of the strategic minerals essential for the rapid technological developments, including low-carbon technologies, as well as the rise of digitalisation across a number of infrastructures, coming from Africa based minerals. The continent's critical minerals, especially rare earths, are seeing rapid increased demand and exponential growth for these minerals is routinely forecast.

Technology also underpins sustained and inclusive growth. Countries that are able to bundle advances in technology to strengthen their comparative weaknesses (such as a small population or being land-locked) and leverage their comparative advantages (such as a highly-literate population and advanced infrastructure), will best be able to reap the rewards of the Fourth Industrial Revolution (#Industry4.0, #4IR).

A significant side-effect of the COVID-19 pandemic has been to demonstrate the benefits of technology in an ever more digitalised planet, be it through cloud computing, video conferencing, FinTech or e-trade and e-commerce.

Each country in Africa must continuously review and update strategic plans that increase access to online technology, to ultimately broaden participation in e-commerce, increase access to online education and improve communication.

As the ability to transact securely across e-platforms increases, the opportunity for the local specialisation of goods and services made available to a global planet will grow. This opens the opportunity for even those countries lacking in natural resources or other classical means of production, to specialise in areas previously not thought possible.

RECOMMENDATIONS FOR AFRICAN GOVERNMENTS

- ▶ Responsibly develop, prioritise and add value to African strategic raw material supply chains and employ circular economy best practice.
- ▶ Set-up or foster the development of regional tech hubs that help young tech entrepreneurs to actualise their ideas.
- ▶ Create regulatory sandboxes to allow tech start-ups and other innovators to conduct live experiments in a controlled environment under regulatory supervision.
- ▶ Leverage ever-increasing computing power to mine Africa's abundant and varied data points, curate these and allow for technology-driven solutions to be informed by African data.
- ▶ Encourage local and global corporates to introduce and invest in new technologies in African operations.
- ▶ Accelerate the implementation of e-trade, FinTech and Central Bank Digital Currency (CBDC) best global regulatory practice.

RECOMMENDATIONS FOR ASSET OWNERS

- ▶ Consider widening mandates to allow for investment in technologies of the future recognising that the majority of these opportunities will be in private equity or venture capital.
- ▶ Utilise active ownership rights to engage with larger corporates around their rollout of new technologies in local markets.
- ▶ Support a bankable circular economy strategy that focuses on raw material supply chain investments.

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SECTION THREE

THE ROLE OF AFRICAN SOVEREIGN WEALTH FUNDS ON THE CONTINENT



investment matters

3.1. OVERVIEW

- 3.1 OVERVIEW
- 3.2 THE KEY OBJECTIVES FOR SOVEREIGN WEALTH FUNDS
- 3.3 GOVERNANCE OF AFRICAN SOVEREIGN WEALTH FUNDS
- 3.4 AFRICA'S SOVEREIGN WEALTH FUNDS AND STABILISATION DURING COVID-19
- 3.5 THE ROLE OF AFRICAN SOVEREIGN WEALTH FUNDS BEYOND THE COVID-19 CRISIS
- 3.6 A VISION FOR AFRICAN SOVEREIGN WEALTH FUNDS THROUGH TO 2063



Africa will soon have more sovereign wealth funds than any other continent in the world.

Since 1994, when the first sovereign wealth fund was established in Botswana, Africa has seen a proliferation of such funds. There are currently 17 such funds, representing 13 of Africa's 54 countries. Three more funds are currently under construction. In most cases, the funds were established following the discovery and production of oil in their respective countries. The asset values of these funds are unfortunately not well publicised. Before the 2014 oil price slump, assets under management of African sovereign wealth funds peaked at USD 159bn. It's estimated that currently, assets under management range from about USD 89bn to USD 156bn.

Africa's sovereign wealth funds can play a vital role in enhancing the continent's long-term economic development prospects by providing catalytic capital for critical investments in infrastructure and human capital. The COVID-19 pandemic has caused acute stress and volatility in financial markets, leading to significant risk-off sentiment not seen since the 2008 Global Financial Crisis. As long-term investors and significant resources of patient capital, sovereign wealth funds have a critical role to play in helping to stabilise Africa's economies over the short term, while providing an efficient and transparent market-based avenue to support long-term development projects. We recognise that Africa's sovereign wealth funds are not a panacea for the continent's critical developmental needs, however, these can play a complementary role to bolster economic development.

As the continent with the highest number of sovereign wealth funds, the sector in Africa intends to make an important contribution and play a leadership role in shaping the industry globally, particularly in the areas of climate finance and the achievement of the SDGs. This section takes a closer look at how African sovereign wealth funds could contribute to mitigating the effects of COVID-19 over the short term while recognising the role they play in supporting Africa's capital-constrained countries and the need to maintain long-term financial viability and sustainability.

3.2. THE KEY OBJECTIVES FOR AFRICAN SOVEREIGN WEALTH FUNDS

Sovereign wealth funds are special purpose investment funds owned by governments. In Africa, such funds are primarily funded from surpluses derived from commodity exports, such as mineral or energy. In Africa, most sovereign wealth funds are established in countries rich in natural resources, with surpluses from oil exports being the most common source of funding.

Africa's sovereign wealth funds belong to a diverse group and, in many cases, are designed to address one or more of the following goals:

- 1 Preservation of long-term savings for future generations.
- 2 Management of commodity price volatility.
- 3 Macro-economic stabilisation.
- 4 Strategic investments.
- 5 Promoting economic development.

Sovereign wealth funds in Africa face a unique challenge in the need to balance objectives such as safety, liquidity and returns with non-financial goals such as infrastructure investments and supporting economic development. Development goals can be costly and can threaten their financial viability, but political and development considerations should not undermine their ability to preserve long-term savings.

Conversely, strict adherence to safety, liquidity and returns may lead to an overly conservative approach, particularly in times when macro-economic stabilisation is needed due to extreme market volatility, as seen with the COVID-19 pandemic.

3.3. GOVERNANCE OF AFRICAN SOVEREIGN WEALTH FUNDS

Robust governance frameworks and principles are required now more than ever. These include accountability, leadership, independence and transparency.

The **Santiago Principles** provide voluntary best practice guidelines for sovereign wealth funds, addressing the overarching concerns of independence, transparency, and robust governance. Although voluntary, adopting and adhering to the stated principles will serve to reaffirm the fund's independence and its focus on continued long-term objectives. Simultaneously, there should be an alignment of purpose and objectives between sovereign wealth funds and the government that:

- ▶ Ensures governance standards and regulatory frameworks around sovereign wealth funds are transparent and independent, thereby increasing public trust;
- ▶ Harmonises governance frameworks and standards across regions to allow for increased intra-African co-operation;
- ▶ Clearly defines the mandates and objectives of sovereign wealth funds and ensures that there is a practical and sensible balance between stated goals while giving careful consideration to inherent conflicts;
- ▶ Prioritises independence and accountability to prevent political interference and direct raiding of a sovereign wealth fund's resources by governments;
- ▶ Builds constitutional safeguards around sovereign wealth funds to protect their independence; and
- ▶ Imposes strict educational and professional qualifications on fund officeholders, ensuring that the highest standards are met regarding skill sets and competency.

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3.4. AFRICA'S SOVEREIGN WEALTH FUNDS AND STABILISATION DURING COVID-19

In response to the COVID-19 crisis, African sovereign wealth funds must continue to maintain a long-term outlook. The crisis presented an opportunity to harness resources in a way that increases national resilience while avoiding any mission creep that would lead to governments using these as bailout funding in future financial crises. Sovereign wealth funds must continue to ensure that they do not erode their balance sheets and threaten their financial sustainability when responding to the COVID-19 crisis. Furthermore, their response should not come at the cost of their other key development objectives, including infrastructure investment. African funds must consider a measured approach in responding to the effects of this pandemic.

HOW AFRICAN SOVEREIGN WEALTH FUNDS HAVE RESPONDED TO COVID-19

SENEGAL'S FANSIS TAKES A PROACTIVE APPROACH TO PANDEMIC

Senegal's sovereign wealth fund, Fonds Souverain d'Investissements Stratégiques (**Fonsis**) has intervened to accelerate the delivery of projects in the health sector. The construction of MFT Touba Hospital under a build, own, transfer contract was prioritised in March 2020, following the Minister of Health's decision to have a new epidemic treatment centre. The project teams delivered the hospital in just two months and received the first patient on 4 June 2020. Fonsis has also delivered medical supplies and equipment such as ventilators and patient monitors to other epidemic treatment centres and has also accelerated the production launch of Parenterus, an intravenous product (IV) plant.

Fonsis has also modified criteria for its WE! Fund (Women Empowerment Economic Fund), to unlock additional cash resources for SMEs in a short timeframe.

THE SOVEREIGN FUND OF EGYPT TO LAUNCH SUB-FUNDS

The **Sovereign Fund of Egypt** has taken meaningful strides to respond to the COVID-19 crisis. According to the fund's executive director, Ayman Soliman, it plans to launch a number of specialised sub-funds that will target healthcare services, agriculture, food processing and infrastructure.

NIGERIAN FUND TO USE USD 150m TO STABILISE FISCAL RISKS

The **Nigerian Sovereign Investment Authority (NSIA)** was called upon by President Muhammadu Buhari in early April 2020, to disburse USD 150m from its stabilisation fund to stabilise fiscal risks brought about by the pandemic. The president indicated that the fund would be used to support the June 2020 disbursement of the Federation Accounts and Allocation Committee.

As part of additional support to addressing the COVID-19 pandemic, the NSIA and **Global Citizen** have launched the **Nigeria Solidarity Support Fund (NSSF)**, a new funding vehicle for the country.

SOVEREIGN WEALTH FUNDS CAN PROVIDE DEBT AND EQUITY ASSISTANCE PACKAGES FOR LOCAL COMPANIES

Sovereign wealth funds may be able to provide market liquidity by issuing short-term debt or by taking direct equity positions in private companies, akin to a bail-out strategy. By providing extra liquidity to local debt and equity markets, sovereign wealth funds can help stabilise the domestic financial system.

KUWAIT INVESTMENT AUTHORITY'S USD 4bn INTERVENTION

During the 2008 Global Financial Crisis, Kuwait's sovereign wealth fund, **Kuwait Investment Authority**, intervened to support local firms and stabilise the country's economy by investing USD 4bn in the local stock market.

The decision to raise or introduce government or sovereign wealth fund stakes in corporates should not be taken lightly and should ideally only be considered as a last-gasp measure to prevent a series of destabilising corporate failures. Care should be taken that this is not seen as a corporate social safety net, and to avoid any sense of entitlement and the associated moral hazard.

In cases where sovereign wealth funds acquire stakes in private companies, there should be a clearly documented rationale for doing so, with agreed-upon key performance indicators on which the companies are measured and assessed continually. Reporting on these measures should be compulsory. This will help ensure that the funds and the associated private companies are aligned with broader recovery objectives.

The impact of the direct equity holdings would need to be measured against the effect on employment preservation and ensuring value-add. Governments should provide only such support that is temporary and completely necessary, to correct market failures following the COVID-19 crisis.

- ▶ Provide funding (debt, equity or both) for local corporates important for socio-economic well-being.

FOCUS ON SUPPORTING SMES AS THE PRIMARY JOB CREATORS

The focus should be on SMEs, which are the primary job creators in any economy. Furthermore, large corporates already have ready access to capital and the best borrowing and deposit rates compared to SMEs.

Both the extension of debt lines and direct equity stakes through convertibles or mezzanine finance should be taken in these businesses. When accessing capital under normal conditions, SMEs often receive unfavourable terms in comparison with large companies. This means they battle to be competitive from the outset. In the SME segment, it may be more appropriate to pass on soft loans where resources allow. The criteria should be to support businesses that are viable and that have been hard hit by the pandemic.

Supporting SMEs has the highest potential to drive both job preservation and job creation, which aligns with the overall purpose of increasing private sector employment and reducing poverty. Through SME financial assistance, alternative investment channels could be developed, such as disaggregation channels that allow for larger sovereign wealth funds to invest in the SME sector. SMEs with high growth potential could also be favoured with a view to generating a listings pipeline to help broaden and deepen countries' capital markets.

This type of support for SMEs does not negate the need to provide similar support to larger companies as well, especially those that are systemically important.

- ▶ Increase emphasis on the support and assistance of SMEs, which are primary employment and growth drivers.

FOCUS ON MANUFACTURING INDUSTRIES THAT BOOST TRADE OR ADOPT 4IR TECH

As the COVID-19 crisis drags on, businesses impacted by the supply or demand shock brought about by the pandemic can expect to come under increasing financial pressure. Sovereign wealth funds looking to assist will need to prioritise which companies to support with the capital they have. The focus, we argue, should be on manufacturing companies that are critical to the function of the local and regional economy. These include food companies, companies that can boost trade regionally or internationally and bring in much-needed foreign exchange and those that have consistently demonstrated the adoption of new technologies and ability to invest for the future. In this way, sovereign wealth funds can ensure that the manufacturing sector plays a vital part in the continent's current and future economic resilience.

- ▶ Focus on supporting manufacturing companies critical to the functioning of the local economy; that trade actively both regionally and internationally; that pursue #4IR ambitions.

CROWD-IN OTHER INVESTORS AS A JOINT VENTURE PARTNER IN INVESTING IN SMES

If equity stakes in SMEs are being acquired, these should be taken to:

- ▶ Temporarily support the organisation through the crisis period;
- ▶ Provide opportunities for both local and global joint venture investors to participate;
- ▶ Deepen and expand the relevant capital markets, on exit.

Thus, where equity stakes are acquired, this should be done in a way that ensures the crowding-in of additional local and foreign investment, both when investing and on exit following the crisis. This would occur at exit through a private sector or industry trade-sale, or a stock exchange listing. Additionally, in the event of intervention, governments should get all stakeholders to contribute to the restructuring, to ensure the viability of those businesses that emerge following assistance, with a net positive return to the economy.

- ▶ Ensure sovereign wealth fund investment helps crowd in other local and foreign investors.

MANAGE THE EXIT PROCESS CAREFULLY

If an equity stake is being acquired by a sovereign wealth fund, the price should contain some form of discount for the fund, that acts to deter other firms from opportunistically seeking assistance. This discount should also serve to enhance the return to the fund, on exit.

The exit conditions should be specified upfront to allow for a sensible, pre-planned and measured exit when market conditions

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permit. This can be achieved by engaging with industry to minimise adverse impacts on the economy and public policy objectives. The exit could involve a stock exchange listing, which would, in turn, contribute to improved stock market liquidity. Another goal should be that of achieving broader share ownership, which would aid capital formation and assist with retaining capital within the economy.

The exit process should also help enhance the development of the financial markets – to build and strengthen the channels for investment. Other objectives can be imposed on the whole investment cycle of sovereign wealth fund entry and subsequent exit such as environmental, social and governance (ESG) considerations and the creation of a more responsible private sector. However, care must be taken to not burden SMEs with obligations that are more appropriate in developed markets.

- ▶ Measure exits against a set of success metrics that incorporate the progress of each company in areas such as balance sheet health, creditor relations and stakeholder engagement.
- ▶ Engage the services of investment professionals (especially fund managers) to design the most optimal set of criteria and circumstances to mobilise investment.

- ▶ Utilise the exit process to improve the ease of doing business and to facilitate further investment beyond the recovery from the pandemic.

RISK MANAGEMENT DURING THE STABILISATION PROCESS

When stabilisation efforts are enacted, policymakers must take into consideration how such actions taken may affect the ability of sovereign wealth funds to fund social and economic development, increase savings, and diversify away from non-renewable commodity exports, down the line.

African governments and sovereign wealth funds must remain cognisant of the long-term goals of economic development, capital preservation and increased liquidity. When deploying fund assets to stabilise economies post the pandemic, these need to be considered against both the fund's mandate as well as the benefit these funds may have to future generations.

- ▶ Ensure economic support by Africa's sovereign wealth funds is complementary and does not become a substitute for government spending.

Again, we would like to stress that sovereign wealth funds are not a panacea for Africa's economic challenges, nor should they be viewed as government coffers to fund development projects. However, they do have both financial and technical resources that can be used to bolster economic development, particularly if these resources are integrated with existing bilateral and regional development projects. Increased creativity and innovation are crucial to ensure this happens successfully.

Jointly funded projects are one avenue that would allow funds to make a meaningful contribution while ensuring that they meet their core objectives. The areas that sovereign wealth funds could play a catalytic role by mobilising resources include the following:

ACCELERATING INFRASTRUCTURE INVESTMENT

There is a growing need to close Africa's infrastructure gap, and the African Union's 5% institutional infrastructure investment agenda (5% Agenda), is a partnership pact with African sovereign wealth and pension funds to help meet this need. Such funds are particularly well-positioned to finance long-term projects given their investment horizons and large pools of capital. The 5% Agenda aims to develop new financial products that de-risk projects, making them more directly investable for these funds. Sovereign wealth funds can indirectly finance infrastructure by buying infrastructure bonds, underwriting loans, and investing in infrastructure debt funds.

Priority should be placed on potential projects that directly address transport infrastructure, renewable energy, ICT and port capacity. Some challenges need to be overcome. The first is how to fund ticket sizes that fall below the minimum threshold for consideration. Second is the lack of practical expertise which may inhibit a sovereign wealth fund's ability to access these investments. Another significant challenge is the tension between politically motivated short-term infrastructure investments and prudent long-term bankable investments.

- ▶ Gain a better understanding of the capabilities and limitations of sovereign wealth funds in terms of investing in infrastructure assets.
- ▶ Accelerate sovereign wealth fund investment in infrastructure projects, by exploring new financial products that de-risk projects and make them more amenable to institutional investment.
- ▶ Explore co-investment opportunities, in which African sovereign wealth funds have the local expertise and opportunity to develop new skills for African nationals, as well as the ability to share risk and opportunity with foreign

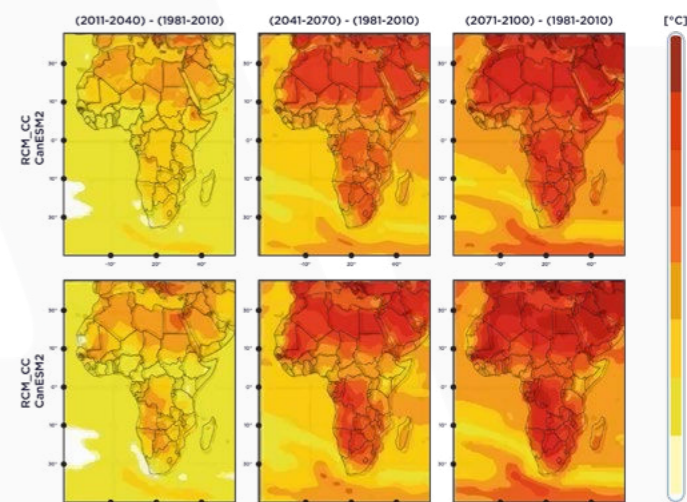
investors, thereby signalling credibility to foreign investors.

- ▶ Invest in African tech hubs, incubation centres and accelerator labs, to help foster Infratech, innovation and to fast-track the deployment of cost-effective new technologies to minimum viable ecosystems (MVEs). (#innovationhubs)

SOVEREIGN WEALTH FUNDS AND CLIMATE CHANGE

The African continent faces distinct challenges under future climate models, which will become major topics as the continent prepares to host COP27 on the continent in 2022.

Because of some unique geographical features, the continent is particularly exposed to temperature rises. Advanced modelling shows that Africa may experience two to three times the temperature rises that other more moderate parts of the globe will face. This has monumental implications and will need to be factored into every investment case.



GRAPH 3: COMPUTER SIMULATIONS OF RISING TEMPERATURES IN AFRICA

The graph shows three future time slices: (2011–2040), (2041–2070) and (2071–2100), compared to the reference period (1981–2010).

Image: CORDEX Africa

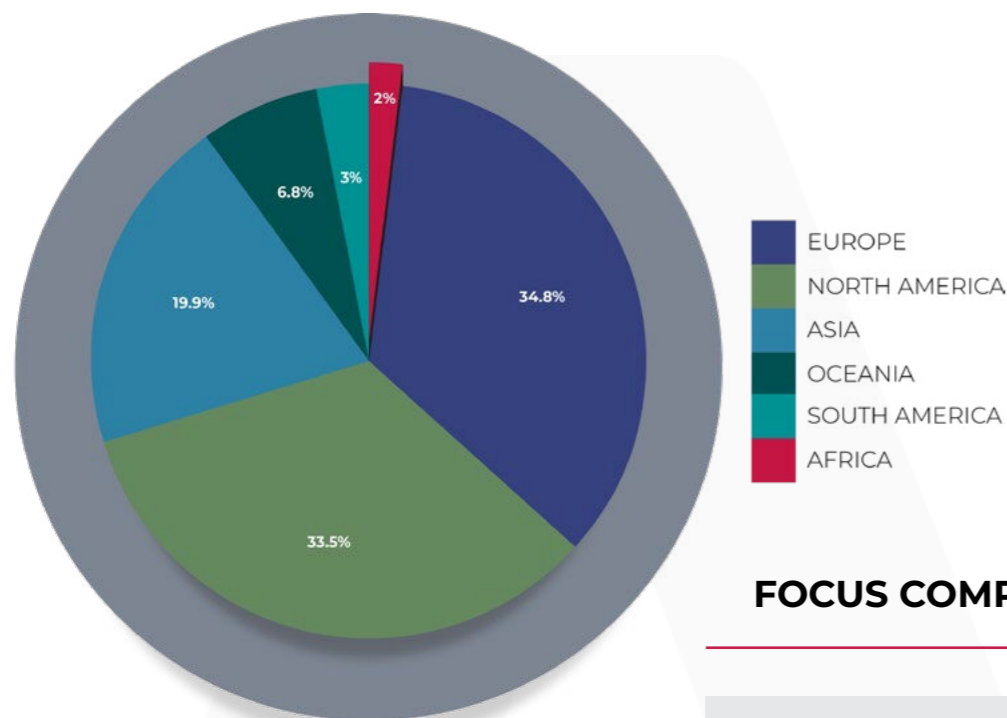
3.5. THE ROLE OF AFRICAN SOVEREIGN WEALTH FUNDS BEYOND THE COVID-19 CRISIS



Like many previous crises, the COVID-19 pandemic has highlighted Africa's urgent economic challenges. **Sovereign wealth funds are uniquely positioned to play a complementary role in expanding and deepening Africa's financial sector and helping its governments achieve their developmental objectives.**

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In terms of climate mitigation, under the **Climate Action 100+ initiative**, Africa stands out as having the highest number of companies targeted by that group for engagement towards emissions reduction (see *Focus companies by region diagram*). This presents somewhat of a dilemma for growth and prosperity on the continent, as in many cases Africa's current offerings to the world are its raw natural resources, which are typically extracted through emission-heavy processes.



**GRAPH 4:
FOCUS COMPANIES BY REGION**

Africa also has many of the least industrialised nations as measured by access to a supplied electricity grid network as well as abundant coal which could be used to generate the required electricity baseload. This dilemma is captured in some of the misalignment found between the Intended **Nationally Determined Contribution (INDC)** documents submitted by African countries and the goals of the **Paris Accord** under which they were submitted. It also makes the meeting of the 12 commitments under the **One Planet Summit** convened by French President Emmanuel Macron that much harder to commit to.

The investment horizons of sovereign wealth funds allow them to consider long-term risks such as climate change. And, it is in their interest to do so. While African sovereign wealth funds may find it more challenging to commit to the **One Planet SWF Working Group Framework** given the challenges mentioned above, it provides a good starting point for African funds to work towards a similar framework to improve the resilience and sustainability of these pools of capital. The framework would need to balance the need to address climate change, while being sensitive to each African nation's particular stage of development.

Climate change action falls principally into two categories:

- 1 Mitigation** – Strategies employed to stabilise or reverse climate change, such as reducing carbon emissions or carbon capture and storage.
- 2 Adaptation** – Planning for and making changes to deal with actual or expected climate change effects, such as seawater level rise or drought.

Sovereign wealth funds will need to engage with the principals of existing investments to ascertain what actions they are taking with regards to both mitigation and adaptation. This engagement is important for the long-term sustainability of investee companies, but it also signals to investee companies that shareholders or debt holders are serious about the impact climate change will have.

- ▶ Train, educate and capacitate sovereign wealth and pension fund fiduciaries and executive management to understand the long-term implications on portfolio values of climate change.
- ▶ Update investment policies to include a focus on climate adaptation and mitigation as key topics of engagement with investment managers and investee companies.
- ▶ Negotiate a workable agreement for African states through the Intended Nationally Determined Contributions (INDC) submissions by African states under the Paris Accord, to allow for a timeous meeting of the SDGs and alignment with the One Planet Summit Commitments.
- ▶ Support the mobilisation of the asset owner community around a successful COP27 in Africa.

SOVEREIGN WEALTH FUNDS, THE ENERGY TRANSITION AND THE RISK OF STRANDED ASSETS

Both globally and in Africa, sovereign wealth funds are funded primarily by revenues from conventional energy exports such as oil and gas. Furthermore, they have traditionally invested heavily in traditional energy companies that rank as the world's most significant greenhouse gas emitters. The environmental considerations aside (discussed in more detail under the section on Sustainable investing in Africa and the incorporation of ESG factors), from a financial risk perspective, it is prudent for sovereign

wealth funds to reduce their exposure to these companies as many of them will become "stranded" assets in the coming decades as the race to halt carbon emissions intensifies. At the very least, there is an opportunity for funds to divest or influence the management of traditional energy companies.

The energy transition also has a significant social impact as thousands of workers engaged in the oil, coal, natural gas industries and their upstream and downstream allied industries face disruption. Here sovereign wealth funds should encourage and participate in a Just Transition process to ensure that the process is fair for all involved.

At the same time, the energy transition provides the opportunity to take advantage of the global revolution in renewable energy and invest in renewable infrastructure assets on the continent (see **more in the infrastructure section**) and other technologies of the Fourth Industrial Revolution (**#4IR**). It also opens up the opportunity to invest in the local production and servicing of renewable energy machinery and equipment on the continent and participate more fully in the growing multi-trillion-dollar global green economy.

- ▶ Adopt frameworks to tackle climate-related issues that accelerate the uptake of ESG analysis in sovereign wealth fund management.
- ▶ Consider the long-term implications of a move toward a low-carbon economy, to prevent value destruction and stranded assets.
- ▶ Diversify asset allocations away from conventional energy to renewable energy or other types of green assets for future sustainability.
- ▶ Invest in the African Green Infrastructure Investment Bank (AfGIIB)

WHAT IS A JUST TRANSITION TO A LOW CARBON FUTURE?

Just Transition is a framework of social interventions that can be implemented to protect people affected by an economic transition brought about by a need to move to a more sustainable future. The framework was originally conceived by the trade union movement and focussed particularly on the protection of workers' rights through such a process.

More recently, the Just Transition approach has seen a resurgence in interest given the need to transition to a low carbon economy. Examples include Canada's commitment to phase out coal-generated electricity through a just transition task force comprising labour, coal and electricity industry players and environmental parties. A similar process was followed in Poland as the country was forced to move away from coal over a 15-year period.

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3.6. A VISION FOR AFRICAN SOVEREIGN WEALTH FUNDS THROUGH TO 2063

African sovereign wealth funds should have an active and transparent long-term socio-economic purpose in helping the continent to meet the Agenda 2063 goals. Below we set out several future aims that African sovereign wealth funds should aim to achieve by 2063.

- African sovereign wealth funds play a leading role in shaping the industry globally, given that the continent already has the highest number of such funds. The continent's sovereign wealth funds can lead the way in key issues such as climate change adaptation and mitigation, the achievement of the SDGs and Agenda 2063, as well as transitional investing issues such as mining, oil and gas, and the industries of the Fourth Industrial Revolution.
- African sovereign wealth funds have emerged as a key tool in the implementation of both macro and micro-economic policy, as rising debt increasingly constrains government spending.
- African sovereign wealth funds are held accountable to future generations.
- Climate adaptation and mitigation are central to the role future generations see African sovereign wealth funds playing. Renewable energy, smarter cities, and low carbon economies all form part of African sovereign wealth fund thinking and approaches to climate change.
- African sovereign wealth funds are aligned to the SDGs by 2030, boosting the achievement of Africa's Agenda 2063 by creating investable products that offer an appropriate reward for risk, but also make a material difference to achieving the SDGs and Agenda 2063.
- African sovereign wealth funds are able to forge investment partnerships with humanitarian aid agencies, non-governmental organisations and portfolio companies, in which the fund acts as a seed and anchor investor to stimulate local manufacturing, SME and job growth opportunities, and promote technology transfer initiatives to the continent. In so doing, investment in Africa is championed by African sovereign wealth funds, and global investors are encouraged to invest more alongside.
- Collaborative co-investment platforms are used by African sovereign wealth funds to crowd in global and regional investors.
- Multi-country infrastructure investment platforms, with the involvement of African sovereign wealth funds, propel the continent to become the leader in attracting long-term private and public investment in infrastructure – such as the AfGIIB initiative.
- African sovereign wealth funds are key drivers of investment into Industry 4.0 (#4IR) developments. They invest in solutions and technologies that can accelerate new industrial development and increase operational resiliency of existing industries.
- African sovereign wealth funds have established specialist funds and have sought out the help of professionals to design an investment programme that will mobilise investment to meet the goals of Agenda 2063.
- African sovereign wealth funds have expanded their multi-management capabilities, seeding specialist strategies to meet evolving strategic objectives.
- As key partners to governments in the investment and delivery of inclusive growth, a part of African sovereign wealth funds' investment helps strengthen social protection programmes. These programmes help support the poorest and those unable to take advantage of new economic opportunities. They also tap new technologies to deliver support easily and affordably.



FUTUREPROOF APPLICATIONS FOR SWFS COMPILED BY AFRICA'S LEADERS OF TOMORROW

#infrastructure 4.0 #4IR #DER	A collaborative framework for the energy sector could allow governments to be responsible for funding the rollout of the grid, while sovereign wealth funds leverage this base by investing in 4IR technology. For example, technology that collects data on grid performance and stability, power loads, distributed energy resources (DER — integration and outages). This data is sent over wired or wireless networks to the cloud or centralised operations centres, and then fed into analytics and other emerging IT systems that can dramatically improve grid reliability, efficiency, and resilience.
#crowdfunding	The creation of co-investment programmes utilising crowdfunding platforms. These allow sovereign wealth funds to invest in SMEs during and after the COVID-19 crisis. The presence of such funds provides investors with a level of comfort on the integrity of the investment opportunity, while helping to crowd in private capital.
#crowdfunding	Creating infrastructure co-investment pools for subscription exclusively by community crowdfunding platforms can aid in narrowing the infrastructure funding gap in Africa while at the same time fostering community buy-in (socially and economically). Successful infrastructure delivery requires community buy-in to prevent delays and stoppages. Government, alongside sovereign wealth funds, will need to consult widely to get community support and acceptance of infrastructure projects and delivery and crowdfunding from those same communities would foster inclusion.
#innovationhubs	Shared science and technology innovation strategies create networked centres of excellence in technology, science and innovation. Sovereign wealth fund investment in partnerships with regional networks of African technology institutes associated with universities within Africa and globally presents an opportunity to achieve science and technology innovation that has continental-wide and global application and scale – such as with vaccine manufacture, agribusiness and food security innovations, among others.
#AI #robotics #e-health	Sovereign wealth fund-incubated specialist funds that invest in artificial intelligence (AI) and robotics, to boost healthcare delivery. The strategy will be to tackle the deficit on the continent of clinical healthcare practitioners and address this problem by using Africa's young, digitally-savvy population to promote the widespread adoption and use of AI and robotic healthcare. Accessibility and accuracy are the major benefits, while trust and the human element are key challenges

#Tags: #Infrastructure 4.0, #4IR, #DER, #Crowdfunding, #Innovationhub, #AI, #robotics, #e-HEALTH

KEY STRATEGIC INVESTMENT PRIORITIES FOR AFRICAN SWFS THROUGH TO 2063

STRATEGIC INVESTMENT PRIORITIES	AREAS TO RESEARCH AND INVESTIGATE
Support development of local capital markets	Local listed equity, bonds, REITs
Support and grow SMEs	Local listed equity, bonds, REITs
Invest in infrastructure	Infrastructure debt or equity funds, fund of funds or direct. Infrastructure co-investment platforms. African Green Infrastructure Investment Bank
Invest in increasing trade	Trade finance funds
Improve engagement strategies with investee companies and debt issuers (incl. government)	Proxy voting, engagement, stewardship
Develop key ESG priorities	ESG issues, including a focus on climate change
Measure investment impact	Impact investing, developmental investing, CFA SDGs-ESG Infrastructure Investment Impact Framework

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SECTION FOUR

THE ROLE OF AFRICAN PENSION FUNDS ON THE CONTINENT



4.1. OVERVIEW

- 4.1 OVERVIEW
- 4.2 COVID-19 SPECIFIC INTERVENTIONS FOR PENSION SCHEMES IN AFRICA
- 4.3 AFRICAN PENSION FUND INVESTMENT STRATEGIES – RESILIENCE BEYOND THE COVID-19 PANDEMIC
- 4.4 AFRICAN PENSION FUNDS IN A POST-COVID-19 WORLD
- 4.5 REIMAGINING AFRICAN PENSION FUNDS FOR 2063

African pension funds make up the largest pool of institutional capital on the continent, with an estimated USD 350bn in assets under management. While the aim of nearly all such funds is to defer income to a future agreed upon date, many differ in such things as their legal or regulatory framework, or their financial structure (for example, some have defined benefit plans, while others follow defined contribution plans).



In Africa, pension funds are managed by an ever-growing group of member and employer-nominated fiduciaries. This accounts for the large difference in how each pension fund conducts itself – from the investment strategies that asset managers chose to pursue to the assets their respective funds invest in.

This can often lead to a large amount of misunderstanding and frustration from those in both the public and private sector looking to attract their capital.



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4.2. COVID-19 SPECIFIC INTERVENTIONS FOR PENSION SCHEMES IN AFRICA

Pension funds, like almost any sector, have not been unaffected by the economic shock brought about by the COVID-19 pandemic. Apart from the financially crippling effect of increased morbidity from the disease itself, the consequent economic slowdown due to lockdowns and other measures taken by each respective government has resulted in a huge increase in unemployment and a further source of financial pressure. Pension schemes have therefore faced growing pressure to assist members during this time, through a range of measures, some of which call for the relaxation of certain regulations. We list several options for consideration below.

- ▶ Consider implementing contribution holidays during lockdown periods to ease the burden on hard-hit sectors and businesses.
- ▶ Research the ability for members to take pension-backed loans during this time, which could ease their financial burden.
- ▶ Investigate “distress withdrawal” options, their short and long-term merits, and the potential legislative barriers to emergency access for members to their pensions savings.
- ▶ Reassess withdrawal limits and withdrawal frequency for living annuities, to provide much-needed relief to pensioners.

HOW AFRICAN PENSION FUNDS HAVE RESPONDED TO COVID-19

KENYA LOOKS TO REDIRECT INTEREST INCOME TO PANDEMIC PROJECTS

Pension funds in Kenya currently manage assets worth 1.3 trillion Kenyan shillings (USD 12.2bn). This equates to a ratio of 13.4% of the country's GDP, covering about 20% of the working population, with about 40% invested in treasury bills and bonds and earning about 60bn Kenyan shillings annually in interest income. The [Actuarial Society of Kenya \(Task\)](#) and the [Association of Retirement Benefits Schemes](#) have launched a bid to suspend interest income on pension funds' holdings in government securities in favour of COVID-19 projects, all facilitated by Task. The proposal is still under consideration.

TREASURY CONTEMPLATES TAX ON INCOME FROM THE KENYA NATIONAL SOCIAL SECURITY FUND

A major player in pension funds in Kenya is the [National Social Security Fund \(NSSF\)](#), a government agency responsible for the collection, safekeeping, investment and distribution of the retirement funds of all Kenyan employees. In a proposal put forward in the 2020/21 budget, the Kenyan Treasury has proposed taxing all income from the NSSF as part of a strategy to raise an additional 38.9bn Kenyan shillings. There is public resistance given the obvious impact on retirees and because of double taxation issues.

UGANDAN FUND GRANTS DEFERRAL TO HARD-HIT EMPLOYERS

The [Uganda National Social Security Fund \(NSSF\)](#) is the Ugandan equivalent of Kenya's NSSF. In response to COVID-19 the Uganda NSSF has:

1. Granted a deferral to employers in sectors that were greatly affected. The deferral has been granted to 1 630 employers covering 100 645 members.
2. Donated 5 000 test kits worth about 380m Ugandan shillings (USD 100 000).
3. Pledged to continue with its mandate as an institutional investor supplying long-term capital. The fund has in some cases helped to fill the gap left by a withdrawal of foreign investors from the region, particularly on the equities side. The NSSF performance has recorded about 18bn Ugandan shillings (USD 4.7m) in lost revenue due to non-dividend payments in Uganda and the region. On the real-estate side, the fund has continued to honour all contractual obligations despite some projects facing delays. Fixed income has not been affected by foreigners leaving the regional markets.

HOW AFRICAN PENSION FUNDS HAVE RESPONDED TO COVID-19 (CONTINUED)

SOUTH AFRICAN FUND AGREES TO SPECIAL BONUS FOR PENSIONERS

In South Africa, the board of trustees for the [Eskom Pension and Provident Fund](#) explored the feasibility of granting interim financial relief to the fund's pensioners and has agreed to grant pensioners a once-off special bonus amounting to half the bonus paid to each pensioner in 2019. This special bonus ranges between R3 500 (USD 200) and R5 425 (USD 320) per household depending on each pensioner's total household income. Lower-income households will receive a higher amount. The special bonus, which will cost the fund R105.3m (about USD 6m), will not compromise the long-term sustainability of the fund.

ZAMBIAN PENSION FUNDS

Pensions funds were obligated to make donations to the country's health ministry to help procure necessary supplies to combat the virus. A notable contribution by the [National Pension Scheme Authority \(Napsa\)](#) was the donation of 1m kwachas (USD 55 000) made in March 2020. Napsa and other large pensions funds have been involved in funding major infrastructure projects such as toll gates and roads. Pensions funds have been encouraged to consider opportunities arising from the AfCFTA, and to look at investing in health-related companies.

4.3. AFRICAN PENSION FUND INVESTMENT STRATEGIES - RESILIENCE BEYOND THE COVID-19 PANDEMIC

Whilst the shock of the COVID-19 pandemic reflected in markets around the world, many local African markets demonstrated tremendous resilience mostly owing to the lack of liquidity in many of these local markets. Over time as outlooks in local markets have worsened, market prices have suffered, though this has been tempered by the rise in commodity prices globally, which has buoyed certain sectors. For those African pensions jurisdictions such as Botswana, where pension funds are permitted to have global assets allocations (*see sub-section entitled Allow for regional and global equity market exposure for pension funds in Africa below*), the interplay of market and currency gains or losses added a further dimension of intrigue to investment performance. Case studies such as the COVID-19 crisis provide fertile ground for real-world testing of investment strategies, but there are many other considerations that go into determining a pension fund's investment strategy.

SETTING INVESTMENT STRATEGIES FOR PENSION FUNDS IN AFRICA

The future cash flows that make up a pension fund's liabilities are inherently inflation-linked, given members' need for their savings to keep pace with the cost of goods and services through to and during retirement. This applies whether the scheme is a

defined benefit (DB) or a defined contribution (DC) scheme. The ideal asset for a pension fund to own is, therefore, one that provides inflation-linked cash flows in the future. This is worth bearing in mind for anyone trying to raise capital from pension funds, particularly over the long-term.

Determining an asset strategy to meet inflation-linked pension payments in the future involves using a discount rate to value the fund's liabilities and setting return expectations for the available asset classes. For the discount rate, African interest rates tend to be a lot higher than those in the developed world, so discount rates are high and should be so. However, where government bonds are available for different maturities they can provide a term structure of interest rates for use in discounting and provide an important point of departure for setting long-term expected returns for the available asset classes.

Key in any pension fund's investment programme is risk management. Here diversification plays an important role, be it diversification of asset classes, of regions, of currencies, or of credit risk, to name a few. Many African pension funds don't have the option to diversify by region, currency or even by credit risk, as most are not permitted to invest outside their respective borders (*see Fixed income enjoys high allocations from pension funds*

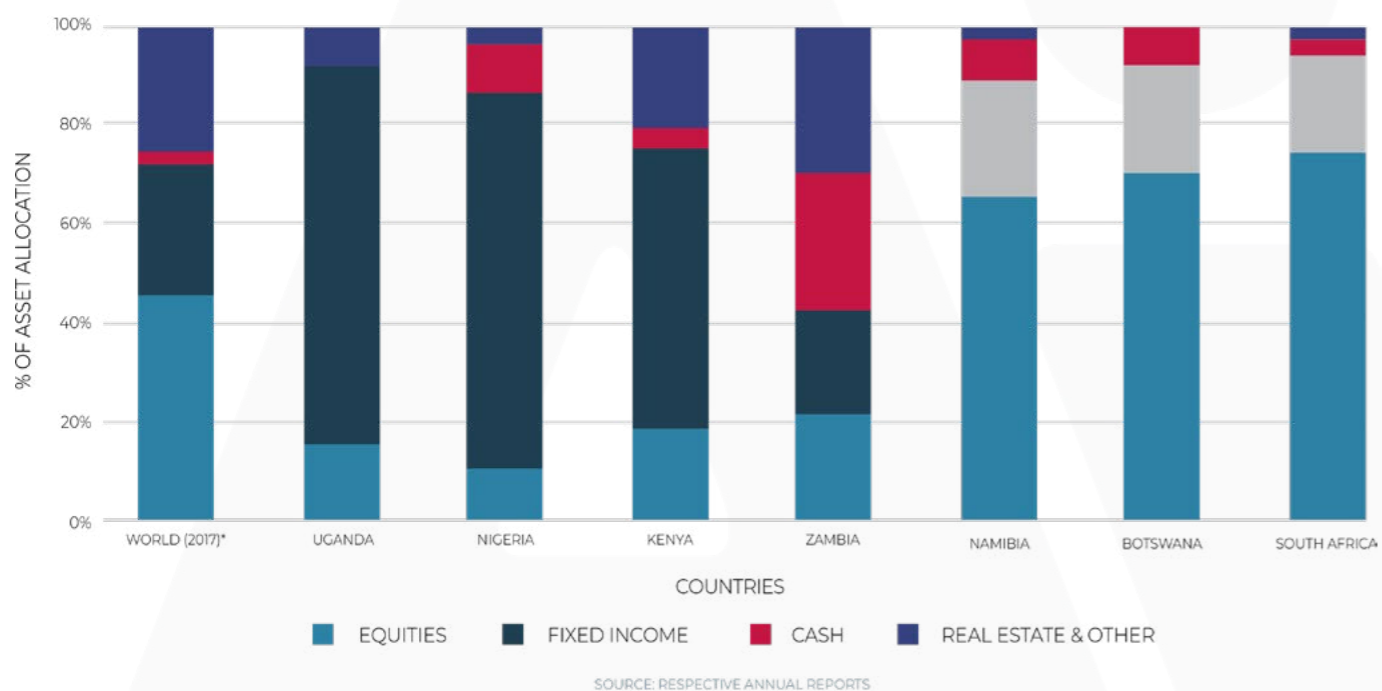
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in Africa section on the benefits for regional and global investing). In many cases, the only available creditor with investable bonds is the government. Therefore, these funds can set about lowering risk through asset allocation, and this remains central to an African pension fund's investment strategy.

In the next section, we discuss in broad terms, the different asset classes and types of assets available for investment by local institutions in Africa.

FIXED INCOME ENJOYS HIGH ALLOCATIONS FROM PENSION FUNDS IN AFRICA

High allocations to fixed-income assets are seen in countries where the yield on sovereign-issued nominal bonds is high (10-20%) — see the *Pension fund asset allocation (2017/2018) graph below*. Many of these countries rely in part on their respective domestic pensions and insurance markets to support domestic issuances. In many cases, this serves to crowd out other forms of capital raising and the development of broader local capital markets (see *Section on Building resilience in African capital markets for more on this*).



GRAPH 5: PENSION FUND ASSET ALLOCATION (2017/2018)

* Average global asset allocation of seven largest markets

- ▶ Foster the development of a thriving capital market for fixed-income instruments by encouraging the banking and insurance sector to innovate in this area.

INFLATION-LINKED BONDS – IDEAL FOR PENSION FUNDS, BUT IN SHORT SUPPLY IN AFRICA

The ability to issue inflation-linked bonds depends on a country's long-term fiscal and monetary policy discipline, which preferably includes inflation targeting. For many countries, inflation is hard to measure and even harder to control, particularly given these countries' often high dependence on import prices.

INFLATION-LINKED SOVEREIGN DEBT IN AFRICA

Inflation-linked bonds were first issued by the South African government in March 2000. Outstanding government inflation-linked debt in South Africa currently stands at about ZAR 400bn (USD 23.5bn). Namibia issued its first inflation-linked bonds in 2015 and total debt outstanding now stands at NAD 5.9bn (USD 350m). In both instances, these bonds are held largely by local institutions, predominantly pension funds

As a result, the issuance of inflation-linked bonds is not very common on the continent. This leaves nominal bonds and cash as the only fixed interest alternatives. In many instances, these options don't provide an adequate hedge against inflation. Despite this, flexibility and breadth in the short-term fixed income capital markets, particularly in countries with a thriving banking industry, does allow for more scope to do so.

- ▶ Investigate the merits of sovereign issuance of inflation-linked debt, given a willing customer base in the domestic pensions industry.

REAL-ESTATE INVESTMENT AS A HEDGE AGAINST INFLATION FOR AFRICAN PENSION FUNDS

Rental properties are a useful asset for meeting long-term inflation-linked liabilities, as rental income streams often increase at, or above inflation, while capital values tend to climb over the long term.

With the exception of South Africa and Botswana, where the listed equity market includes a significant portion of listed Real Estate Investment Trusts (REITs), pension funds on the continent most often invest directly in real estate by buying physical properties. However, this is often complicated by poor liquidity and high transaction, management and maintenance costs, which for a small pension fund can be quite prohibitive.

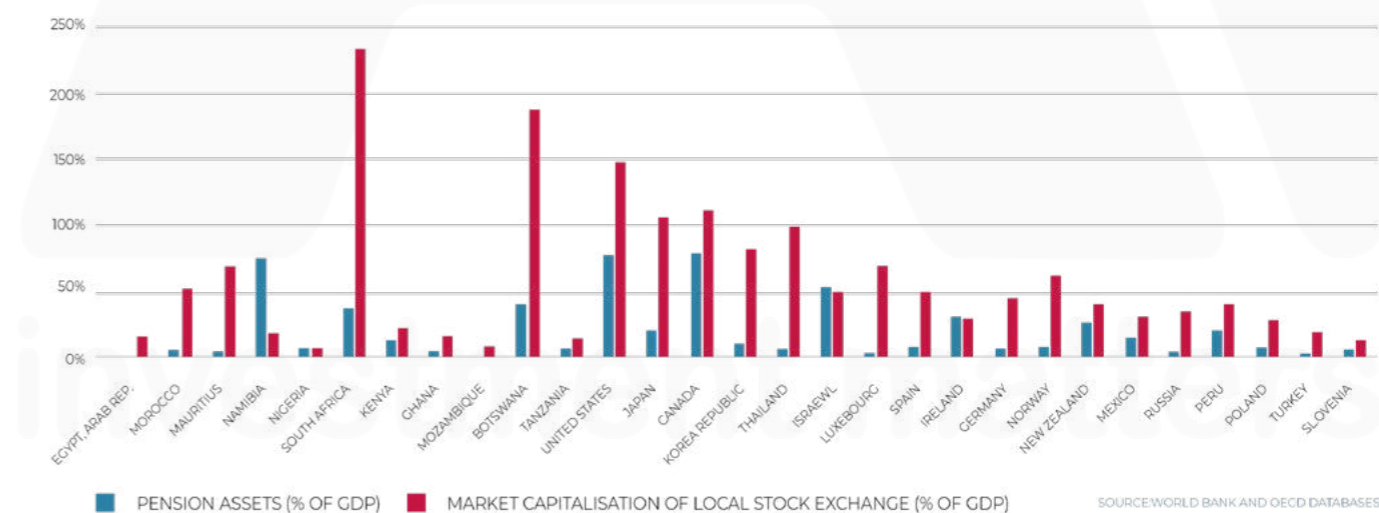
The Zimbabwean pensions system underlines the importance of property investment to pension funds. During times of high to hyper-inflation², one of the best assets to own is property. As long as there is ongoing maintenance, the asset remains intact, rentals can be adjusted, and tenants still require the space. This is a noteworthy scenario given the fall of property prices globally due to COVID-19.

ALLOW FOR REGIONAL AND GLOBAL EQUITY MARKET EXPOSURE FOR PENSION FUNDS IN AFRICA

Longer-term equities typically provide a good hedge against inflation and theoretically a healthy real return. However, a combination of restrictive regulations that prevent investment outside of a country or sub-region, chronically underdeveloped local equity markets (see more in the section entitled on *Building resilience in African capital markets on this*) and high sovereign bond yields have resulted in low equity exposures for pension funds on the continent. The often-quoted reason for limiting foreign exposure is that domestic institutions should invest in domestic assets to develop the local capital markets and prevent downward pressure on the local currency. On the contrary, our experience has been that allowing pension funds to invest outside of their borders has multiple benefits, namely:

- ▶ Increased asset and currency diversification, lowering risk.
- ▶ Better preservation of purchasing power for savers should there be a currency devaluation or other local economic shock.
- ▶ Growth in the overall savings pool, much of which should eventually find its way home as most members spend their retirement in their home country (see *Benefits of increasing foreign allowances for local pension funds example*).
- ▶ Development of regional economies and a reflexive increase in demand for local products sold regionally.
- ▶ Ability for an increasingly globally connected membership base to invest in the global companies whose services they already use daily on their mobile devices and elsewhere, such as Facebook, Apple, Unilever and others.
- ▶ Greater citizen buy-in to a locally mandated pensions system in an increasingly globally connected world.

GRAPH 6: STOCK MARKET CAPITALISATION VS PENSION FUNDS AUM



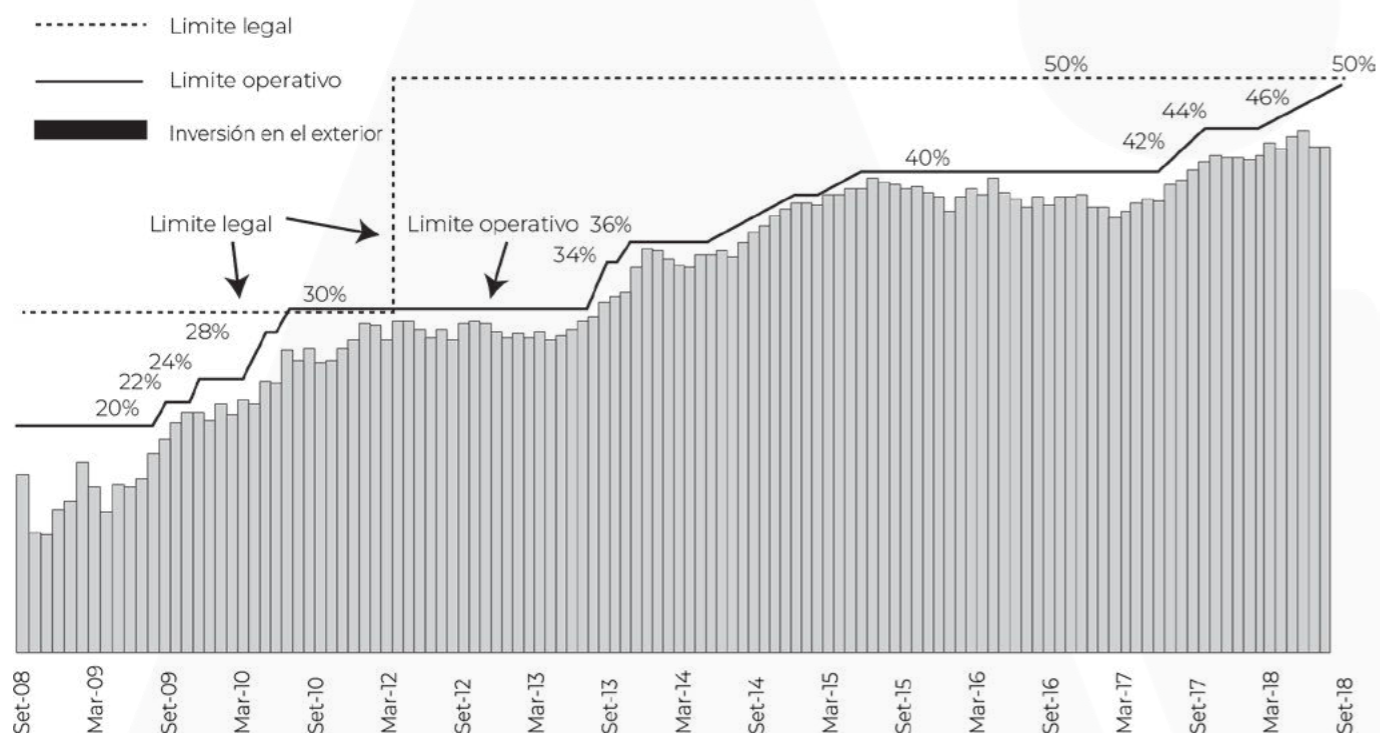
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² Under high inflation, there comes a point where contributory schemes become less desirable than pay-as-you-go schemes. This is particularly so for the public sector. Ultimately, with inflation-beating investable assets being hard to come by, governments may be better off printing more money to pay pensions.

- ▶ Mandatory exposure for the local asset management industry to the global investment arena and best practice as local managers have to engage with international investment partners or evaluate international investment options on behalf of their clients.
- ▶ Increased exposure of pension fund trustees and other fiduciaries to the global investment arena and a chance to evaluate local managers against global counterparts to encourage the development of the local industry.

Foreign investment allowances can be adjusted piecemeal. The chart below shows how foreign investment limits were gradually and pragmatically raised in Latin American countries such as Peru over a 10-year period.

GRAPH 7: INVESTMENT LIMITS IN PERU 2008 - 2018



BENEFITS OF INCREASING FOREIGN ALLOWANCES FOR LOCAL PENSION FUNDS

Following the 2008 Global Financial Crisis, a USD 400m African defined contribution pension fund, permitted by regulation to invest outside of the country, raised its exposure to the limit to capitalise on good quality, relatively affordable global equity assets. Eleven years on, local equity prices have been largely flat, but the additional global exposure has added USD 100m to its fund value. Ultimately, this money will flow back into the local economy as most members retiring from the fund are likely to retire at home and recycle their savings back into the local economy.

- ▶ Reassess the merits of current regulatory restrictions on foreign investment to allow for investment in global investment opportunities, lowering risk, inviting global best practice to local industry and increasing citizen buy-in to a local pensions system in a global world.
- ▶ Examine the regulatory or other limitations to regional investment to support regional development.

PRIVATE MARKETS ARE WELL DEVELOPED IN AFRICA – PENSION FUNDS SHOULD INVEST

Africa has a thriving private markets industry, ranging from private equity to private debt, infrastructure, agriculture and venture capital. Investment has been driven by local and global development finance institutions (DFIs), as well as by multilateral development banks. Most African pension funds have not been significant players in these markets. The most common objections to such investments include lack of liquidity, lack of transparency, higher investment costs and higher risk. Larger, more sophisticated and well-resourced pension funds have recognised the opportunities contained in these objections and have worked to capitalise on the premium they offer investors. For a continent where the best investment opportunities often lie outside of formal markets, every effort should be made to encourage and support safe investment practices for pension funds in this area (see the sub-section *Ride the Impact investment wave below for further detail*).

INFRASTRUCTURE INVESTMENT FROM PENSION FUNDS IN AFRICA

Infrastructure assets can theoretically provide a good match for long-term real returns needed to meet pension liabilities. In addition, they can also help produce powerful developmental outcomes (see subsection on *Developmental/Impact investment below*). However, to date, investment in infrastructure projects by African pension funds has been limited.

The African Union (AU) actively seeks to change this through its 5% Institutional Infrastructure Agenda initiative which is a partnership pact, with domestic African pension and sovereign wealth fund's to mobilise capital for the [Programme for Infrastructure Development in Africa \(PIDA\)](#) and other African and green infrastructure projects, through Institutional Investor Public Partnerships (IIPPs). *More about this in the section entitled Infrastructure resilience below.*

In South Africa, home to the continent's largest pensions industry with about USD 250bn in assets, bankable assets from the country's Renewable Energy Independent Power Producer (REIPP) programme were packaged by the asset management industry and invested in by pension funds locally. (See the *Infrastructure resilience section below for more on this programme*). The South African investment industry led by the [Association for Savings and Investments](#) recently worked with RisCura to create and adopt a definition for infrastructure measurement and classification and has initiated a process to measure infrastructure exposure across the industry. The initiative has also been seconded by prominent pension funds advocacy group the [Council of Retirement Funds of South Africa](#), a welcome move that will hopefully provide more transparency about the extent of infrastructure investment in South Africa.

- ▶ Ensure that long-term fiscal and monetary policy discipline towards limiting the crowding-out effect of high-yielding sovereign debt issuance in local capital markets is set in place.
- ▶ Craft regulation that encourages greater diversification by pension funds in terms of asset class, issuer, private markets, infrastructure, and other alternatives.
- ▶ Modernise asset-class restrictions to move away from a taxonomy-based approach, to the use of asset tagging. For example, an asset could be tagged as unlisted, equity or infrastructure. All three of these categories could have limits.

SUSTAINABLE INVESTMENT IN AFRICA AND THE CONSIDERATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS

Africa has a rich history of sustainable investment, dating back to the groundswell of private equity investment from DFIs that flowed into the continent in the 1990s that was deployed on condition that sustainable investment practices were used to invest the money.

A report commissioned by the [International Finance Corporation \(IFC\)](#) and written by [RisCura](#) and investment advisory firm Sinco in 2008 on sustainable investment in sub-Saharan Africa calculated environmental, social and corporate governance (ESG) investment on the continent to total about USD 125bn (95% of which was made up of South African investors). This figure is now fast approaching USD 300bn in South Africa alone where recent regulation in the pensions industry called for the inclusion of sustainable investment practices in investment policy statements and regulatory reporting in a bid to protect funds, their fiduciaries and their members from ESG failure. South Africa's [Government Employees Pension Fund \(GEPF\)](#) was one of the founding members of the [UN Principles of Responsible Investment \(PRI\)](#) in New York in April 2006. South Africa was also a world leader in establishing a [Code for Responsible Investing \(Crisa Code\)](#) in July 2011, which helped to drive awareness of the importance of sustainable investment practices for institutional investors.

The rise of social media has provided thousands with an easy way to rapidly rally around a cause. Like this, pension funds and their fiduciaries will increasingly need to deal with a socially aware membership base who actively take issue with any ESG transgressions they perceive in the management of the assets held by their pension funds. Arguments are being built and precedent established in the global legal system for legal action against fiduciaries who fail to consider ESG factors when arriving at investment decisions. Witness corporate governance failures in, for example, the case of Choppies and Steinhoff; mounting environmental costs and bad publicity for Sasol and Kengen; and community-related social issues for Lonmin and Tullow Oil.

The most often cited objection for foreign investors in Africa's

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multitude of investment opportunities is risk. Yet at their heart, sustainable investment practices are about mitigating risk with enhancing returns as a secondary consideration. An opportunity exists to capitalise on the global trend of sustainable investment practices to help reframe Africa in the mind of the global investor. It stands to reason then that any investment opportunity in Africa aligned to the outcomes of the Sustainable Development Goals (SDGs) and able to show it has integrated ESG risk mitigation, should prove to be extremely attractive to global capital.

In this respect the much welcomed, **CFA SDG-ESG Infrastructure Investment Impact Framework** was developed by Africa investor (Ai), GRESB and the University of Cambridge Institute for Sustainability Leadership (CISL), with the support of a high-level 'brain trust' of global asset owners. It was launched during the 2020 World Bank Annual Meetings to assist asset owners globally in measuring their contribution to the SDGs for infrastructure assets and projects. Ai is currently regionalising the framework according to the goals of Agenda 2063 to assist African and global asset owners in dynamically aligning and measuring their contribution to Agenda 2063; the SDGs and ESG best practice through the framework.

- ▶ Educate and train investment industry participants in the importance of sustainable investment practices to preserve long-term value.
- ▶ Conduct local research and seek out local case studies that confirm the investment value enhancement of integrating ESG factors into the investment process.
- ▶ Draft regulations that require funds to consider the long-term sustainability of investments, by examining ESG factors in existing and prospective investments.
- ▶ Include the implementation of sustainable investment

ALIGNING THE AFRICAN INVESTMENT AGENDA WITH THE SDGS AND AGENDA 2063

The adoption of the **Sustainable Development Goals (SDGs)** in 2015 by UN member states was a significant moment for Africa in that it has a central pledge to "Leave No One Behind" and in so doing, to fast track the progress for those furthest behind first. Africa is the continent with the highest concentration of poverty, hunger, HIV/Aids and discrimination against women.

The AU's Agenda 2063 preceded the adoption of the SDGs by two years, but much work has been done to demonstrate the commonality between the two (more on this [here](#)). The implication is that capital earmarked for SDG investment from developed countries would also fulfil Africa's own identified outcomes set out in Agenda 2063.

practices in investment policy statements and regulatory reporting in a bid to protect funds, fiduciaries and beneficiaries from ESG-related failures.

- ▶ Foster alignment to the international codes on responsible investment practices (UN-Pri) or develop a local code based on best practices, such as the Code for Responsible Investment South Africa (Crisa).
- ▶ Capitalise on the "Leave No One Behind" pledge of the SDGs to catalyse investment from earmarked global funds targeting investment opportunities that honour the pledge.
- ▶ Ride the global wave of integrated sustainable investment practice to mitigate against the actual risk and the perceived risk in African investments.
- ▶ Apply the CFA SDG-ESG Infrastructure Investment Impact Framework.

AFRICAN PENSION FUNDS AND THE IMPACT OF CLIMATE CHANGE

Though Africa is perhaps more readily associated with the sustainability and governance issues of its past, these will likely in future years be eclipsed by the one overriding environmental issue we all face, namely climate change. This report has already covered the issue of climate change in some detail under the section entitled The role of African sovereign wealth funds on the continent. For pension funds, climate change poses long-term risks to members' ability to live a comfortable life in retirement. An example of this is contained in the section South African pension fund industry taken to task about climate change, indicating that the fiduciary duty of trustees will likely need to include consideration of climate

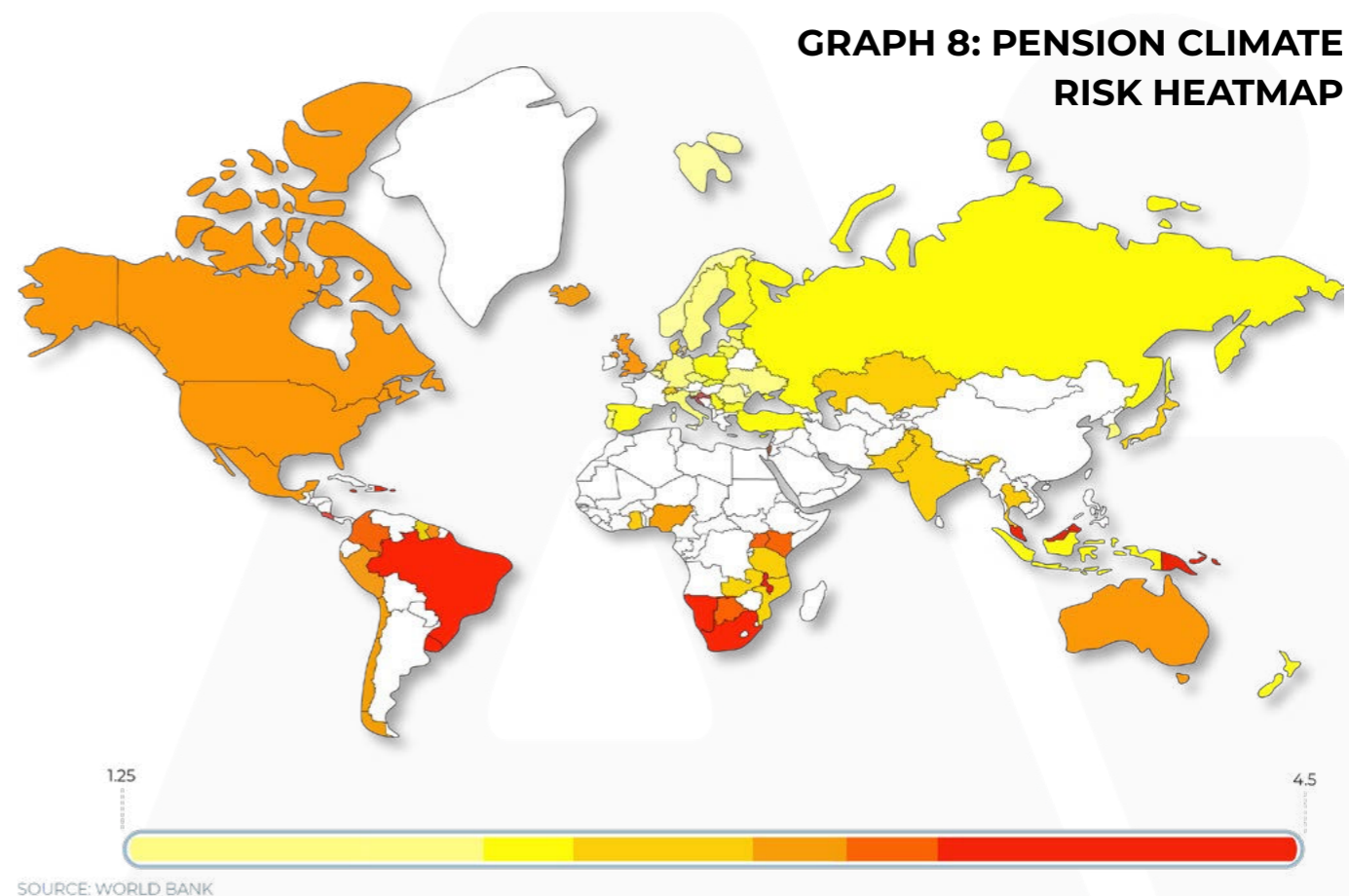
SOUTH AFRICAN PENSION FUND INDUSTRY TAKEN TO TASK ABOUT CLIMATE CHANGE

Shareholder activists **Just Share** and environmental law organisation **ClientEarth** collaborated in 2019 to draft a letter to more than 50 of the largest pension funds in South Africa to challenge them on their duty to members in relation to climate change. The commissioned legal opinion they cited indicated that failing to meet the requirement on climate change **"would likely amount to a breach of fiduciary duty by the board of a pension fund"**.

change issues to prevent class-action lawsuits against them in the future dating back to now.

The *Country pension climate risk heatmap graph* below also indicates the climate change risk to pensions in Africa as determined by the World Bank.

Climate action will require investment in both mitigation and adaptation measures. For now, African pension fund managers



should play their part in ensuring mitigation by raising the issue with their asset managers and investee companies alike. *See Taking action on climate change – Climate action forums for investors to consider* for examples of climate change-related organisations that investors can participate in. In future African pension funds should also play a key role in climate change adaption in how they communicate to their members around planning for the future.

Finally, a significant opportunity on the mitigation side, which Africa is uniquely placed to pursue, is to leapfrog old technologies used for electricity generation and embrace decentralised electricity generation powered by Africa's abundant renewable energy sources, which include 10 terawatts of solar, 350 gigawatts of hydro and 15 gigawatts of geothermal.

Already, investment opportunities abound in this area, such as South Africa's REIPP programme (*see Boxed text overleaf marked How South Africa's REIPP encourages infrastructure investments for more detail*), and many pension funds have made their first foray into green infrastructure investments.

- ▶ Set aspirational targets for investing in the field of green infrastructure, sustainable energy, sustainable agriculture, digitalisation and technology, healthcare, education and water security.

RIDE THE IMPACT INVESTING WAVE

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TAKING ACTION ON CLIMATE CHANGE – CLIMATE ACTION FORUMS FOR INVESTORS TO CONSIDER

AFRICAN GREEN INVESTMENT BANK (AFGIIB) INITIATIVE (WWW.AFGIIB.COM)

The AfGIIB initiative, is an African institutional investor-led global initiative, committed to innovatively building and strengthening the African green finance market, not simply serving it.

CLIMATE ACTION 100+ (WWW.CLIMATEACTION100.ORG)

Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

ONE PLANET SOVEREIGN WEALTH FUNDS (WWW.ONEPLANETSWFS.ORG)

Established in 2017 on Climate Finance Day, in recognition of the role sovereign wealth funds can play to accelerate efforts to integrate financial risks and opportunities related to climate change in the management of large, long-term asset pools.

TASK FORCE ON CLIMATE RELATED FINANCIAL DISCLOSURES (WWW.FSB-TCFD.ORG)

The Task Force on Climate Related Financial Disclosures (TCFD) develops voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.

CARBON DISCLOSURE PROJECT (WWW.CDP.NET)

Founded in 2000, the Carbon Disclosure Project (CDP) works to focus investors, companies and cities on taking action to build a truly sustainable economy by measuring and understanding their environmental impact. The CDP has the largest database of climate impact data for corporations across the world.

A growing number of people want to understand how pension fund savings are being invested. In a 2017 research paper titled **Pensions with Purpose**, UK market research consultancy ComRes and social-impact investor Big Society Capital found that nearly half of respondents felt it was important that pensions were invested in organisations that reflect the respondent's own social and environmental views. In Africa, an increasing number of pension fund fiduciaries want to see their pension money contribute to the development of the local economy and society. In many cases, they would like to see members' pension money directly contributing to the upliftment of members' communities, to improve local infrastructure, help build hospitals or schools or support SMEs, before not after they retire.

The **Global Impact Investing Network (GIIN)** defines impact investing as investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. In keeping with GIIN's definition, the social and environmental impact of any developmental investment must be measured to be deemed an "impact investment". For this reason, we have grouped developmental and impact investing together, as in our experience the additional complexity, cost and skill involved in measuring the impact often precludes an investment from being impact as defined. Yet, it is obvious that the investment is developmental. To add to this, the largest pension fund on the continent, South Africa's Government Employees Pension Fund, has

a developmental global investors investment policy (*see A leader in developmental investing – South Africa's GEPF*).

Developmental or impact investing can often prove expensive, as it often entails smaller ticket sizes than "traditional investing", and yet can be more difficult to execute. Added to this, the skills required to execute impact investments are often in short supply on the continent. This makes such solutions hard to come by in the private sector, which is likely why the largest developmental investor on the continent (*see text box*)

A LEADER IN DEVELOPMENTAL INVESTING – SOUTH AFRICA'S GEPF

The Government Employees Pension Fund (GEPF) subscribes to a developmental investment policy and sets aside 5% of its total portfolio (about USD 5bn) for such investments. The GEPF notes in its annual financial statements 2019 that: "Through developmental investments, we are able to play a role in addressing many of the pressing economic, social and environmental challenges such as growth, unemployment and inequality". The fund's government-owned asset manager, the **Public Investment Corporation (PIC)** has been tasked with investing in a number of areas deemed developmental, such as: economic infrastructure, economic transformation, environmental sustainability, social infrastructure, certain priority sectors, and SMEs.

- *A leader in developmental investing – South Africa's GEPF*) happens to be a public sector pension fund with a government-owned asset manager.

- ▶ Educate pension industry participants about the benefits of impact/developmental investing, to increase awareness and uptake.
- ▶ Encourage allocation to developmental targets such as, impact or infrastructure investing through setting aspirational targets and measuring progress.
- ▶ Measure exposure to developmental factors, such as infrastructure investment (*see boxed text on Infrastructure taxonomy page 101*) and job creation.

4.4. AFRICAN PENSION FUNDS IN A POST-COVID-19 WORLD

AFRICAN PENSION FUNDS MUST JOIN REGIONAL OR GLOBAL COALITION PLATFORMS

In a post-COVID-19 Africa, the need for attracting foreign investment into the continent is paramount. Yet for many global investors, the perceived risk of investing in Africa can often prove prohibitive. African pension funds, however, can play an important role as co-investment partners for those interested in investing in Africa. Global investors are significantly more comfortable co-investing with local institutional investors who themselves share similar liabilities and a similar aversion to risk. Furthermore, the co-investment process also allows for the sharing of costs incurred during investing.

- ▶ Consider joining a coalition platform of institutional investors regionally or globally to open up partnerships for regional or global institutions to invest in Africa.

GLOBAL COALITION PLATFORMS AFRICAN PENSION FUNDS SHOULD CONSIDER JOINING

WORLD PENSIONS COUNCIL (WWW.WORLDPENSIONS.ORG)

The World Pensions Council (WPC) is a non-profit policy research organisation dedicated to the retirement and savings aspects of social protection.

CFA INSTITUTE – GLOBAL ASSET OWNERS ADVISORY COUNCIL (WWW.CFAINSTITUTE.ORG)

In 2018 the CFA Society New York launched the CFA Global Asset Owner's Advisory Council (AOAC), to bring members perspectives from the most influential asset owners and local market decision makers. The AOAC convenes decision making Asset Owners from across the CFA's global network of Societies, representing over USD 60 trillion in assets under management and advisement.

UN PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) (WWW.UNPRI.ORG)

The UN Principles for Responsible Investment (PRI) is an international organisation that works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

INVESTOR LEADERSHIP NETWORK (WWW.INVESTORLEADERSHIPNETWORK.ORG)

The Investor Leadership Network (ILN) is an open and collaborative platform for leading investors interested in addressing sustainability and long-term growth. A direct outcome of Canada's 2018 presidency of the G7, the ILN focuses on concrete actions and global partnerships.

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GLOBAL COALITION PLATFORMS AFRICAN PENSION FUNDS SHOULD CONSIDER JOINING CONTINUED

GLOBAL INFRASTRUCTURE INVESTORS ASSOCIATION (WWW.GIIA.NET)

The Global Infrastructure Investors Association (GIIA) plans and delivers a programme of global advocacy and stakeholder engagement towards promoting private investment in infrastructure.

PACIFIC PENSION & INVESTMENT INSTITUTE (WWW.PPI.INSTITUTE)

The Pacific Pension & Investment Institute (PPI) helps asset owners and managers navigate the changing international investment environment.

LONG TERM INFRASTRUCTURE INVESTORS ASSOCIATION (LTIIA) (WWW.LTIIA.ORG)

Founded in 2014 by investors and for investors, the Long Term Infrastructure Investors Association (LTIIA), is a not-for-profit international professional association; for institutional investors and fund managers with responsibilities over long-term and open-ended infrastructure investment mandates.

PENSIONS INDUSTRY PROFESSIONALISATION AND EDUCATION

As alluded to in this section's introduction, the make-up of boards of fiduciaries charged with the responsibility of making decisions on behalf of members can vary significantly. However, when it comes to how individual board members apply their minds to the same set of problems, the training and professionalisation of trustees on investment matters can go some way to reducing variability in the decision-making process. Training should include investment-related topics such as those set out in this document.

- ▶ Ensure regulation provides for at least one, if not two, independent trustees as part of the make-up of a pension fund board of trustees.

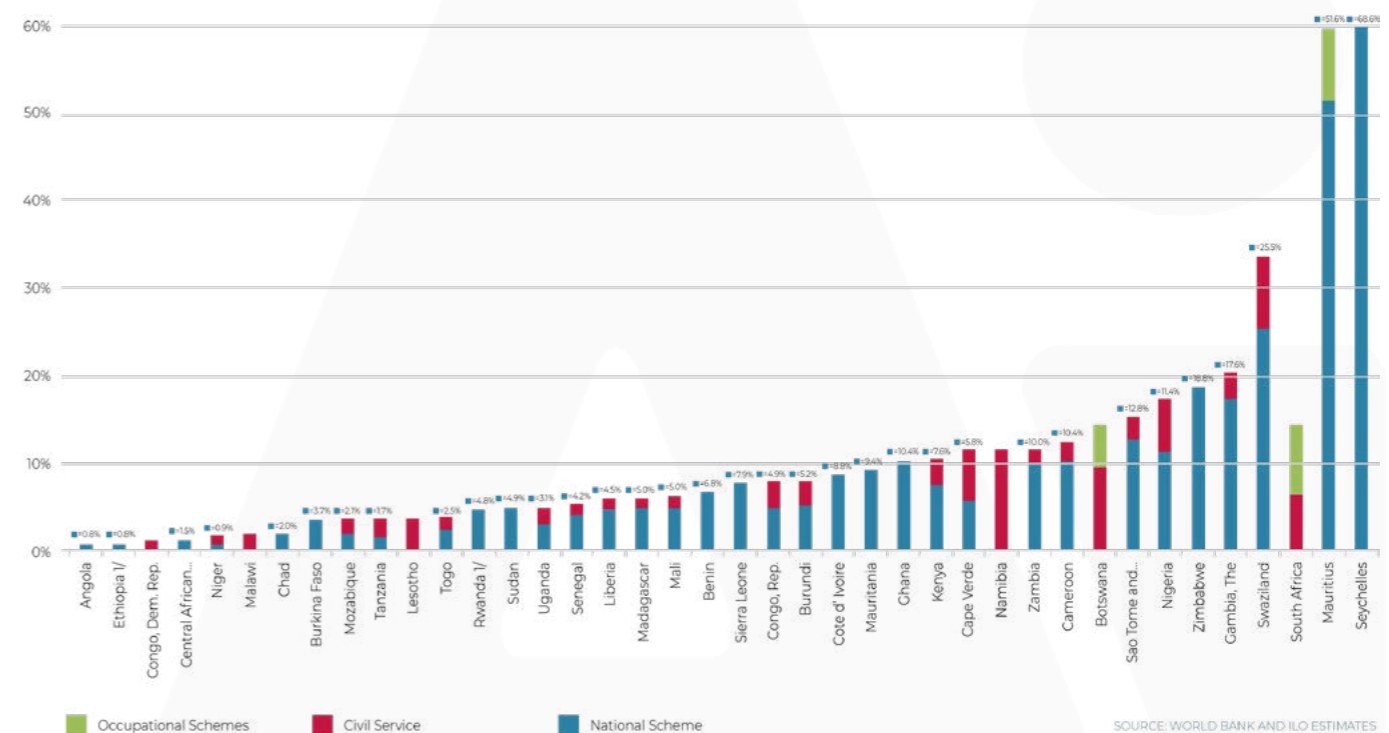
- ▶ Introduce qualification criteria for pension fund trustees supported by regulator-endorsed, online training and accreditation.
- ▶ Expand trustee trainee programmes to include trustee education on investing in Africa, the merits of infrastructure investment for pension funds, sustainable investment practices, the integration of ESG factors in the selection and monitoring of pensions investments and developmental/impact investing.
- ▶ Examine regulations governing the term for which trustees can stand with a view to extending it to increase levels of expertise, professionalism, continuity and institutional knowledge and memory.
- ▶ Look at ways to increase the standard of investment consulting and advice, so that it extends beyond that of traditional investing.



INCREASING THE SIZE OF RETIREMENT SAVINGS IN AFRICA

The coverage of the labour force by pensions systems in Africa remains generally low with the exception of a handful of countries (see *Graph 9: Coverage of the Labour Force in SSA*). There are various reasons for this, and methods for increasing coverage in the formal and informal sectors are well documented³. Reviewing the case studies of those countries that have been more successful in raising coverage in their jurisdictions is instructive (see *Digital leadership at the United Nations Joint Staff Pension Fund*).

GRAPH 9: COVERAGE OF LABOUR FORCE IN SOUTH AFRICA



The real economy in Africa consists of both a formal and an informal economy, with the latter playing a significant role in economic, employment, trade and savings growth. An important lesson learned from Latin American pensions systems is that they were set up in anticipation of the fact that much of the informal sector would graduate to the formal sector through time. In practice this has not happened as expected. This has meant that the predicted coverage and density of contributions have remained low for the Chilean-style pensions systems introduced in previous decades (both Ghanaian and Nigerian pension reforms are loosely based on the Chilean model).

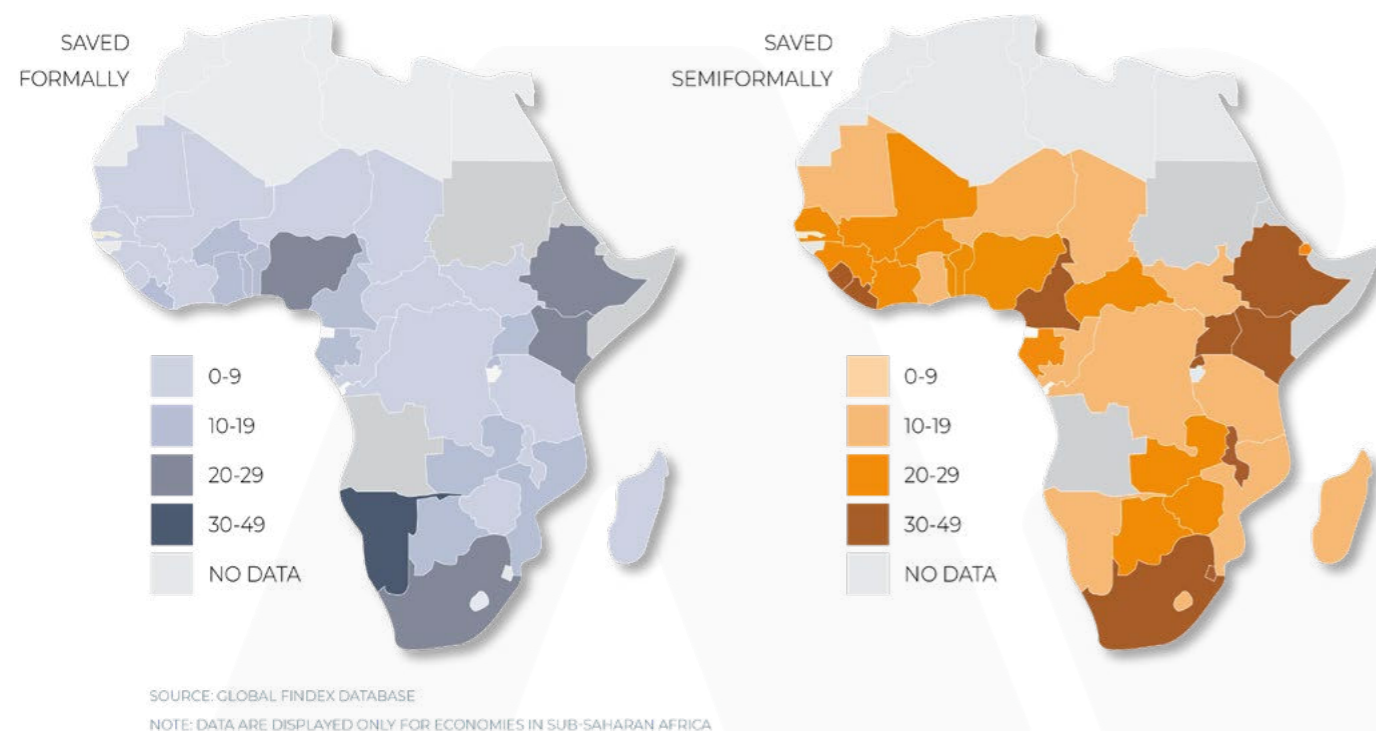
Those that work in the informal sector often don't have regular incomes, are more susceptible to short-term shocks and are difficult to service through the traditional means employed by pension funds globally⁴. Despite these challenges, Africa has a combination of wide and still growing coverage of mobile network operators and some of the best mobile money networks in the world. These platforms are proving key to the success of informal schemes both on the continent and globally.

- ▶ Engage and collaborate to harmonise the pensions system with the national identity framework to ensure wider participation.
- ▶ Investigate the use of digital access mobile money and mobile network operators to facilitate savings from those employed in the informal sector.
- ▶ Investigate auto-enrolment to increase the size of schemes, and strategise as to how to enhance and improve these systems through technological interventions.
- ▶ Document the workings of semi-formal savings schemes and strategise on how to enhance and improve these systems through technological interventions.

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³ OECD, "Improving Pensions System Coverage: Understanding and meeting needs", 2013. <https://www.oecd.org/daf/fin/private-pensions/43920158.pdf>
⁴ World Bank, "Extending Pension Coverage to the informal sector in Africa": A Social protection and Jobs discussion paper, 2019.

GRAPH 10: RATE OF SAVING FORMALLY VS RATE OF SAVING INFORMALLY IN SUB-SAHARAN AFRICA



PENSION POLICY OVERHAUL

A review of current pensions policy and regulations to modernise and futureproof the industry is necessary to achieve the vision set out in this document for the local industry and the continent. While a complete overhaul of social security systems may also be called for following COVID-19, it is beyond the scope of this report.

- ▶ Review the pension legislative environment to eliminate any roadblocks to implementing the suggested changes set out in the roadmap. These include: raising trustee professionalism, integration of sustainable investment practices and ESG factor management, and increased investment in developmental/impact objectives.
- ▶ Ensure that pensions policy is harmonised with desired fiscal and monetary future states.
- ▶ Ensure a well-resourced pensions supervisory capacity that can execute the necessary changes to achieve the desired vision of a more investable Africa in 2063.
- ▶ Investigate the digitalisation of regulatory and policy environments, starting with a review of the benefits of

potential **#RegTech** solutions in terms of cost reductions, increased speed and modernisation.

- ▶ Regulate pension funds and ensure each has an investment policy statement, resulting in increased investment oversight and governance standards.
- ▶ Collaborate more readily and regularly with regional and continental pensions supervisors to harmonise and benefit from each other's experiences, particularly through the International Organisation of Pension Supervisors (IOPS).

PENSION ADMINISTRATION NEEDS TO ADOPT NEW TECHNOLOGIES

Pension administration in Africa has the chance to transform itself using various technology:

- ▶ The rise of the smartphone and battery-operated mobile devices.
- ▶ The ability to charge batteries using solar-powered devices.
- ▶ The development of secure mobile payment and mobile money technology.

- ▶ The advance in digital citizen identification programmes using biometric characteristics beyond fingerprints including facial recognition and iris recognition technology.
- ▶ The ability to geolocate individuals using GPS in smartphone technology.
- ▶ Enhanced security using blockchain technology.
- ▶ Development of mobile apps that allow users the possibility to interface with their pension fund credit or their pension payment arrangements.
- ▶ Implementation of chatbots to answer member queries.
- ▶ Harmonise the pensions administration system with the move to digital citizen identification programmes, allowing for secure remote identification and verification of pension fund members, thereby reducing costs and increasing security and transparency.
- ▶ Integrate pension payment administration systems, with improvements in mobile payment and mobile money and tokenisation and digital asset technologies.

DIGITAL LEADERSHIP AT THE UN JOINT STAFF PENSION FUND

The **United Nations Joint Staff Pension Fund (UNJSPF)** in 2019 began rolling out a biometric facial recognition pilot project in partnership with the **International Computing Centre (ICC)** to automate the pension process by optimising identity verification, proof of existence and proof of residence.

The pilot project leverages the blockchain, biometrics, geolocation and mobile applications. As the UN is required to verify more than 70 000 pensioners in over 190 countries who receive pension payments, the system needs to confirm people are alive to receive their benefits. For almost 70 years, the organisation has used manual verification and paper-based documents, which beneficiaries had to sign and send by post.

Using the blockchain and digital identity, the UN is able to easily audit the verification process, while eliminating the need for manual processing. **Biometrics** were added for personal identification, while the blockchain generates traceable, immutable and independently auditable evidence and geo-location confirms proof of residence. Finally, the use of mobile applications makes it easier for beneficiaries to take part in the pension process.

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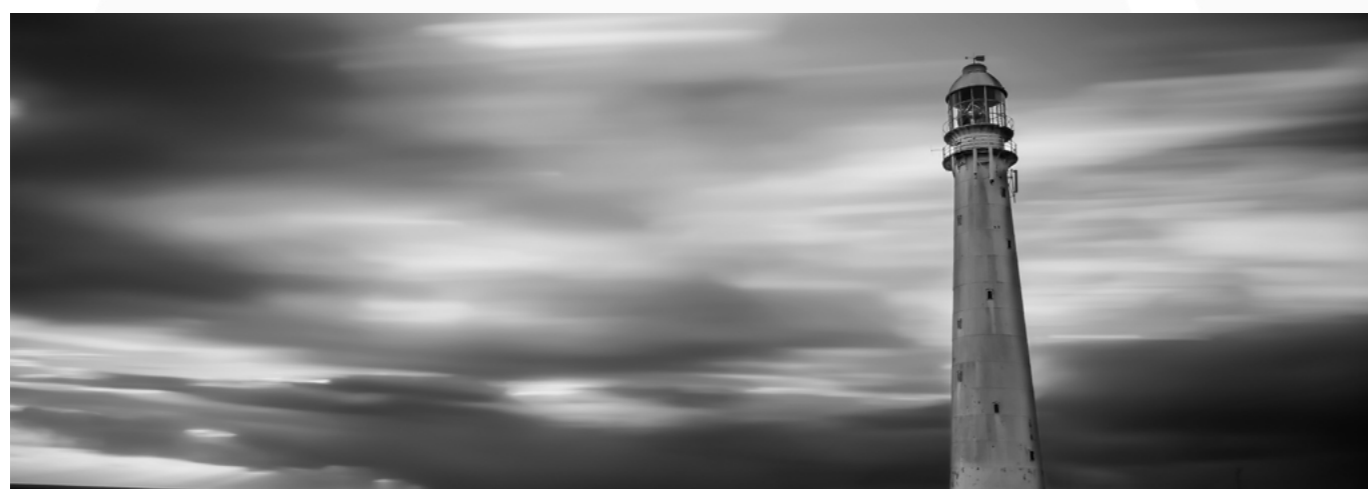
4.5. REIMAGINING AFRICAN PENSION FUNDS FOR 2063

When modelling pension fund liabilities, the future cash flows of today's younger members stretch out to 2080 and beyond because a contributing 22-year old today will be 82 years old in 60 years and, if still alive, will be receiving a pension. Below we have set out what the pension fund industry might look like in the future. Equally as important to think about is what the environment and society will look like that today's 22-year-old will retire in. Much of what is discussed in this roadmap will shape this vision.

1. Personalised pension plans that are not linked to any one corporate, and so better accommodate the gig economy and increased mobility of the workforce.
2. Mandatory minimum percentage contributions from all African corporations for all employees, who are either permanently or temporarily employed, with the use of individual rights as a top up.
3. Portability of pension rights regionally and across Africa.
4. Personalised lifestyle continuum arrangements – No pre- or post-retirement periods (**#Gen-Z**).
5. Individual target dated financial wellness funds – investment outcomes translate to financial wellness (**#individualchoice**).
6. Longevity allows for the retirement age to increase to 75.
7. Compulsory health and longevity insurance (to start at age 85) for all pension plans.
8. Compulsory annuitisation of at least 75% at retirement age. Annuity fees to be controlled centrally. No more than 25% to be taken as a lump sum on retirement.
9. Pension administrators proactively advise members

as trusted retirement coaches through digital communication platforms.

10. Centralised pension fund administration system, locally, regionally, or even continentally. Administration is centrally controlled by the government and not outsourced to the private sector. Fees should be capped at no more than 10 basis points (bps).
11. Harmonise the pensions administration system with the move to digital citizen identification programmes, allowing for secure remote identification and verification of pension fund members. (**#selfsovereign**)
12. Self-sovereign identification offered through blockchain technology enables the self-employed to be auto-enrolled and their savings and pensions contributions to be administered through their tax self-assessment process. (**#selfsovereignidentity, #blockchain**)
13. Mobile access to your pension through social media and other application platforms.
14. Online and social media will be the primary channel that traditional pension funds use to interact with their members, from querying member balances to virtual and webcast member annual general meetings.
15. Fixed product fees for anyone selling qualifying investments to pension plans. For example, 50bps for equity, 25bps for bonds, 10bps for cash and exchange traded funds (ETFs).
16. Standardised lists of permitted investments for pension funds, vetted centrally.
17. Curated financial footprint allowed for, through user-driven investing. (**#financialfootprint**)



FUTUREPROOFING PENSIONS - COMPILED BY AFRICA'S LEADERS OF TOMORROW

#longevity #chatbots	Improvements in medical technology will drive longevity making the time after current retirement ages of 65 as much as the years worked prior to that. Retirement funds will have to do a lot more for their retirees. For example, the development of chatbots to keep retired members company and informed about their funds and financial futures and to gather data on retirees, which could be useful to their health and wellbeing.
#generation-z #disruption #individual #choice	Generation-Z pension members will have different demands and wholly different expectations when it comes to the consumption, administration and investment process of pensions and savings: <ol style="list-style-type: none"> Individual Target Dated Financial Wellness Funds. Investment outcomes translate to financial wellness. Investment mandates of pension funds will need to be widened to accommodate the greater sustainability concerns of Generation-Z members. Portability of pension rights regionally or across the continent. Curated financial footprint allowed for, through user-driven investing.
#selfsovereignidentity	Artificial intelligence (AI) combined with blockchain technology can be used to accurately identify pension fund members and beneficiaries to assist with tracing and prevent fraud.

#Tags: #longevity, #financialfootprint, #chatbots #generation-z, #disruption, #individual, #choice, #selfsovereignidentity

KEY STRATEGIC INVESTMENT PRIORITIES FOR AFRICAN PENSION FUNDS THROUGH TO 2063

STRATEGIC INVESTMENT PRIORITIES	AREAS TO RESEARCH AND INVESTIGATE
Support and grow local equity markets, focus on SMEs	Local listed equity, private equity funds, venture capital funds, listed small caps, e-trade, e-commerce and FinTech.
Support and grow local debt markets	Private debt funds, debt issuances
Support and grow local property market	REITs, rental property developments
Invest in infrastructure	African Green Infrastructure Investment Bank , Infrastructure debt and/or equity funds, fund of funds or direct. Infrastructure co-investment platforms.
Invest in increasing trade	Trade finance funds
Improve engagement strategies with investee companies and debt issuers (incl. government)	Proxy voting, engagement, stewardship.
Engage investee companies on ESG issues	Environmental, social and governance issues.
Engage investee companies on climate change adaption and mitigation strategies	Climate change
Measure investment impact	Impact investing, Developmental investing, the CFA SDG-ESG Infrastructure Investment Impact Framework

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SECTION FIVE

MULTILATERAL LENDING FOR IMPROVED RESILIENCE



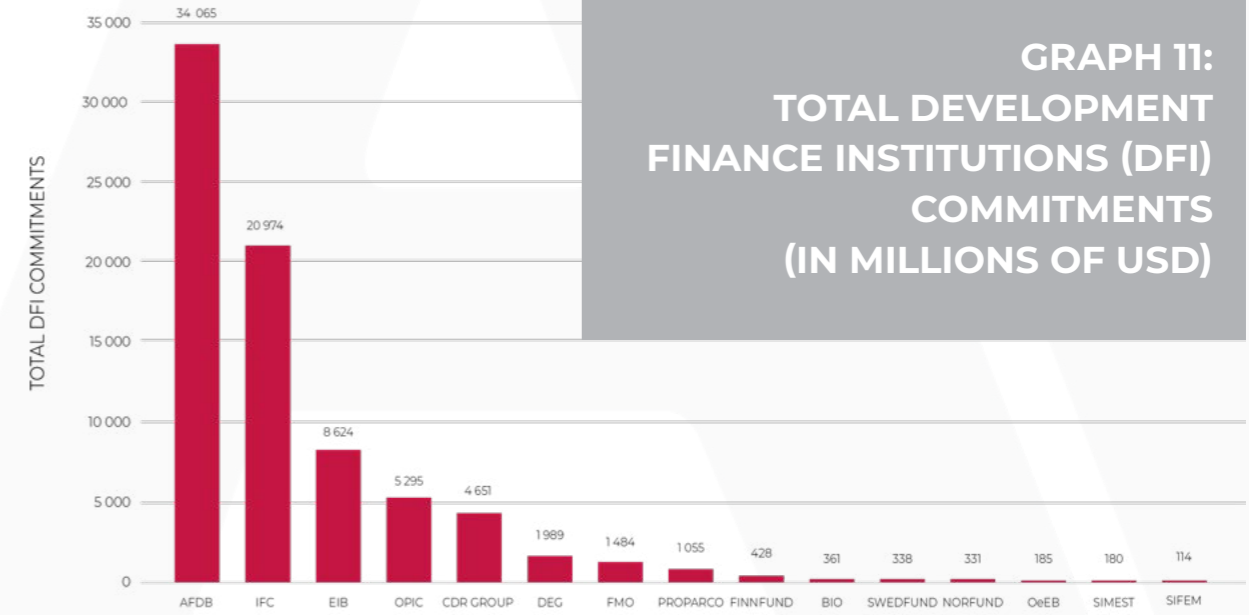
investment matters

5.1. OVERVIEW

- 5.1 OVERVIEW
- 5.2 SELL DOWN OF BROWNFIELDS ASSETS
- 5.3 CROWDING IN THE PRIVATE SECTOR
- 5.4 BLENDED FINANCE
- 5.5 DEBT RELIEF
- 5.6 AFRICA AND THE DEVELOPMENT COMMUNITY THROUGH TO 2063

Globally, the financing necessary to meet the SDGs remains significantly below what's needed. The same can be said of Africa. Despite an annual total financing mix of USD 650bn, the additional annual financing required is estimated to be between USD 500bn and USD 1.2trn⁵. Many of Africa's poorer countries were already struggling to make debt repayments before COVID-19. The current crisis has only made things worse, as economic output has fallen and tax revenues plunged. Governments have also ramped up spending to fight the virus. Additional funding over and above what is possible through government budgets is required.

Bilateral and multilateral development banks have traditionally been significant investors and grantors of concessional finance to Africa, as can be seen in the *Total DFI commitments graph*, below. The continent needs to find ways for these investment inflows to be leveraged and multiplied to obtain the highest possible impact.



The private equity industry is a good example of an investment by development finance institutions (DFIs) that has been leveraged over time. After initially being almost exclusively funded by DFIs, the private equity industry on the continent has evolved to attract significant commercial capital. This illustrates the principle of additionality, as the investment has not only a direct impact, but also an additional effect of developing the capital markets and crowding in commercial capital.

The multilateral development banks currently have private capital mobilisation ratios of less than 1:1 (private to public) across their portfolios, with only about 30% of the capital commitment by the multilateral development banks, being matched by private sector capital. In the case of the African Development Bank, private sector capital matched stands at about 25% of the development bank's total portfolio⁶.

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⁵ Africa and the Sustainable Development Goals: A long way to go. Brookings Institute, July 2019

⁶ Unleashing the Potential of Institutional Investors in Africa, African Development Bank Group, Working Paper Series No 325, November 2019

Multilateral development banks and other development agencies have also struggled to deploy their total commitments to infrastructure in Africa.

African governments have the potential to accelerate recovery post-COVID-19, by leveraging on the significant commitments that multilateral development banks have made to the continent. We believe that there are several ways in which African institutional investors can engage with multilateral development banks to leverage these funds and speed up recovery (see *How multilateral development banks have responded to COVID-19*) for examples of COVID-19 responses from African MDBs.

HOW MULTILATERAL DEVELOPMENT BANKS HAVE RESPONDED TO COVID-19

AFRICAN DEVELOPMENT BANK

The **African Development Bank** has responded swiftly to the needs of its member countries during the pandemic. The development bank raised USD 3bn from the Fight COVID-19 Social Bond, the largest dollar-denominated social bond ever launched in international capital markets. Proceeds from the bond, which has a three-year maturity, will help alleviate the impact of the pandemic on livelihoods and Africa's economies.

The development bank also announced a COVID-19 Response Facility that will provide up to USD 10bn to African governments and the private sector to tackle the disease and mitigate the suffering that results from the economic downturn and job losses.

DEVELOPMENT BANK OF SOUTHERN AFRICA

The **Development Bank of Southern Africa (DBSA)** has helped co-ordinate various interventions in South Africa and other **Southern African Development Community (SADC)** countries. It has supported the **South African National Disaster Management Centre** as well as municipalities with the provision of mobile screening and testing units as well as isolation pods. It is also supporting the provision of diagnostic services through the support given to the **National Health Laboratory Service**. The DBSA has also focussed on the provision of access to water in the various municipalities.

The bank's second priority is the impact of COVID-19 on the economy. It is investing in catalytic sustainable infrastructure investment, with a focus on how to crowd in the private sector. Priority is also being given to investment in the manufacturing sector to preserve and create jobs.

INDUSTRIAL DEVELOPMENT CORPORATION

The **Industrial Development Corporation (IDC)** has established a R 300m **COVID-19 Small Industrial Finance Distress Fund** to assist qualifying IDC clients, as well as new clients, that have been negatively affected by the pandemic. The fund offers concessionary finance to cover short-term operating costs.

AFRICAN FINANCE CORPORATION

The **African Finance Corporation (AFC)** committed to providing over 500m Naira to the **Central Bank of Nigeria's Private Sector Coalition** against the COVID-19 pandemic aimed at targeting interventions in emergency hospitals in Lagos and Abuja. The AFC is also providing critical medical supplies to the **Nigeria Center for Disease Control** to enhance its capacity as it manages the increasing number of COVID-19 cases in the country.

THE TRADE AND DEVELOPMENT BANK

In its COVID-19 response the **Trade and Development Bank** has:

- Helped eligible member states to procure essential medical supplies;
- Supported suitable financial institutions in the region that face liquidity challenges;
- Assisted corporate clients with access to supply chain and necessary inputs;
- Supported sovereign clients that have short and long-term liquidity challenges; and
- Scaled-up support to the region by working with global funding partners via risk-sharing agreements and co-financing mechanisms.

WEST AFRICAN DEVELOPMENT BANK

Discussions are underway to define support to be provided to the private sector. The **Banque Quest Africaine De Développement** will be working in conjunction with commercial banks to offer this support. This support could take two forms: (i) contribution to the financing of short-term requirements for revamping business or (ii) medium/long-term loans for productive investments to consolidate, strengthen or optimise production tools.

In the long-term, countries will need to optimise policy and institutional mechanisms to attract both developmental and commercial private capital. But once they have attracted developmental capital, leveraging that capital to obtain the largest possible impact is imperative to the recovery of the continent.

Governments will need to change from being passive recipients of aid to actively measuring, monitoring and facilitating the efficiency with which developmental capital is deployed in the economy. Enabling accountability for how developmental capital is disbursed is difficult as a developmental investment is often concessional, meaning that the funding is either in the form of grant funding or debt with a below market rate interest rate. As you are in essence receiving aid, demanding accountability for maximising the positive impact of aid, can be hard. However, the government must nonetheless ensure that feedback is collated from the private sector, the development agencies, and various government departments and agencies, to obtain the best outcome for the citizens of the continent in the long run.

5.2. SELL DOWN OF BROWNFIELDS ASSETS

Access to brownfields assets can help create additionality, by contributing to the creation of a viable infrastructure investment industry. An investment is classed as brownfields when a company or government buys or leases existing production facilities to launch a new production activity. As discussed in the section entitled **Infrastructure resilience** of this roadmap, multilateral development banks hold high-quality infrastructure assets on the continent. While privatising state assets, as Australia did to create the infrastructure investment industry, may not be politically viable or desirable, the recycling of multilateral development bank assets would allow these institutions to redeploy this capital in further development projects and the creation of a secondary market for African infrastructure, which would catalyse more institutional investor allocations.

This reiterates one of the immediately actionable points, concerning infrastructure investment.

- ▶ Restructure and sell to institutional investors infrastructure assets that have proven to be resilient and creditworthy, retaining the DFIs as significant funders. Institutional investors will build confidence with the asset class over the years, initiating a long-term institutional investment public partnership (IIPP), but also freeing up capital in these development institutions that can be immediately recycled to invest in the continent's recovery.

In the case of the Room2Run programme, the securitisation was synthetic and significant structuring was needed to package assets for resale. The packaging and sale of secondary assets can be simplified if fund managers don't initially structure investments purely for multilateral development bank participation, but instead opt to engage with local institutional investors at the design and structuring stage of the project.

During this stage, the structuring is carried out with the assumption that the multilateral development banks must exit and recycle capital once the asset reaches maturity. It should also

AFRICAN DEVELOPMENT BANK'S ROOM2RUN PROGRAMME

The African Development Bank, the European Commission, Mariner Investment Group, LLC (Mariner), Africa50, and Mizuho International plc created a world first with the development bank's **Room2Run programme**, a USD 1bn synthetic securitisation corresponding to a portfolio of seasoned pan-African non-sovereign mezzanine loans.

The transaction shifted credit risk on a USD 1bn portfolio of pan-African loans to the hands of private investors. In so doing, the transaction succeeded in reducing the risk on the bank-retained senior portion of the structure, and hence the risk capital that the bank must hold. The development bank was then able to recycle this released capital, enabling USD 650m of new development lending in Africa.

be assumed that the exit will be to institutional investors and that their input should be obtained to ensure the investment opportunities are fit for purpose.

- ▶ Engage with the multilateral and regional development banks, to communicate how investment opportunities should be structured to ensure that they can be considered for investment once the asset reaches the brownfields stage.
- ▶ Commit to a structured programme to consider investment opportunities that become available in brownfields assets. This can be done on a direct basis or through an asset manager.

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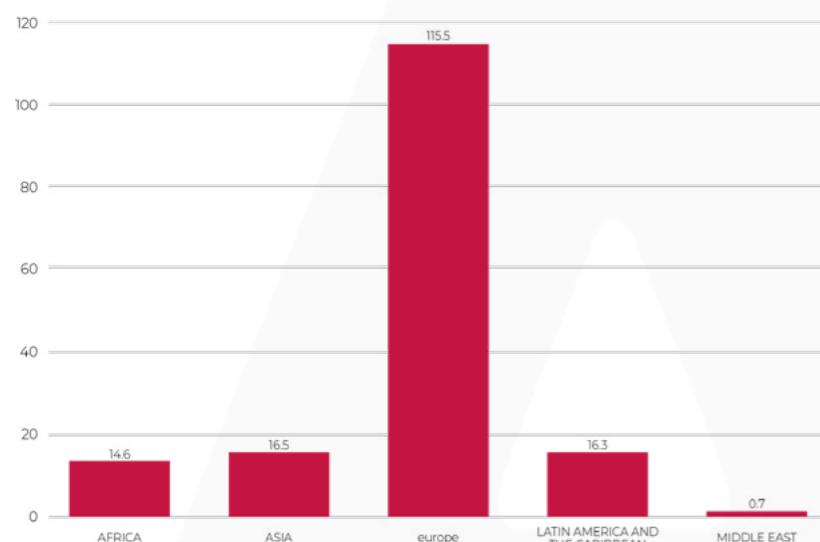
5.3. CROWDING IN THE PRIVATE SECTOR

Multilateral and regional development banks have significant balance sheet capacity, to assist catalyse Africa's financing needs.

In 2017, implementing the Hamburg Principles and ambitions Balance Sheet optimisation and boosting investment in infrastructure and connectivity was a stated priority for the development and multilateral finance community.

But in spite of this, Africa receives very low Cumulative Private Fund Mobilisation, utilising co-financing by multilateral development banks (MDBs) by Region.

According to the World Bank, of the cumulative total of **USD 163.5 billion** in private investment catalysed by MDB co-financing, the vast majority of that investment (USD 115.5 billion, or 70% of the total), went to projects in Europe, **with a mere USD 14.bn to Africa.**



GRAPH 12: CUMULATIVE PRIVATE FUND MOBILISATION UTILISING CO-FINANCING BY REGION AS OF 2017 (US\$, BILLIONS)

In terms of **Investment Insurance for Africa** and compared with Africa's investment needs, the aggregate levels of investment risk mitigation reported by the Berne Union (USD 11bn for Africa) is also significantly low.

Africa's large infrastructure projects are likely to require extremely high levels of risk mitigation to secure finance, hence the AU's African Infrastructure Guarantee Mechanism (AIGM) and Co-Guarantee Platform Initiative, will play an important role to crowdsource and scale-up risk mitigation availability and deployment across Africa.

GRAPH 13: 2018 NEW INVESTMENT INSURANCE FOR AFRICA PROVIDED BY BERNE UNION MEMBERS (US\$ BILLION)

Berne Union members provided USD 2.5 trillion of payment risk protection to banks, exporters and investors.

REGION	YEAR											
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
East Africa	431	596	1,922	1,027	692	1,009	763	1,789	2,324	2,075	1,772	3,024
North Africa	1,798	4,055	4,314	2,177	982	5,346	2,197	2,017	1,220	2,463	1,849	3,490
South Africa	383	446	462	739	976	907	573	1,202	1,119	2,238	2,524	2,398
West Africa	1,220	1,721	1,277	1,576	1,673	2,259	1,025	5,229	3,385	2,643	2,989	4,176
Total	4,310	8,219	9,809	8,654	7,157	10,469	5,380	11,152	8,832	10,119	9,988	14,781

The development finance community have significant, technical expertise in project origination and commonly carry out rigorous due diligence on investments. Leveraging this can help to significantly de-risk investments for institutional investors on the continent and those looking to invest in Africa.

Fund managers should be mandated to scale new and innovative capital market products across the continent, to help de-risk credit and allow African asset owners to allocate capital to African infrastructure as an investable asset class with greater confidence and insight.

The **Global Emerging Markets Risk Database Consortium (GEMS)** is comprised of DFIs including the IFC and the **European Investment Bank**. The consortium pools data on credit default and recovery rates from its customers is funded by contributing DFIs.

Its database can serve as a critical risk management evaluation tool. Unfortunately, it is not available to African institutional investors, which limits their ability to increase their allocations to African infrastructure as an investable asset class.

Now is the time for decisive action by DFIs to democratise access to critical risk management data to assist African governments to build resilience and unlock responsible domestic and global institutional co-investment capital.

In its **Unleashing the Potential of Institutional Investors in Africa** report, the African Development Bank interviewed various institutional investors to identify roadblocks for institutional investment in African infrastructure. The report noted that to invest, international institutional investors typically require a country rating to be at least "BBB" on the Standard & Poor's and

Fitch rating systems, and "Baa3" on Moody's rating scale, which corresponds to an investment grade.

In practice, investors more often than not look for more solid investment grades such as "A". Still, some are allowed to invest in projects rated as low as "BBB" if they are co-financed by an experienced DFI. It is this perceived lowering of the risk profile of a project that can act as one of the most powerful and effective risk mitigation tools available to multilateral development banks.

By evolving how this expertise is shared from bilateral relationships to a more structured platform, multiple institutional counterparties can remain engaged at the same time.

This structured platform should still allow institutional investors to engage with multilateral development banks at an earlier stage in the life cycle of a project, to ensure that their needs and expectations, including the structuring of financial products, are addressed in the project development stage. Early-stage engagement also allows institutional investors to prepare for a potential buy-in to the deal at a later stage.

There are a number of existing co-investment platforms, such as the **Global Infrastructure Facility, Africa50 Infrastructure Fund, Ghana Infrastructure Investment Fund, Emerging Africa Infrastructure Fund**, and the **IFC's Managed Co-Lending Portfolio Programme (MCP)**. These platforms have struggled to attract private capital at scale. One of the most successful is the MCP. The blended finance nature of the platform allows both the IFC and SIDA to accept some of the non-commercial risks while crowding in commercial investors.

The involvement of the IFC, one of the largest and most experienced multilateral development banks, also lends credibility to the project.

This kind of co-operative platform will allow institutional investors to grow their capacity for infrastructure investment while benefitting from the various risk management tools and expertise housed within the multilateral development banks.

- ▶ Explore the creation of co-investment platforms with local multilateral development banks and bilateral development banks that are suitable for local institutional investors.
- ▶ Create internal capacity or engage service providers to evaluate the opportunities presented by the co-investment platform.
- ▶ Democratise access to the GEM's database.



5.4. BLENDED FINANCE

Blended finance is the strategic use of development finance together with philanthropic funds to mobilise private capital flows to emerging and frontier markets. Blended finance uses relatively small amounts of concessional donor funds to mitigate specific investment risks and help rebalance risk-reward profiles of high-impact investments so that they have the potential to attract commercial capital.

Considering the relatively limited information and risk mitigation tools available to investors into Africa as mentioned above, many projects on the continent will need a rebalancing of the risk-reward profile to attract institutional investment. By using development capital in more catalytic instruments like guarantees, insurance, currency hedging, grants (especially for technical assistance) and first-loss capital, blended finance can help mitigate a range of different barriers to investment (both real and perceived).

Despite all the momentum, there are barriers within the financial system that stop blended finance from being deployed effectively and prevent the market from scaling. Investors perceive

infrastructure and other SDG-related assets as too difficult to invest in. The development banks, as the main blenders of capital, are not achieving high enough mobilisation ratios, meaning they don't crowd in as much private capital as they should for every development dollar.

Partnerships can be built between multilateral development banks, DFIs and governments to create mutual accountability for the impact of development spending. It is the government and citizens of the recipient countries that have the largest vested interest in ensuring that development capital is leveraged.

- ▶ Engage multilateral development banks and other DFIs active in the country to track the private capital participation ratio for the development capital invested in the country. *See guidance on monitoring in the below text box on OECD DAC Blended Finance Principles⁷.*
- ▶ Review projects to ensure that investments are not being made by developmental agencies in projects for which private capital is available.

OECD DAC BLENDED FINANCE PRINCIPLES

The **OECD DAC Blended Finance Principles** provide good practice in designing and implementing blended finance approaches. There are five principles for blended finance which each target a specific area of blended finance relevant to the members of the OECD's Development Assistance Committee, a forum to discuss development and aid issues. They are:

- ▶ **Principle 1:** Anchor blended finance use to a development rationale.
- ▶ **Principle 2:** Design blended finance to increase the mobilisation of commercial finance.
- ▶ **Principle 3:** Tailor blended finance to local context.
- ▶ **Principle 4:** Focus on effective partnering for blended finance.
- ▶ **Principle 5:** Monitor blended finance for transparency and results.

The guidance for principle five was recently published for commentary and provides guidelines for monitoring that the implementation of blended finance is as leveraged and effective as possible.



5.5. DEBT RELIEF

Given the continent's financing needs and demographic growth, debt levels will quickly become unsustainable without a combination of debt forgiveness, policy reforms and innovative new instruments to make Africa's debt more transparent and better managed. The continent currently has a total external and domestic debt stock of USD 500bn, with the median debt-to-GDP ratio having risen from 38% in 2008 to 54% in 2018. Assuming more debt, even for worthy infrastructure projects, is therefore a challenge. It is clear that some form of debt relief needs to be negotiated with lenders.

African governments can apply to international lenders for COVID-19 specific relief under the Debt Service Suspension Initiative (DSSI). Some of the resources freed up can be applied in well-governed SME support programmes to enable SMEs to survive the current crisis as discussed in the section of the roadmap entitled Institutional investment in SMEs and venture capital, the drivers of growth, innovation and digitalisation.

In a bid to assist member states have access to a facility that will strengthen their liquidity in the short term and restart growth in the longer term, the Economic Commission for Africa (ECA) has partnered with PIMCO, to set up a Liquidity and Sustainability Facility (LSF), that would lower governments' borrowing costs by increasing the demand for their sovereign bonds.

This will be achieved by making it possible for existing sovereign bondholders to post such instruments as collateral for low-interest loans, financed in part by a new issuance of Special Drawing Rights (SDRs). The resources mobilised through such repurchase agreements will then be used to finance investments in African sovereigns.

Developed countries have long enjoyed the existence of large 'repo' markets for their government bonds, facilitating the creation of stable and additional funding sources, The LSF will replicate this dynamic for African sovereign bonds, providing investors with competitive funding through repurchase agreements.

The punitive consequences of defaulting on debt or even applying for debt relief are significant. By using debt primarily for infrastructure projects and private-sector capacitation, countries can be better able to fuel GDP growth, which results in a more sustainable tax base, which in turn boosts the ability to cover future debt. Infrastructure should be focused on increased economic capacity and productivity. To ensure that the selected projects are capable of this, the economic benefit should be estimated by skilled, independent third parties.

AFRICAN GOVERNMENTS

- ▶ Apply for debt relief where applicable and use that relief to invest in infrastructure projects to fuel GDP growth, generating a more sustainable tax base.
- ▶ Invest in infrastructure projects based on strict economic benefit analysis to fuel GDP growth, generating a more sustainable tax base.
- ▶ Partner the private sector and ensure projects are procured and commissioned at an accelerated pace and reach financial close within 12-18 months.
- ▶ Recycle and refinance infrastructure assets to institutional investors and the private sector.
- ▶ Issue Green and social bonds.

5.6. AFRICA AND THE DEVELOPMENT COMMUNITY THROUGH TO 2063

The need to achieve the SDGs by 2030 and meet the commitments of the Paris Agreement has focused the attention of the international community on the efficiency of the multilateral development bank system. The shareholders and other stakeholders of multilateral development banks are considering which reforms will be needed to leverage these institutions optimally. The focus areas have been identified as crucial to scale up. If these focus areas are applied in Africa, it will significantly enhance the effect of the development community on the continent. Multilateral development banks should:

1. Co-ordinate diagnostic work and improve access to performance data.
2. Mainstream and fund venture capital platforms for private sector project development.

3. Champion the application of project development common standards and benchmarks including for green infrastructure.
4. Supply government knowledge platforms and tools for strengthening policy and institutional foundations and provision of technical assistance.
5. Utilise technical assistance to inform and build capacity amongst asset owners globally on African infrastructure as an investable asset class.
6. Co-operate on the establishment of financing structures that can unlock investments at scale, such as the **African Green Infrastructure Investment Bank**.
7. Measure and report on the additionality of development capital invested.

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SECTION SIX

BUILDING RESILIENCE IN AFRICAN CAPITAL MARKETS



investment matters

6.1. OVERVIEW

- 6.1 OVERVIEW
- 6.2 GLOBAL COMPETITION FOR CAPITAL
- 6.3 SELF-INSURE AGAINST A FLIGHT TO QUALITY BY BOOSTING LOCAL EQUITY PARTICIPATION
- 6.4 BUILD RESILIENCE THROUGH COUNTER-CYCLICAL MACRO-PRUDENTIAL TOOLS
- 6.5 DIVERSIFY ASSET ALLOCATIONS TO DEEPEN CAPITAL MARKETS
- 6.6 ALIGN DEVELOPMENT AND INVESTMENT OBJECTIVES
- 6.7 RECOMMITMENT TO BASIC INVESTMENT TENETS
- 6.8 PUBLIC VS PRIVATE MARKETS – EVOLUTION IS REQUIRED
- 6.9 AFRICAN CAPITAL MARKETS THROUGH TO 2063



African capital markets provide an essential channel of financing for the real economy. Functioning efficiently, capital markets can help better allocate risk, and support economic growth and financial stability.

African capital markets and Africa's domestic institutional investors have a critical role in supporting Africa's economic recovery post-COVID-19 in the near term, through to the achievement of Agenda 2063. Co-ordinated responses by key stakeholders (capital market authorities, exchanges and institutional investors) are necessary to ensure that investment reaches the real economy. At the same time, these efforts must help foster long-term resilience. There is an opportunity to support market and economic activity and ensure a return to market stability (see *How African securities exchanges have responded to COVID-19*).

HOW AFRICAN SECURITIES EXCHANGES HAVE RESPONDED TO COVID-19

In their fight against the pandemic, African capital markets have taken a number of actions to support their markets and governments. These include:

SUPPORT TO GOVERNMENTS

- ▶ **Communication** – Cote d'Ivoire's [Bourse Regionale des Valuers Mobilières \(BRVM\)](#) organised a market closing bell ceremony with the country's Minister of Health and Public Hygiene to relay its support for the government efforts to tackle the pandemic.
- ▶ **Donation** – Several exchanges have provided donations to governments, including contributions by the following institutions:
 - ▶ The Financial Regulatory Authority of Egypt, which donated 250m Egyptian pounds to the government;
 - ▶ The [Johannesburg Stock Exchange \(JSE\)](#) which donated trading fees from all market trades made on 15 and 16 April 2020 to the [Solidarity Fund](#);
 - ▶ The [Zimbabwe Stock Exchange \(ZSE\)](#), which donated levies collected on trades from 23-30 April 2020 to the Ministry of Health and Child Care;
 - ▶ The [Nigerian Stock Exchange \(NSE\)](#), which donated 100m naira to support the fight against the pandemic and the "Mask for all Nigerians" campaign; and
 - ▶ The [Nairobi Securities Exchange \(NSE\)](#), which along with other key stakeholders such as the [Kenyan Association of Stockbrokers and Investment Banks \(KASIB\)](#) donated 30m Kenyan shillings to support the government's efforts.

SUPPORT TO MARKETS

- ▶ To stabilise the [Egyptian Exchange \(EGX\)](#) during the pandemic, the [Investor Protection Fund](#) with the approval of Egypt's [Financial Regulatory Authority](#), injected new capital into the exchange.

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6.2. GLOBAL COMPETITION FOR CAPITAL

To generate the economic growth that will help realise Agenda 2063's vision, African economies require access to capital investment. Attracting both local, regional and international capital is crucial.

All countries have investable opportunities. However, how well each is able to attract capital is dependent on the investment channels presented by each country to potential investors. International investors generally have freedom of choice concerning their capital allocation decisions. When investing in public markets, investors place greater trust in those markets that enable them to freely move in and out at their discretion.

Freedom of movement of capital is only one indicator of market attraction for investors. Others include (but are not limited to) economic growth, political and social stability, the respect and upholding of property rights, and free and independent governance institutions. Emerging and developing countries are in the process of reform, where aspects of these indicators are either absent or not being fully or consistently implemented. This elevates the risks of such economies from the perspective of non-domestic institutional investors. Addressing these risk indicators will help remove impediments to Africa's efforts to attract domestic and foreign investment.

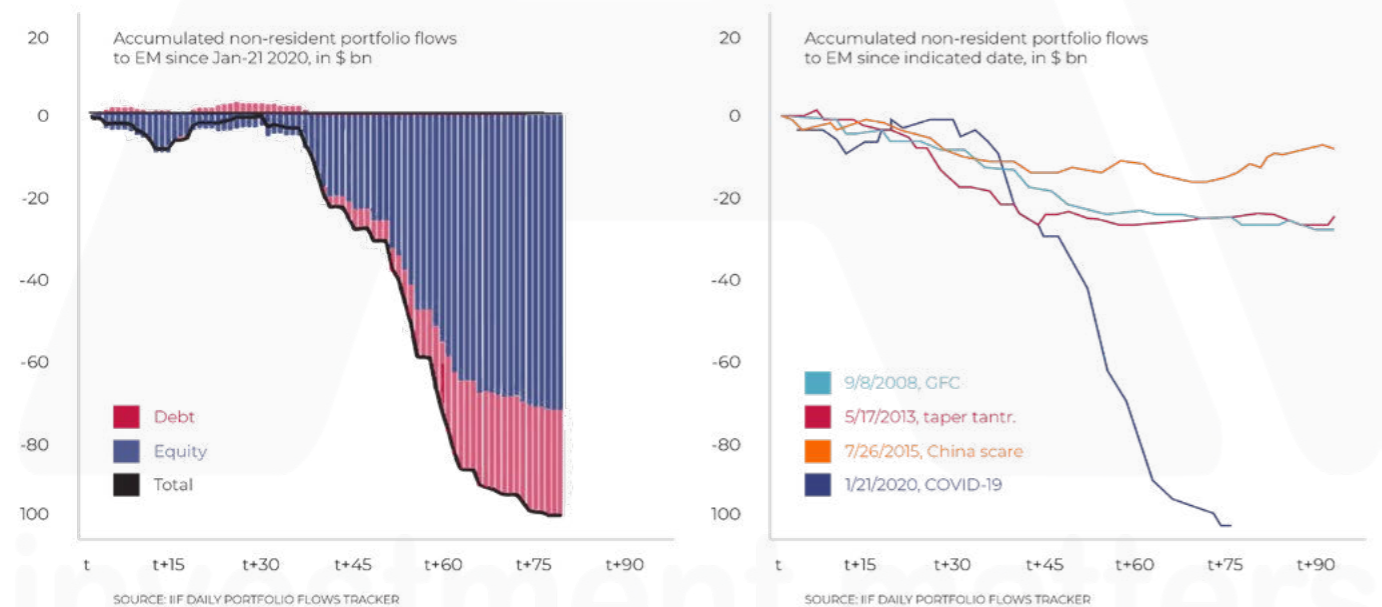
Notwithstanding the perceived risks associated with investment in Africa, international institutional investors recognise that there remains a strong rationale for the "African

investment case", even if their portfolio allocations to Africa remain small. African nations must collectively work towards increased transparency and efficiency of investment channels, vehicles, and reporting. Investors value consistent, predictable and balanced approaches to regulation. A collective and co-ordinated approach to capital market reform and development, enables African countries to co-ordinate how inaccurate perceived risks and actual risks, can be contextualised and addressed. Co-ordinated development of African capital markets ensures that those African capital markets that are currently small can grow. Co-ordination will also provide the necessary assurance for non-domestic institutional investors to make mid to long-term investment decisions due to harmonised legal, regulatory and political clarity.

FAIR-WEATHER VS EVERGREEN INVESTMENT DESTINATION

Africa has often attracted fair-weather investors – those who invest when they believe conditions to be favourable, but who quickly withdraw their capital when conditions become less favourable. This phenomenon is not unique to Africa. Whenever a global crisis erupts, global capital flows move to a "risk-off" mode.

Africa currently faces significant capital outflows and deep recession risks. According to the [Institute of International Finance \(IIF\)](#), the total foreign investment in emerging markets (excluding China) is expected to fall to USD 304bn in 2020, the lowest since 2004.



GRAPH 14: PORTFOLIO FLOWS TO EMERGING MARKETS

Although this effect is prevalent in all developing and frontier markets, it is now being compounded by policy that deals with immediate crises, at the expense of long-term investor confidence, as well as structural weaknesses within the market. African countries have seen a deterioration in their performance on several global rankings, such as those on [Economic Freedom](#), [Ease of Doing Business](#), [WEF Global Competitiveness Index](#), [Corruption Perception Index](#) as well as others. As such, structural changes need to be undertaken to change these realities for investors.

Overhauling policies to lower barriers to entry and reposition economies to compete for capital and growth, will transform these markets into more attractive investment destinations. African countries also need to work harder to be globally competitive in terms of fiscal and monetary policy certainty, fewer regulatory burdens and alignment with global best governance practice. At the same time, African economies need to take steps to boost domestic capital formation, which can go some way to help offset the flight of fairweather capital.

6.3. SELF-INSURE AGAINST A FLIGHT TO QUALITY BY BOOSTING LOCAL EQUITY PARTICIPATION

Domestic investors used the recent sell-off from African public equity markets, as an ideal buying opportunity to own greater proportions of high-quality, local businesses. Like this, African institutional investors have demonstrated that they can act as strong counterparties during times of sudden foreign sell-offs. The most recent COVID-19 linked risk-off sentiment demonstrates that:⁸

REGION	COUNTRY	LOCAL INVESTOR PARTICIPATION	FOREIGN INVESTOR PARTICIPATION	INVESTOR PARTICIPATION TREND
Africa	Egypt	72.8%	27.2%	Locals Increasing
Africa	Kenya	40.0%	60.0%	Locals Increasing
Africa	Nigeria	63.0%	37.0%	Locals Increasing

GRAPH 15: LOCAL VS FOREIGN INVESTOR PARTICIPATION IN SELECT AFRICAN MARKETS

- ▶ Encourage African countries to introduce policy mechanisms that enable pension funds to dynamically increase local equities in their asset allocation weighting during times of extreme market turmoil.
- ▶ Include unclaimed deposits, unclaimed pensions and unclaimed social security contributions to the pool of funds available to sovereign wealth funds to invest in local capital markets during times of extreme market turmoil.

History provides cases of currency devaluations that have taken place alongside sudden phases of disinvestment from African markets. These tend to take place after international investors become concerned about specific economic, fiscal, or monetary developments that may harm their African investment holdings. Contemplating the need to eventually convert local currency back to hard currency before a devaluation occurs, they act to mitigate losses, creating a self-fulfilling narrative and devaluation ensues. The recent COVID-19 sell-off from African and frontier markets came about not because African companies or equity markets suddenly become inferior. It materialised because international investors are averse to losing value due to currency debasement. In reality, these bouts of weakness can serve as ideal opportunities for local investors to provide resilience to their markets.

Leila Fourie⁹ on the plan to re-build the JSE, 28 May 2020

"The real bedrock for the JSE is the institutional investors, like Old Mutual, Allan Gray, Ninety-One and Coronation, which are the stewards of SA's pension funds. As much as 75% of all pension assets remain onshore, largely managed by them. That fact alone, says Fourie, is an "enormous protective mechanism" for liquidity.

"If we were to take the virus and view it as a giant international sanctions period like we lived through in the apartheid era, companies changed hands, but things didn't fall apart and local investors took up the slack. We've seen that time and time again, through every downturn."

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⁸ Auerbach Grayson, "Emerging and Frontier Markets: Local Investors become more bullish", May 2020
⁹ Leila Fourie is the Chief Executive Officer of the Johannesburg Stock Exchange. <https://www.businesslive.co.za/fm/features/cover-story/2020-05-28-leila-fourie-on-the-plan-to-rebuild-the-jse/> - accessed 10 June 2020

6.4. BUILD RESILIENCE THROUGH COUNTER-CYCLICAL MACRO-PRUDENTIAL TOOLS

The Bank of England provides anecdotal recommendations that can be adopted to mitigate sudden capital market outflows, proffering the adoption of macro-prudential tools that help build up capital and liquidity buffers to cushion the financial system against adverse financial shocks from abroad. African sovereign wealth funds can help augment the efforts of central banks in this regard. The Bank of England also advises against the use of capital controls, which often have the potential to introduce significant distortions to the domestic financial system¹⁰.

It is noticeable that the key area in which several African countries continue to grapple with is the liberalisation of their exchange rates. The cost versus the benefit of full capital account liberalisation continues to be widely debated. The COVID-19 pandemic, where African and frontier markets equities and currencies have been heavily sold, has exacerbated this debate.

- ▶ Ensure sovereign wealth funds follow counter-cyclical currency investment programmes of consistently purchasing reserve-currency fixed income instruments, which typically perform well in times of crisis. When a crisis does occur, sovereign wealth funds can quickly sell down these holdings and convert the proceeds into local currencies (the currency used for most fiscal spending), during a time when this liquidity is most needed.

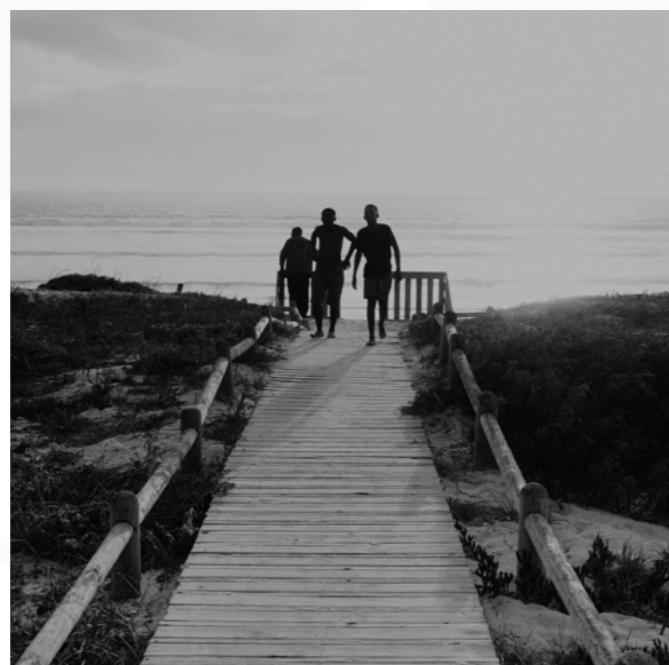
- ▶ Use unclaimed deposits, unclaimed pensions, unclaimed social security contributions to seed offshore (intra-Africa) infrastructure investment.

Rapid outflows from African capital markets have historically prompted governments to make unsuccessful attempts to defend their exchange rates. History is littered with examples of how these inevitably fail and ultimately lead to corrosive after-effects for African economies. With the pandemic, however, the approach has largely been different. Fiscal authorities in Africa have played a decisive role in ensuring (as far as possible) that Africa's macro-economic adjustment, post-COVID-19, is successful. Scarce foreign reserves previously used to try to defend currencies unsuccessfully are now channelled to growth and long-term economic resilience initiatives, such as supporting SMEs and maintaining prioritised infrastructure programmes. Such measures allow for the private sector to support and co-invest in these fiscal measures. For example, in Mauritius, the mandate of its central bank has been broadened to enable the investment of foreign reserves in entities seen as critical to economic development. Foreign reserves previously not directly involved in the local capital markets of Mauritius, are now being channelled to bolster capital markets and the real economy.

MAURITIUS ACT ALLOWS FOR EXTREME MEASURES TO SUSTAIN THE ECONOMY

With the passing into law of the COVID-19 (Miscellaneous Provisions) Act of 2020 (which amended a series of acts including the Bank of Mauritius Act and Public Debt Management Act), the Bank of Mauritius will be able to invest an amount of its official foreign reserves, as the board may determine, in any corporation or company set up for the purpose of facilitating economic development.

The portfolio of foreign exchange reserves of the Bank of Mauritius has been diversified to include financing instruments such as foreign currency denominated shares or debt securities of companies set up for the purpose of facilitating economic development.



6.5. DIVERSIFY ASSET ALLOCATIONS TO DEEPEN CAPITAL MARKETS

While much of African regulation is supportive of local investment, there are often significant differences between the regulatory allowances for pension funds, the size of local capital markets and actual portfolio allocations. Local regulation remains one of the main drivers of asset allocation. In countries where sovereign yields are persistently high, the government dominates debt issuance and crowds out demand for other instruments that would aid in deepening African capital markets. The below table illustrates the varied allocations to fixed income across select East Africa countries. The combination of highly-effective real yields, regulatory guidance allowing for an over 50% allocation to fixed income, and implicit capital guarantees and tax-exempt status on government-issued fixed income securities, all contribute to the limited diversification in asset allocation across East African pension schemes.

GRAPH 16: EAST AFRICAN PENSION ASSET ALLOCATION TO GOVERNMENT BONDS

	KENYA	RWANDA	TANZANIA	UGANDA
Allowed to invest in government bonds (max %)	90%	55%	70%	80%
Average local currency yield per annum (medium-term government bond) ¹¹	10% - 12%	12%	14% - 15%	14% - 17%
Average local currency yield per annum (treasury bills)	7% - 9%	5% - 7%	8% - 9%	9% - 11%
Pension fund fixed income asset allocation	40%	17%	18%	72%

International exposure for institutional investors such as pension funds and insurers is also not permitted by regulation in most African countries despite the obvious diversification, risk reduction and return-enhancing benefits they offer. Exposure to locally listed companies that have grown regionally or internationally is one way to obtain this exposure for these institutions. A further innovation to come would be if local markets were to list the local equivalent of American Depositary Receipts (ADR's) for global corporates.

Regulatory changes are, therefore, critical for improved asset allocation outcomes. However, these measures should be undertaken in a co-ordinated manner to increase their effectiveness in improving intra-African investing. *See section entitled The role of African pension funds on the continent* for more detail on regulatory changes for pension funds.

- ▶ Review regulations that drive asset allocation for domestic savings pools to ensure these help develop diverse capital markets.
- ▶ Address structural incentives such as regulatory allowances, tax status, capital guarantees, for example, that favour certain capital markets over others.
- ▶ Create domestic regulatory conditions for corporate debt to be more attractive than and less constrained by sovereign debt.
- ▶ Consider the listing of global corporates on local markets through the use of local equivalent American Depositary Receipts (ADR's).

6.6. ALIGN DEVELOPMENT AND INVESTMENT OBJECTIVES

All African countries face the dilemma of having to balance investment with development objectives. In Africa, social security funds, or government pension funds (public pension funds), often make up the largest institutional asset pools.

In private pension funds, the fiduciary duty is explicit to the contributing members and their assets. In contrast to this, for public pension schemes, the beneficiaries do not have explicit proprietary rights over the fund's assets. Public pension funds owe their legal ownership to the government or to a government institution that is empowered by law to establish them. As a result, the potential exists for tension between the investment objectives pursued by the appointed fiduciaries and the investment objectives of the government itself. This can become accentuated when governments change. Governments would no doubt like to have these institutional investors participating in the implementation of a local and possibly regional developmental

agenda. Building resilience across African capital markets will see these large asset pools considering investment opportunities within their own countries, but also in other African countries and regions. Policy harmonisation is necessary if capital is to be effectively mobilised within the continent.

- ▶ Bring institutional investors and sovereign wealth funds together to work out how pure investment objectives can be harmonised and correlated, with those of local or regional development objectives.
- ▶ Work in conjunction with African institutional investors to formulate clear investment strategies for each developmental objective with relevant risk and return frameworks embedded.
- ▶ Apply principles from the insurance industry to earmark funds for investment objectives (akin to policyholders funds) as well as development objectives (akin to shareholder funds).

6.7. RECOMMITMENT TO BASIC INVESTMENT TENETS

PROPERTY RIGHTS

Property rights (in their most basic definition), help signal long-term trust and co-operation between parties. Digitising property rights, which amounts to decentralising record keeping in the cloud — can provide an important way to help mitigate risk. If any of the physical databases disappear, the same information can be retrieved from many different places. In addition, blockchain technology can provide assurance that records are authentic and have not been amended, manipulated or duplicated¹².

- ▶ Increase the use of blockchain technology to boost the granting, registration, tradeability and upholding of property rights. Blockchain technology provides a cost-effective route to achieving this¹³. (#blockchain)

Estonia, Georgia, Ghana and Honduras are examples of countries that have begun to work with this technology or that are now studying the opportunities it offers.

REGULATORY CONSISTENCY

Ensuring regulatory consistency is one way of simplifying intra-Africa investing. Institutional investors will have the assurance that the regulatory principles they are accustomed to and understand in their home countries, are matched and equally applied in other African countries.

Local pension funds, sovereign wealth funds, diaspora funds (current or proposed), social security funds and international institutional investors, all have similar expectations around the protection of savings. Shared regulatory frameworks that feature data from central banks, regulatory agencies, and all institutions with public policy mandates, can help promote regulatory consistency.

To make sense of the volume of data, RegTech solutions are increasingly being adopted. (#RegTech) The financial services sector is moving to an era of "digital first", with technology helping transform many industry functions and outcomes. Regulators are able to leapfrog regulatory awareness by collaborating with the RegTech and SupTech industries.

Sandboxes can be deployed to support the growth of emerging sectors, aid regulators' understanding of a new technology, and provide a controlled setting to test innovative solutions.

In this, regulatory sandboxes, where the regulator allows for simulated technological developments in key stress areas of concern to the regulator, can prove to be advantageous. Sandboxes can be deployed to support the growth of emerging sectors, aid regulators' understanding of a new technology, and provide a controlled setting to test innovative solutions. **Hong Kong's Securities and Futures Commission** is a prime example of a banking regulator that has taken this approach. While the scope and maturity of the about 20 regulatory sandboxes in operation globally differ, they aim to evaluate the impact that RegTech innovations have on the market. This helps regulators to promote innovation and protect users.

- ▶ Explore the use of RegTech and SupTech to enable regulatory authorities to accelerate their risk-based supervision measures, by augmenting regulatory human capital with data and technological applications. (#RegTech).

- ▶ Establish a programme for the formation of regulatory sandboxes in key financial regulatory bodies to test the rollout of RegTech developments.
- ▶ Set up or improve the way independent capital market regulatory and supervisory authorities operate, with appropriate budgetary and human capital resources for well-functioning capital markets.
- ▶ Ensure clear and transparent enforcement of regulation is in place.
- ▶ Create regional consortia that include financial institutions, technology providers and regulators to promote the standardisation of data capture and disclosure methods across African capital markets. This will have the effect of streamlining data interoperability and homogeneity, thereby increasing transparency and availability of data across markets.

6.8. PUBLIC VS PRIVATE MARKETS – EVOLUTION IS REQUIRED

African stock exchanges need to rethink their role in private markets

Globally, stock exchanges are facing a decline in the number of companies looking to list. Anecdotal evidence of this is provided in a research report by Credit Suisse, titled **The Incredible Shrinking Universe of Stocks**. In contrast, alternative investment vehicles such as private equity, private debt and venture capital, all of which provide investors with exposure to real-economy businesses, have seen sustained growth.

A possible way to address the decline in the number of companies looking to list on exchanges is to create private capital placement pools under the auspices of stock exchanges. This would still ensure issuers undergo a robust due diligence process, providing content for investor documentation and roadshows. The primary difference would be that investment opportunities would only be presented to a limited or controlled number of institutional investors. For entrepreneurs or private capital sponsors, this approach still allows capital to be raised, without the company becoming a public company. For African stock exchanges, such an initiative would position them at the convergence point between public and private markets.

Stock exchange operators continue to play a key role in enabling those with capital to meet those that need capital, albeit in a private-market setting. Involving African stock exchanges can also provide the necessary transparency and assurance institutional investors require to trust such platforms.

- ▶ Encourage African stock exchanges to use their institutional framework to support the development of private capital markets.

Alternative investment vehicles such as private equity, private debt and venture capital, all of which provide investors with exposure to real-economy businesses, have seen sustained growth.

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¹² The Land Registry in the blockchain: A development project with Lantmateriet (The Swedish Mapping, cadastre and land registration authority), Telia Company, ChromaWay and Kairos Future, July 2016.
¹³ <https://www.visualcapitalist.com/cryptocurrency-redefining-future-of-finance/>

6.9. AFRICAN CAPITAL MARKETS THROUGH TO 2063

COVID-19 may have provided the necessary impetus to re-frame African capital markets from old economies to the new economy. The majority of African stock exchanges were established to either fund commodity-based entrepreneurship (for example the Johannesburg Stock Exchange) or as a policy outcome of privatisation such as the [Lusaka Stock Exchange](#). However, the story of the now most valuable company on the Johannesburg Stock Exchange, (see boxed text *Naspers - The benefits of global exposure through companies listed on the Johannesburg Stock Exchange*), demonstrates where and how African countries should be re-looking at the role of their capital markets for their local investors.

NASPERS – THE BENEFITS OF GLOBAL EXPOSURE THROUGH COMPANIES LISTED ON THE JOHANNESBURG STOCK EXCHANGE

Founded in 1915, the South African media company Naspers initially listed on the Johannesburg Stock exchange in 1994. The company enjoyed some early success as it benefitted from participation in the development of one of South Africa's now dominant mobile phone companies MTN. The business then fell on hard times post the tech bubble bursting in 2000. Despite this, in 2001 Naspers made what was considered by most to be a poorly conceived venture capital investment into a little-known internet company in China called Tencent by buying 46.5% of the company for USD 32 million!

That investment has turned out to be one of the best VC investments ever made as Tencent turned into the Chinese internet giant that it has. In recent years Naspers has again restructured its business in an attempt to ringfence the offshore internet businesses (Prosus) through listing in the Netherlands. Prosus remains listed on the Johannesburg Stock Exchange, allowing South African investors access to a global internet company on their local bourse.

“If we look just at Prosus, they won't be moving offshore because they'd require regulatory approval... their [share price] was up 41% year-to-date (until 28 May 2020), so they are providing a great opportunity for locals to grow their investments.” Says CEO of the Johannesburg Stock Exchange, Leila Fourie.

In fact, about 70% of the exchange's top 40 companies derive their income from offshore revenue sources. That has proved a life-saving buffer against the Rand, which between 1 January and 28 May 2020 had weakened 22% to R17.42 against the dollar — a dramatic fall from a decade ago, when it was R7.60.

When the Rand deteriorates, companies with dual listings make money and, crucially, so do their shareholders.

This, says Fourie, *“makes the market much more resilient and improves ... the investment of individuals”.*

The most valuable companies and industries of the past will not be those of the future.

2010		2019	
1 Exxon Mobil	6 ICBC	1 Microsoft	6 Facebook
2 Petro China	7 Petrobras	2 Apple	7 Alibaba
3 Apple	8 China Construction Bank	3 Amazon.com	8 Tencent
4 BHP Billiton	9 Royal Dutch Shell	4 Alphabet	9 Johnson & Johnson
5 Microsoft	10 Nestlé	5 Berkshire Hathaway	10 Exxon Mobil

GRAPH 17: TOP 10 GLOBAL COMPANIES BY MARKET CAPITALISATION

Future enterprises will increasingly feature intangible assets as a major portion of their balance sheets. Such businesses tend to scale very rapidly across different regions. The funding requirements for such businesses have important implications for future African capital markets. The concept of multi-jurisdictional listings or affording a listing code acceptable across all African markets is conceivable.

The current Generation Z cohort will make up the primary members of African asset owners of the future. This generation is growing up digitally-enabled, and spending most of their work and leisure time in a digital environment with a large part of their social interaction taking place on online platforms. This is true in both developed and developing markets. African capital markets need to re-assess how they plan to interact and stay relevant to this cohort and the growing trend of digital assets.

Valuation measures will no longer consist of financial measures alone. Sustainable practices and demonstrable returns to society and the environment will constitute a greater proportion of perceived value. Given the affinity of Generation Z to socialise and interact in curated online environs, it is conceivable that greater value will be ascribed to enterprises that interact and provide value to this generation within these environs.

The digital environment is also already changing the definition of a capital market, as online crowdfunding platforms and digital asset exchanges have demonstrated. The web has made it easier and more affordable to raise small pools of funds from a large pool of funders.

Furthermore, there is a strong movement for individuals to adopt a single identity, a “self-sovereign identity”¹⁴ which, through blockchain technology, is digitally unalterable. Once this digital identity is created, other information can be stored or linked to it. This principle could also be applied to regulated entities (e.g. investment managers, banks, insurance companies) as well as to regulated products (e.g. mutual funds). If identity and information linked to it are unalterable, anti-money laundering (AML) and know-your-client (KYC) measures could be shared more easily with the same rules and regulations applied — one global regulatory and information-sharing regime.

New industry sectors will likely emerge, and investment categories for new African capital markets could include:

- 1 Cyber-physical systems
- 2 Cloud Computing
- 3 Robotics
- 4 Internet of Things (IoT)
- 5 Big Data
- 6 Augmented Reality

A 2063 VISION FOR AFRICAN CAPITAL MARKETS

- Capital market access has dramatically improved, making benefitting from the growth of capital something that is easily accessible to all.
- Decentralised financial markets have emerged via online platforms and applications.
- Online digital crowdfunding and traditional capital markets have converged.
- Stock exchanges gradually disappear after being purchased by application and platform businesses.
- Capital market rules form sub-sets of application community rules.
- Global regulatory convergence of capital markets will be a major driver of how things are done.
- Regulators will regulate application communities.
- Unique verifiable digital identities have been developed using distributed ledger technology (#DLT) that increase security and facilitate digital transactions in assets.
- A common digital currency for Africa is in circulation using distributed ledger technology (#DLT) to facilitate cross-border payments, similar to the digital currency programme China has embarked on.
- Equivalent value will exist real-time in online market application currencies.
- Valuation measures that price in externalities will be the norm. Re-imagine the valuation and market valuation of future enterprises through the eyes of Generation Z.
- Standardised accounting and audit policies and procedures allow for comparability and enable investor trust.
- There are standardised capital adequacy rules for banks and insurance companies across the continent.
- A standardised risk management framework has been developed for assessing market exposure across the banking, insurance and pensions industry.
- Standardised mutual fund regulations detailing asset ownership and disclosures are in use, as well as rules concerning sales to the retail public, allowing product portability across the continent and reducing the administrative burden of replicating products in each jurisdiction.
- Institutional and retail fund structures will converge, though the process of investing may differ.
- Standardised corporate reporting of ESG metrics is contained in a compulsory integrated reporting framework.
- Standardised anti-money laundering rules and information-sharing across borders are in use, facilitated by a common platform of biometrically-driven identification.
- Coherent strategies are in place to attract international and domestic capital to invest in knowledge economy firms that will play vital roles in job creation for the 2063 world.
- Increased access to African investments in Industry 4.0 allow citizens to benefit from the growth in the applications and platforms that they use both within and outside the continent.

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¹⁴ <https://www.nec.com/en/global/solutions/blockchain/blockchain-for-digital-identity.html>

FUTUREPROOF APPLICATIONS	
#regulatorysandbox #FinTech	Establish a programme for creating regulatory sandboxes within key financial regulatory bodies to test the rollout of FinTech developments.
#RegTech	RegTech can fast track standardisation of capital market regulations, frameworks, assessments and measures.
#bigdata	Regional consortiums, including financial institutions, technology providers and regulators, that promote the standardisation of data capture and disclosure methods across African capital markets have been developed. These streamline data interoperability and homogeneity to ensure increased transparency and availability of data across markets.
#augmentedreality	Capital markets are integrated into augmented reality and social media platforms, where capital market rules form sub-sets of application community rules.
#selfsovereignidentity	One multi-jurisdictional listing code
#blockchain	Tokenisation of assets using blockchain technology, drastically increasing liquidity in thinly traded markets and providing additional exit opportunities for private enterprises.

#Tags: #regulatorysandbox, #RegTech, #bigdata, #augmentedreality, #selfsovereignidentity, #blockchain

investment matters

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SECTION SEVEN

INSTITUTIONAL INVESTMENT IN SMES AND VENTURE CAPITAL: THE DRIVERS OF GROWTH, INNOVATION AND DIGITALISATION



investment matters

7.1. OVERVIEW

- 7.1 OVERVIEW
- 7.2 DIGITALISATION IS A MUST
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- 7.5 RISK AND RETURN ENHANCED INVESTMENTS
- 7.6 USING VENTURE CAPITAL TO FUND SMEs
- 7.7 PRESERVING SMEs THROUGH THE COVID-19 PANDEMIC
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The digital transformation of industries has generated fierce debate among policymakers, economists and industry leaders about its impact on society. As digitalisation disrupts society ever more profoundly, the concern is growing about its effect on a wide range of issues, including jobs, wages, inequality, health, resource efficiency and security¹⁵.

The African position is unique, with the working-age population expected to increase by some 450 million people between 2015 and 2035. If current trends continue, less than one quarter will find stable jobs. Broadening internet access means creating millions of job opportunities. Currently, however, less than one-third of Africa's population has access to broadband internet. To achieve universal, affordable, and good quality internet access by 2030 will require an investment of USD 100bn¹⁶.

#broadbandforall

SMEs are one of the main drivers of employment in any economy. According to OECD research, SMEs account for between 66% to 90% of net new jobs created in economies such as France, Germany and the US. They also represent an astonishing 99% of the enterprises in the mostly rich nations covered by the research¹⁷.

COVID-19 has exposed the lack of and underinvestment by firms in digitalisation in Africa in numerous sectors, including health care, agriculture, customs, logistics and trade. In these times of social distancing, only those companies able to operate digitally are likely to survive. Unless African policymakers and investors prioritise investment in **digital trade**-related infrastructure, the economic fallout from COVID-19 could be even worse than predicted, particularly for SMEs.

Digital infrastructure is not only critical for any country recovering from COVID-19, but can also help countries to face off any future exogenous shocks, while helping them build and reconstitute regional and marketplace driven distributed supply chains and prepare them to take advantage of the AfCFTA.

ONLINE TRADE PLATFORM AND CONSULTATIVE SUMMITS

One of the ASWPFF initiatives in this priority area is AfricaPLC (Africa Investor's eTrade and eTrade Finance and Logistics Marketplace Platform).

The International Chamber of Commerce (ICC) and AfricaPLC have joined forces to launch a digitally empowered eTrade initiative to enable the digitisation of five million micro-, small-, and medium-sized enterprises (SMEs) in Africa.

www.iccwbo.org/media-wall/news-speeches/icc-and-africa-investor-launch-global-etrade-partnership-to-digitise-five-million-smes-in-africa/

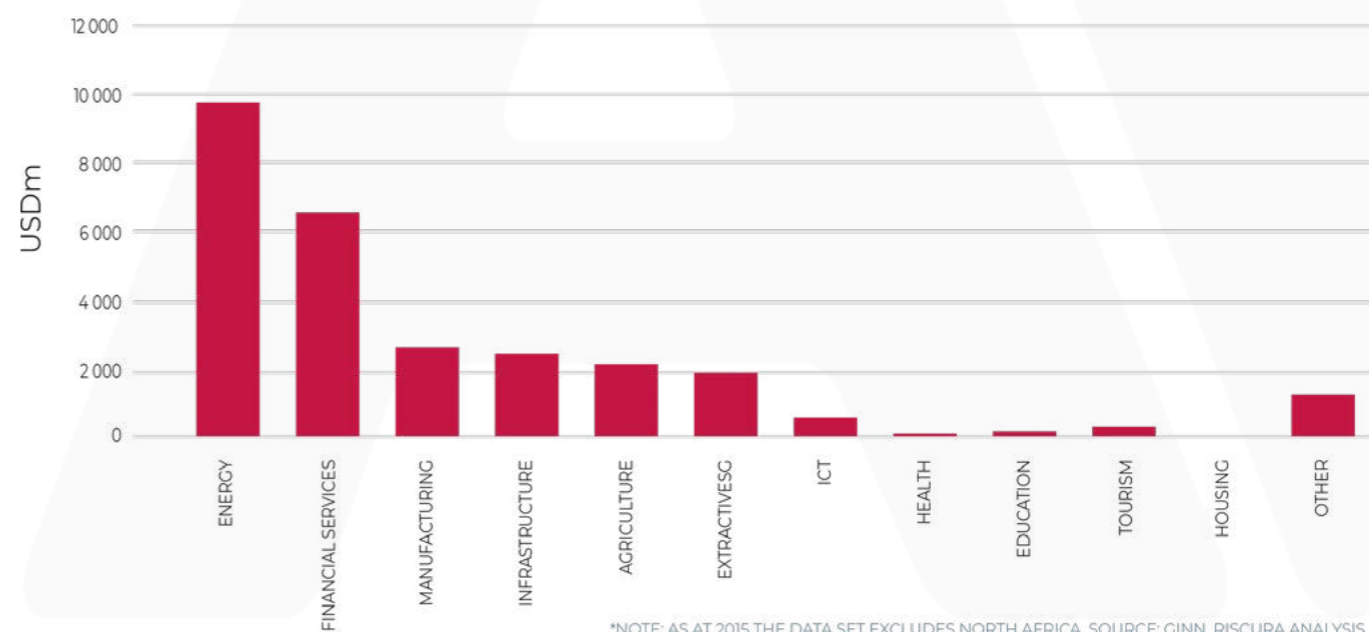
www.africaplc.com

<https://africainvestortv.com/africa-plc/>

Another initiative supported by the ASWPFF, is the **AUDA's Continental Business Network (CBN)**, series of consultative summits, to generate concrete policy recommendations from leading global RegTech investors and stakeholders. These recommendations were presented as part of its policy recommendations statement, submitted by the CBN on eTrade, to the AfCFTA Secretariat as an eTrade and Commerce policy response to COVID-19.

www.au-pida.org/continental-business-network-cbn/

With government budgets stretched to provide essential services and revenues likely to be severely impacted by the economic effects brought about by COVID-19, it is clear that any investment to support SMEs, innovation and digitisation in Africa is largely being sourced internationally. Already significant investors into the continent, development finance institutions (DFIs) play a key role in this regard. However, DFIs spending has traditionally been focused on other sectors, as can be **seen in the below Direct DFI sector commitments graph**.



GRAPH 18: DIRECT DFI SECTOR COMMITMENTS TO AFRICA.

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¹⁵World Economic Forum White Paper Digital Transformation of Industries: Societal Implications, January 2016
¹⁶Achieving Broadband Access for All in Africa Comes With a USD 100bn Price Tag, October 2019, World Bank
¹⁷OECD: SME and Entrepreneurship Outlook 2019

7.2. DIGITALISATION IS A MUST

DFIs have steered away from investing in digitisation, in part, by a perception that the private sector is already investing significantly in information and communications technology (ICT) infrastructure. They have tended to focus more on investments in energy as the need for stable, low-cost energy supply is seen as a priority and a fundamental building block on which all other development rests.

Although the ICT sector indeed attracts significant private-sector investment, this tends to go into the most commercially profitable and lowest-risk projects. However, universal and high-quality access to the internet will require investment in more risky ventures with lower returns. Some of these will still be suitable

for commercial capital. At the same time, some will only be investable after risk or return enhancements are offered either through a partnership with the government or through targeted blended finance provided by DFIs (See *Multilateral lending for improved resilience in Section 6 for more on blended finance*).

Good regulatory and governance frameworks in this area, as in all the other areas highlighted in this roadmap remains imperative. Without these frameworks, any short-term intervention is likely to have little lasting impact. Policy recommendations made by the [Alliance for Affordable Internet](#) are detailed below¹⁸. A lack of regulatory certainty has significantly curtailed investment in the sector in the past.

IMPROVING MOBILE BROADBAND QUALITY OF SERVICE IN LOW AND MIDDLE-INCOME COUNTRIES: POLICY RECOMMENDATIONS

1 CREATE REGULATORY CAPACITY

- Regulators should be sufficiently politically independent to isolate themselves from perceptions of bias and vulnerability to political agendas.
- Internally, regulators must have sufficient financial and human resources to effectively engage with the market and ensure compliance with regulations.

2 INSTITUTIONAL RELATIONSHIPS

- Cultivate trusting, co-operative relationships with operators and civil society groups active within the sector.
- In developing its policies, regulators should leverage their capacity to unite different actors in the sector to establish inclusive, open procedures that give all actors an opportunity to consult and provide input.

3 MARKET INFLUENCES

- Competitive markets give consumers the power to motivate investment through operator competition.
- Effective market engagement requires transparent and publicly available data for all actors to reference.
- In addition to access to information, consumers need to be able to easily transition between operators.

4 INFRASTRUCTURE FOR RURAL AND LOW-MARGIN AREAS

- Harmonisation or standardisation of local regulations that apply to operators.
- Mobilise funds in [universal service and access funds \(USAFs\)](#).
- Where the potential market base cannot justify the development of multiple, parallel networks, co-operative sharing arrangements can improve coverage and service quality in these target regions.

Investment in digitalisation can be divided into hardware and software investments. Hardware includes data storage, data centres, data transmission, communication satellites, fibre networks, smart metres, telecom towers and long-distance cables. Software investments include soft infrastructures such as payment and settlement systems, providers of online financial services, online retail and wholesale platforms and providers of organisational software. RegTech is a particularly exciting area as it is both an investment opportunity and an opportunity to gain a competitive advantage over other markets, as discussed in the foundational section of this report.

With the increasingly protectionist geopolitical global digital economy, African policymakers should evaluate how the extensive digitisation productivity savings enjoyed by massive digital investments in OECD markets, are increasing international companies' capacity to reshore and re-invest domestically in

paying their staff higher wages for instance, changing the attraction of comparatively low wage emerging markets for manufacturing and sourcing.

- Establish regulatory frameworks that promote the incubation of FinTech startups on the continent while also laying the groundwork for future implementation and oversight.
- Invest in the development of regional or localised innovation hubs to nurture skills and expertise in key technological areas.
- Seek out and support African techpreneurs with solutions and platforms that can scale and serve global markets and customers.
- Assess the digitisation productivity cost savings achieved by global companies reshoring and revise Africa's competitive offering and the impact on SMEs in light of that.

7.3. UNIQUE POSITION TO LEAPFROG IN TECHNOLOGICAL ADVANCES

The lack of development and legacy technology in the financial system in many African countries and regions presents an opportunity for African countries to leapfrog and create market technologies of the future.

By contrast, the high costs and time of replacing legacy systems in developed markets often inhibit them from quickly adopting newer, more cost-efficient technologies and systems.

By analysing and comparing new technologies against legacy technologies, Africa can benefit from technological progress without having to endure the difficulty of having to convert from old systems, many of which could soon be redundant. Many of the technology ideas would likely take birth in small and medium sized enterprises (SMEs). These firms need to be fostered and developed to ensure that they take hold and become productive in some of the larger, more established industries on the continent.

- Consider using the concept of **#selfsovereignidentity** to create digital ticker symbols for SMEs that enable a trusted system of distributed ownership and trading of SMEs.
- Support SMEs that develop digital health solutions focused on accessibility, usability and integrated training (**#ehealth**). Microhealth will continue to redefine the planning, provision and delivery of health care in Africa.

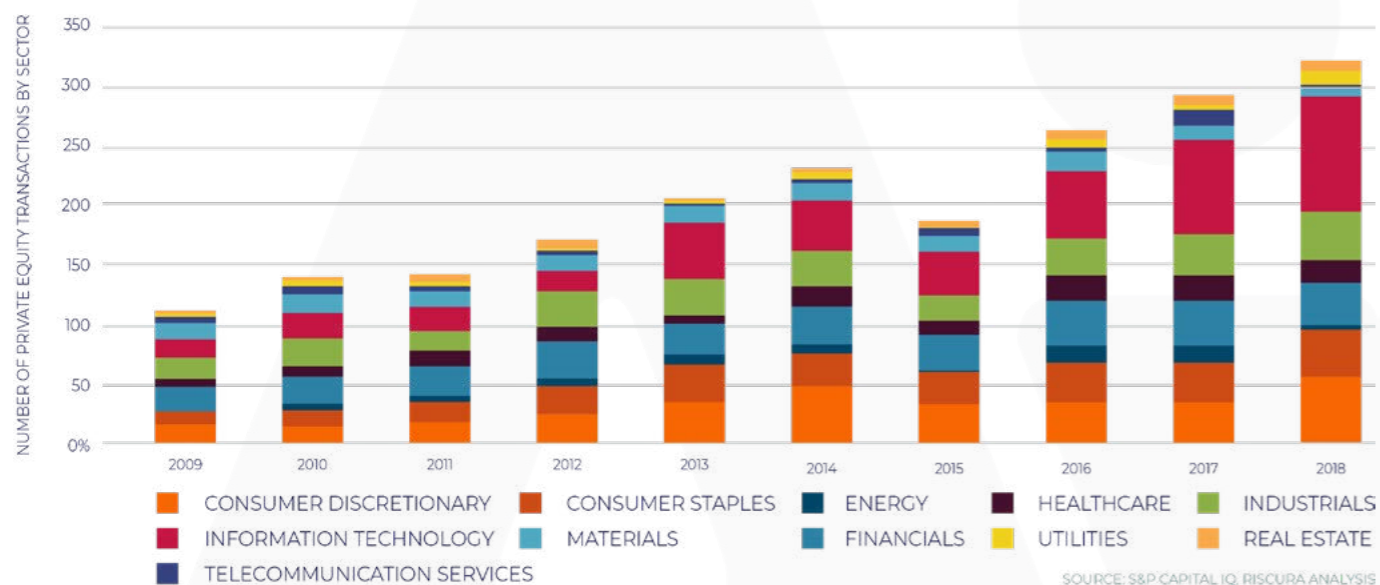
- Leverage smart farming e-tools to improve yields and get their goods to market (**#smartfarming**) to redefine the agricultural industry in Africa.
- Invest in educational technology SMEs to re-define the measure and quality of education in Africa by making it possible for students to access education in areas where the quality of education is poor from pre-primary through to tertiary level (**#e-learning**).

Africa can benefit from technological progress without having to endure the difficulty of having to convert from old systems.

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7.4. HOW PRIVATE EQUITY INVESTMENT CAN HELP GROW SMEs

Currently, significant investment is channelled to the ICT sector and to SMEs, through the private equity industry. Most funds have exposure to FinTech or ICT infrastructure, and focus more often than not on medium-sized enterprises. *The below graph Growing private equity investment in information technology shows both the impressive growth of the industry and its increased exposure to the ICT sector.*



GRAPH 19: PRIVATE EQUITY INVESTMENT IN INFORMATION TECHNOLOGY, IN AFRICA.

Private equity thus forms a very useful conduit for supplying capital for SMEs and helping boost innovation and digitalisation in African economies.

Across the world, governments have acknowledged the SME sector as a key driver of employment and growth. They have put regulations and structures in place to support the growth of these SMEs and during the current pandemic put measures in place to preserve SMEs. See example from Québec in Canada, that supports local industrialisation in *Québec Enterprise Growth Fund*.

QUÉBEC ENTERPRISE GROWTH FUND

The Québec Enterprise Growth Fund was created by the Québec government. The fund has a budget of USD 1bn and aims to finance projects whose main activities are carried out in Québec and which either have high-growth potential or are strategic to Québec's economy. The financing will be provided through equity participations of a minimum of USD 5m by the fund in selected projects.

In the private equity industry of most African countries, institutional investors face a number of obstacles, such as regulatory uncertainty and restrictions. The section entitled *The role of African pension Funds on the continent* deals specifically with some of these regulatory uncertainties.

There is, however, one additional regulatory factor that affects the private equity industry. Private equity funds on the continent tend to adopt pan-African investment mandates. This is the result of the lack of depth in individual markets, which in turn is due to the small economies and a limited number of companies of investable size that characterise the continent. Action is therefore required to allow African institutional investors to participate in this asset class and allow the owners of institutional assets to share in the accumulation of wealth that results from the increased use of information technology on the continent.

- ▶ Enable investment into pan-African alternative investment vehicles changes in investment restrictions that allow for such vehicles to raise investment for SMEs and the continent's growing ICT sector.
- ▶ Consider innovative blended finance partnerships that allow for a proliferation of investment products for SMEs in Africa.
- ▶ Increase the allocation to private equity as a conduit for investment in SMEs, the growing ICT sector and manufacturing in Africa.

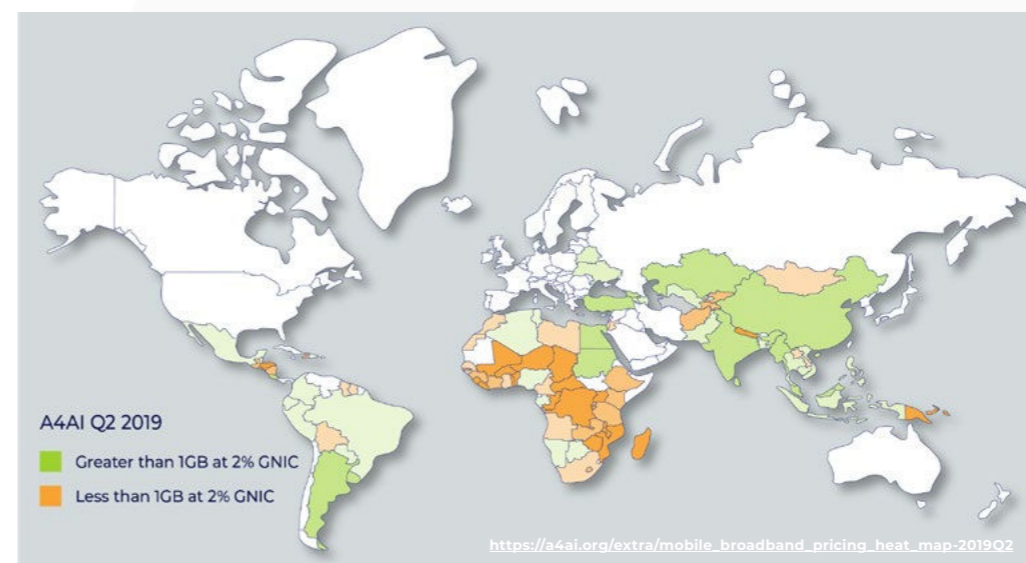
7.5. RISK AND RETURN ENHANCED INVESTMENTS

The Alliance for Affordable Internet has three requirements for building robust and diverse broadband networks (**#broadbandforall**). These include competitive markets, affordable backhaul and infrastructure, as well as diverse connectivity strategies and public access.

Private capital investment and good regulatory oversight feed into both competitive markets and affordable backhaul and infrastructure. However, wholesale open-access networks and public access options are investment opportunities that may not be attractive to private investors without any risk and return enhancement by either government or DFIs. Investment in these projects will be required to allow affordable internet access in African countries. Currently, the relative cost of data in Africa remains one of the highest in the world.

Investment in infrastructure projects, such as wholesale open-access networks or public access options, can be structured in the form of a public-private partnership (PPP). Institutional investors would be able to invest in these as in any other investment opportunity highlighted in the section of the Roadmap entitled Infrastructure Resilience, which deals with infrastructure.

- ▶ Signal to governments and DFIs the need for risk and return enhanced investment and PPPs when developing wholesale open-access networks or public access options to enable affordable internet for all.
- ▶ Engage with DFIs to strengthen the supply of targeted risk enhanced, blended finance investment opportunities available for investment within their market.



GRAPH 20: MOBILE BROADBAND PRICING HEATMAP Q2: 2019

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7.6. USING VENTURE CAPITAL TO FUND SMEs

Institutional investors in Africa should look to allocate a small portion of their assets to venture capital mandates. Institutional investors can then be able to prioritise investment strategies that provide capital to African projects that are not only innovative, but are also able to solve current market failures. With difficult operational conditions and deeply cyclical economies, investment in African venture capital requires patient capital to enable catalytic change. Patient capital has a high tolerance for risk, has long time horizons, is flexible when meeting the needs of entrepreneurs and ultimately demands accountability in the form of good governance and a commercial return on capital.

Institutional investors need to accommodate such patient capital investments within their investment governance framework. It is then possible to create and award specialised investment mandates that allow for longer investment horizons.

Venture capital investment has faced many obstacles, even in countries where regulatory clarity exists regarding investing in this asset class. For the majority of countries, this regulatory certainty still needs to be obtained.

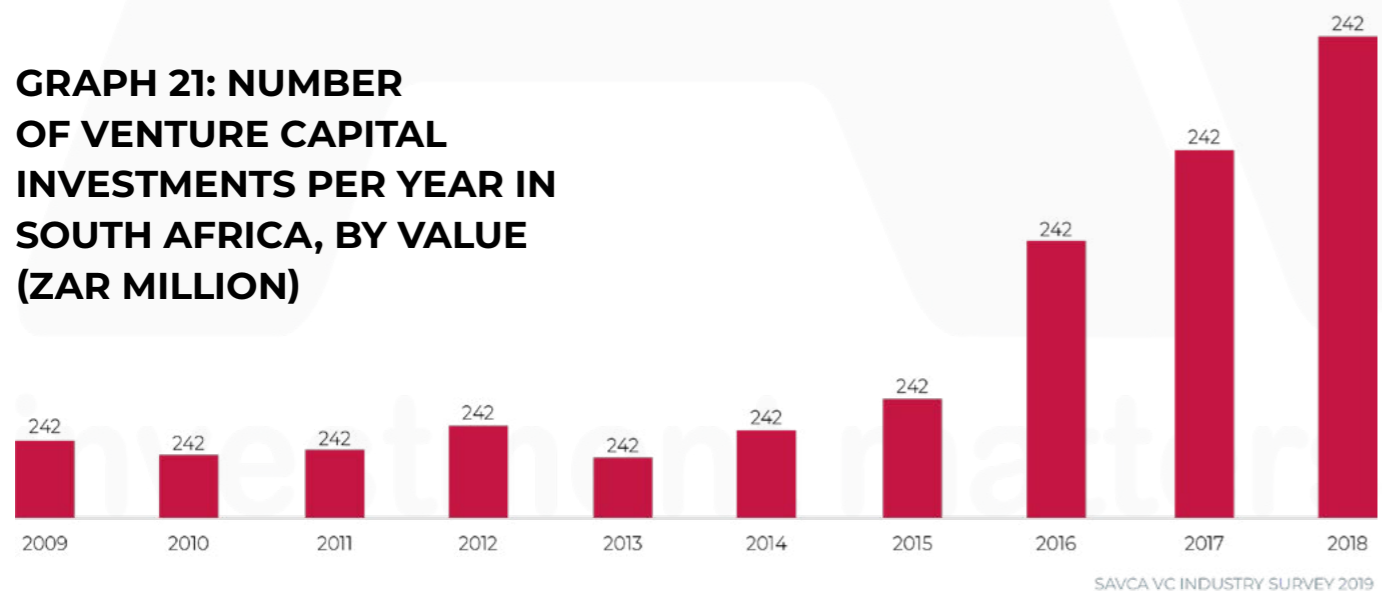
Venture capital, however, faces some unique challenges when trying to attract institutional investment. The average venture capital investment is relatively small for institutional investors, hence the existence of venture capital investment firms, which will initially make these investments either on an opportunistic basis on behalf of specific investors or through a corporate structure with fixed investors.

When venture capital firms want to attract institutional investors, they create a closed-ended fund vehicle. Even using this aggregation technique, the investments sought from institutional investors often remain small relative to their portfolios. Investing in venture capital funds requires institutional investors to have specialist skills and capacity.

A way to lessen the burden on institutional investors is a venture capital fund of funds, creating another level of aggregation (See the introductory section of the roadmap: *Laying the foundations for a prosperous, resilient, investible and self-reliant Africa for more on aggregation and disaggregation*). A fund of funds allows the invested capital to be diversified over a large number of underlying ventures. It also allows for diversification of vintage years and geographies and outsources the underlying selection of fund investments to teams of investment managers that specialise in this area.

One of the requirements for forming a fund of funds is the presence of a sufficient supply of high-quality funds that can be included. In turn, the funds need an adequate supply of investable opportunities. The African venture capital industry has shown remarkable growth in recent years. The graph below of the amount invested annually in venture capital in South Africa since 2009, shows how this has grown to R1.5bn (USD 115m) in 2018. Anecdotal evidence indicates that similar increases in activity are being experienced in Egypt, Nigeria and Kenya. This may mean that a sufficient supply of venture capital funds now exists to enable a venture capital fund of funds to be formed.

GRAPH 21: NUMBER OF VENTURE CAPITAL INVESTMENTS PER YEAR IN SOUTH AFRICA, BY VALUE (ZAR MILLION)



Governments can take numerous steps to foster a healthy venture capital ecosystem:

- ▶ Enact tax policy that encourages long-term capital investment.
- ▶ Collaborate with venture capital market participants to obtain market input and review international best practice so that venture capital industry support programmes can be designed.
- ▶ Allow for a level of labour mobility, both geographically and in terms of hiring or firing.
- ▶ Allow for bankruptcies in corporate law to foster a thriving venture capital industry.

Governments can offer direct support to venture capital investors in several ways:

- ▶ Offer to match funds invested by groups in venture capital, by thematic area of interest. Some programmes may also cap the returns for government-provided funds, thereby increasing the returns to private investors.

- ▶ Provide government-funded loans, loan guarantees, or loss reimbursements to support venture capital investing.

- ▶ Collaborate with global VCs and co-invest to identify and incubate African SMEs and techpreneurs that can solve global market problems and serve international customers.

Loans, loan guarantees or loss reimbursements tend to be less effective than equity because lenders have less direct power to influence a company's performance and loss reimbursements simply reduce the pain of bad decisions rather than encouraging good ones.

Policymakers may also need to decide how to balance supporting a domestic industry with encouraging international players. The international groups bring large amounts of money, awareness of best practices, and extensive networks. Local groups know their markets. By encouraging the two to work together, the industry learns and grows, and the domestic innovation environment is strengthened¹⁹. *An interesting example of government support, the application of blended finance principles and the use of the fund of fund aggregation mechanism is the SA SME Fund discussed below.*

THE SA SME FUND

The **SA SME Fund** is currently in the process of fundraising. The fund incorporates many of the mechanisms identified in this roadmap that can contribute to the recovery and growth of the continent. It serves as an aggregation vehicle that allows institutional investors to invest sizable amounts in this asset class.

By using blended finance principles, the fund is able to enhance the risk and return profile for commercial investors. It further allows for investment in the venture capital industry, which supports digitisation on the continent.

The details of the fund are as follows:

- ▶ The fund aims to raise R750m (about USD 40m).
- ▶ The objective of the fund is not limited only to commercial returns but also to supporting social returns and to entrenching innovation and technology in South Africa.
- ▶ A first-loss contribution from the fund and government institutions of up to 20%.

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¹⁹ Best Practices in Creating a Venture Capital Ecosystem: Lerner, Leamon and Garcia-Robles

7.7. PRESERVING SMEs THROUGH THE COVID-19 PANDEMIC

As SMEs drive growth, innovation and job creation, preserving such firms through the crisis should be of critical importance to African governments. SMEs will need access to finance to survive the crisis. However, in most African markets, SMEs do not traditionally have access to financing through banks. This is unlikely to change during the COVID-19 crisis. There will be SMEs that will not be able to repay some of the financial assistance they receive, but preserving these firms will still be very advantageous.

For businesses that can repay the financing, commercial funding can be obtained in countries with more developed capital markets. The section below, on Sanlam COVID-19 support funds is an example of one such funding mechanism.

SANLAM COVID-19 SUPPORT FUNDS

Sanlam Investments in June 2020 launched three impact funds with the aim of raising R7bn to support struggling businesses. The three funds – known as the Investors Legacy Range – will support companies negatively affected by COVID-19 and that have a strong chance of remaining sustainable beyond the pandemic. The three funds are: an SME debt fund for which Sanlam aims to raise R1bn; a private equity fund; and a senior debt fund. Sanlam will seed the funds with R2.25bn in capital.

This type of commercial capital is much less likely to be available in the rest of Africa due to the shortage of capital and poorly developed capital markets. This makes any intervention that any government launches even more meaningful.

Interventions can be in the form of debt provision or debt relief, depending on the businesses' abilities to repay the funding. For all interventions, limited resources will need to be ruthlessly channelled to businesses with the highest likelihood of survival and the highest impact on future economic growth.

7.8. REGULATION AS A STIMULUS (RAAS)

While it is well-recognised that African governments do not have the fiscal capacity to provide economies with the multi-trillion-dollar cash economic stimulus packages, enjoyed by OECD markets to support and protect their most vulnerable SMEs and economies, African regulators are well placed to seize the opportunity as policymakers to provide equivalent regulatory stimulus relief, through Regulation as a Stimulus (RaaS), thereby, targeting and fast-tracking emergency trade-related regulatory reform(s), which harbour the most pernicious hidden costs, stifling African SMEs ability to trade and compete across borders, (especially women and youth), which are estimated collectively to cost African SMEs in the tens of billions of dollars each year in compliance costs.

By pursuing RaaS, African regulators have a unique opportunity and impetus, to opportunistically modernise customs procedures, domestic regulations and emerging less direct and

visible procedural barriers, along with other well publicised legacy impediments to investment and SMEs, and leapfrog outdated trade and investment practices and regulations, many of which have been overtaken by existing and imminent multilateral and bilateral trade agreements, that just need implementation.

RaaS will therefore constitute and provide defacto cash stimulus support directly to SMEs, in the collective order of those same tens of billions of dollars per annum, to save our African SMEs hit hardest by the COVID-19 Pandemic and improve their prospects to survive, compete and support the successful implementation of the African Continental Free Trade Area (AfCFTA).

African regulators could also exploit RaaS, to reduce the cost of compliance, both internal and external, while maintaining standards. RaaS is an area that provides opportunities for African

economies, to easily generate a competitive advantage over more developed markets, many of which have expensive, complicated and unwieldy legacy regulatory structures. The objective should be to outperform other jurisdictions, rather than emulate them.

- ▶ Determine the objectives of any debt relief such as job preservation or creation; strengthening the SME sector; investment or welfare facilitation.
- ▶ Establish a debt-relief framework, which is as objective as possible and which ensures that funds are used where they are most required.
- ▶ Consider debt relief measures which utilise guarantee schemes to ease access to credit.

- ▶ Negotiate with potential funders of any relief efforts, such as the IMF and World Bank to explore the most favourable terms.
- ▶ Consider the effect of the debt relief on each nation's credit quality, as it has the potential to jeopardise access to future funding post the COVID-19 crisis.
- ▶ Link debt relief criteria to past corporate behaviour to mitigate maladministration and malinvestment by companies that receive relief.
- ▶ Fast track and implement RaaS, to directly support and save African SMEs hit hardest by the COVID-19 Pandemic.
- ▶ Create the digital infrastructure necessary for African SMEs, youth and women entrepreneurs to thrive in the new digital economy.

7.9. CHANGES THAT INVESTMENT IN SMES, INNOVATION AND DIGITALISATION COULD BRING TO AFRICA BY 2063

BLOOM – A DECENTRALISED CREDIT SCORING SYSTEM

Bloom, a decentralised credit scoring system powered by Ethereum and IPFS, is one of a number of blockchain solutions that seeks to address these challenges. The project aims to put the borrower's entire transactional history in an openly accessible public ledger thus ensuring transparency. According to Bloom, with the blockchain based rating system, the lenders will be able to evaluate the borrowers better than in the traditional manual systems which are based on a single score.

An Africa brimming with thriving SMEs will ensure fast-tracked alignment to Agenda 2063 goals. New SMEs are likely to be digital natives, an advantage that they have over larger more established digital-adopter companies. Around the world SMEs drive growth, innovation and job creation. Here we set out some changes that African SMEs are likely to contribute to between now and 2063.

1. Cheap broadband coverage is accessible anywhere on the continent. (#broadbandforall)
2. Affordable handheld or physically integrated smart devices are available anywhere.
3. Personally optimised global standards of online education, locally. (#e-learning)
4. Distributed ledgers using blockchain technology revolutionise private and central bank digital currencies (CBDC), asset exchanges and property rights. (#blockchain)
5. Cheap, effective and local renewable power generation and storage.
6. Real-time access to commodity prices locally, regionally and continentally with integrated ability to trade.
7. Distributed localised manufacturing of renewable plastics, metal, wood, chemicals and medicines using 3D printing technology. (#3Dprinting)

8. Automated drone delivery of goods (including medicines) to the remotest places. (#automation, #commercialdrones)
9. Highly-productive agricultural land using drone scanning, integrated soil testing accurate weather prediction and the targeted application of chemicals and water. (#commercialdrones)
10. Blockchain technology enables the identification of all economically active individuals (as a definition). This levels the playing fields and helps to transition those that are currently referred to as informal to formal. (#blockchain)
11. Mobile technology is used to improve the ease of registering a business and submitting regulatory reports. Enable mobile network companies to be agencies of the registrar of companies, using the same principle as withholding tax.
12. An improved credit rating system using a combination of RegTech and blockchain technology allows greater access to information for lenders to make credit decisions, leading to more and better quality loans being issued to SMEs. (#RegTech, #blockchain)
13. Smartfunding techniques become more established and understood as a transformative way to finance innovation by digital native SMEs, while larger digital adopter corporates stick more to the traditional channels. (#digitalnative, #digitaladopter, #smartfunding)

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**FUTUREPROOF APPLICATIONS FOR SMEs
COMPILED BY AFRICA'S LEADERS OF TOMORROW**

#3DPrinting	Additive manufacturing (3D printing) together with cloud computing technologies allows decentralised and geographically independent distributed production. It thus enables the participation of SMEs in the production and value chain of specific processes, without necessarily warranting substantial, upfront capital investment or to a certain extent, advanced technical training. This development enables African countries to combine the benefits of technology-enabled 3D production processes with certain comparative advantages, such as a youthful, literate and lower-cost working population.
#automation #commercialdrones	Automation, technology and mobility advances allow logistics functions to be undertaken with minimal human input. e.g: Zipline International signed a deal with the Rwandan government, which allowed for the construction of a medical distribution centre near Muhanga. Rwanda has mountainous geography and poor road conditions making an aerial delivery system more efficient. As of May 2018, the company had delivered over 7 000 units of blood this way. By January 2020 this had grown to 26 500 deliveries since inception.
#blockchain	The presence of the informal economy persists in Africa for a myriad of reasons. One apparent reason is the deep distrust that operators in the informal economy have of being formalised. By remaining informal, the level of economic activity in the informal economy is difficult to measure. By definition, blockchains ensure trust among anonymous counterparties in decentralised systems without the need for central supervisory authorities in charge of verifying the correctness of the records in the ledger. Blockchain technology presents an opportunity to put in place a framework within Africa's informal economies that is both trustworthy and provides a record of economic activity.
#smartfunding #digitalnative #digitaladopter	Smart funding pools that differentiate in their funding options, between digital-native SMEs versus digital-adopter companies.

#Tags: #3DPrinting, #automation,#blockchain,#smartfunding

INVESTING IN AFRICAN SMES TOWARDS THE ACHIEVEMENT OF AGENDA 2063

INVESTMENT VEHICLES	WHAT ARE THE OPTIONS?
Pan African listed equity funds	60+ products with 40+ asset managers
Pan African listed equity fund of funds	Three products with three managers
Pan African private equity funds	50+ funds with 30+ PE managers
Pan African private equity fund of funds	Five funds with three PE managers
Local listed equity funds	300+ asset managers in over 25 different countries
Local private equity funds	150 managers in 30 different countries
Pan African private debt funds	Four funds with three managers
Local African private debt funds	10 funds with six managers
Invest in increasing trade	Trade finance funds
Pan African VC funds	None
Local VC funds	10 funds in two countries
Crowdfunding platforms	Various

SECTION EIGHT
**INVESTING IN REGIONAL
SUPPLY CHAINS AND
TRADE FINANCE TO
SUPPORT THE AfCFTA**



investment matters

08	INTRODUCTION	11	FOUNDATIONS	25	SOVEREIGN WEALTH FUNDS	36	PENSION FUNDS	54	MULTILATERAL LENDING
62	BUILDING RESILIENCE	73	INSTITUTIONAL INVESTMENT	84	REGIONAL SUPPLY CHAINS	96	INFRASTRUCTURE RESILIENCE	110	CONCLUSION

8.1. OVERVIEW

The African Continental Free Trade Area (AfCFTA), is a committed trade and development instrument and undertaking of Agenda 2063, by Africa to approach trade between African countries and globally, with one voice. The AfCFTA allows member states to harmonise their pre-existing trade agreements with fellow African countries. It does not preclude countries from negotiating and entering into bilateral agreements with countries outside the AfCFTA. However, as a party to the AfCFTA, countries must trade with their fellow African states on similar or better trade terms as those negotiated in their bilateral agreements. For example, the [African Growth and Opportunity Act \(Agoa\)](#) is set to expire in 2025, presenting an opportunity for the US and the AfCFTA members to rework the Agoa framework in a manner that aligns with the implementation of the AfCFTA. A similar methodology can be applied to the EU's [Everything but Arms](#) initiative. The AfCFTA is the largest free trade area by number of countries since the establishment of the World Organisation and represents an estimated \$3.2 trillion collective GDP trading area.

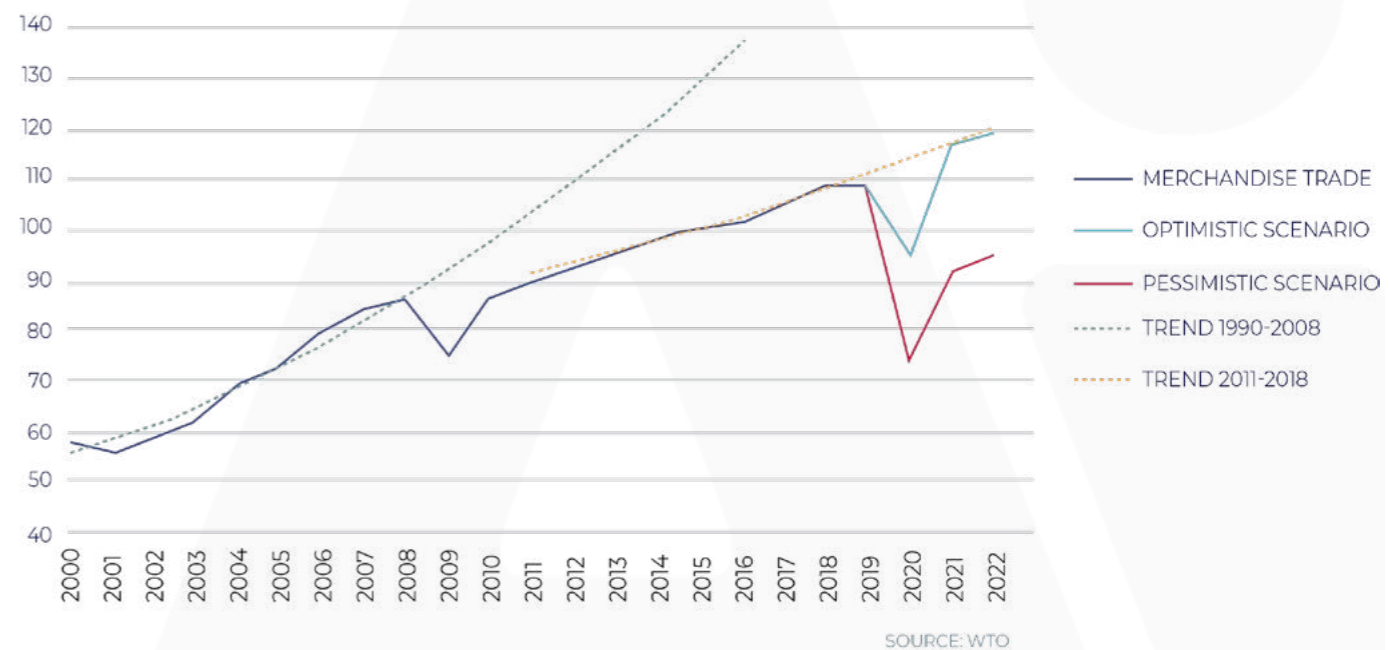
Given both the supply and demand shock brought on by the COVID-19 pandemic, the AfCFTA which became operational on 1 January 2021, has a vital role to play, as a trade and development instrument, to stimulate the economic engine on the continent. Policymakers need to focus on the implementation of the AfCFTA. This will help African regions navigate and deal with the economic effects of COVID-19.

- 8.1 OVERVIEW
- 8.2 THE IMMEDIATE IMPACT OF COVID-19 ON TRADE
- 8.3 USING THE AfCFTA TO STIMULATE ECONOMIC RECOVERY IN A POST PANDEMIC AFRICA
- 8.4 DEVELOP A GOVERNANCE FRAMEWORK FOR AFRICAN INSTITUTIONAL INVESTORS TO SUPPORT THE AfCFTA
- 8.5 HOW INSTITUTIONAL INVESTORS CAN INVEST IN AFRICAN TRADE AS AN ASSET CLASS
- 8.6 HARMONISE THE INVESTMENT REGULATORY ENVIRONMENT TO SUPPORT THE AfCFTA
- 8.7 MANAGING ACCELERATING TRADE IN AFRICA
- 8.8 A VISION FOR AfCFTA THROUGH TO 2063



8.2. THE IMMEDIATE IMPACT OF COVID-19 ON TRADE

COVID-19 has brought about a simultaneous demand and a supply shock to trade. On the demand side, consumers have been curtailed from buying goods and services due to movement restrictions and lockdown measures. On the supply-side, factory closures combined with disrupted supply chains, have caused shortages and delivery delays of goods and components. The World Trade Organisation (WTO) estimated in April 2020 that global trade will decline by anywhere from 13% to 32% in 2020²⁰.



GRAPH 22: GLOBAL TRADE FORECAST



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62	BUILDING RESILIENCE	73	INSTITUTIONAL INVESTMENT	84	REGIONAL SUPPLY CHAINS	96	INFRASTRUCTURE RESILIENCE	110	CONCLUSION	62	BUILDING RESILIENCE	73	INSTITUTIONAL INVESTMENT	84	REGIONAL SUPPLY CHAINS	96	INFRASTRUCTURE RESILIENCE	110	CONCLUSION

²⁰ https://www.wto.org/english/news_e/pres20_e/pr855_e.htm - accessed 08 May 2020

8.3. USING THE AfCFTA TO STIMULATE ECONOMIC RECOVERY IN A POST PANDEMIC AFRICA

THE AfCFTA AS A STIMULUS PACKAGE FOR AFRICA POST COVID-19

MESSAGE FROM WAMKELE MENE, SECRETARY GENERAL, AfCFTA

"Many countries in Africa do not have the monetary policy space or the necessary fiscal policy space to provide large bailouts in the trillions of dollars for economic recovery. Therefore, for Africa, the stimulus package is the actual AfCFTA, the implementation of this agreement. Increased intra-African trade is what will drive economic development post-COVID-19."
 – *Wamkele Mene, Secretary General, African Continental Free Trade Area (AfCFTA).*

According to the secretary general, the AfCFTA has several short and long-term tools in response to the pandemic. These include the following:

SHORT-TERM TOOLS

The member heads of state have agreed to establish trade corridors to enable the transit of essential goods or germ-killing products such as soaps that are essential to combat the pandemic. These products will get priority transit through borders.

Member African ministers of trade are exploring the possibility of reducing duties on these essential products so that they become affordable and accessible.

Member heads of state have accelerated the negotiation of the AfCFTA e-commerce protocol from 2022 to 2021.

LONG-TERM TOOLS

The member states under the AfCFTA want to accelerate Africa's industrial development by reconfiguring supply chains, establishing regional value chains and boosting the manufacturing of value-added products traded across the continent and globally.

Restoring key supply chains is critical to mitigating the negative impact of the COVID-19 pandemic on African economies. As many African governments are limited in the range and depth of fiscal measures they can deploy to help re-start their economies, restoring trade guided by the AfCFTA, is an alternative economic stimulant (see *Afreximbank announces COVID-19 support package*).

AFREXIMBANK ANNOUNCES COVID-19 SUPPORT PACKAGE

The **African Export-Import Bank (Afreximbank)** is another example of an institution seeking to lessen the economic fallout from the pandemic. Afreximbank has announced a USD 3bn facility called the **Pandemic Trade Impact Mitigation Facility**, to help African countries deal with the economic and health impacts of the COVID-19 pandemic. The facility will help support member country central banks and financial institutions to meet trade debt payments and avert default. The facility will also help stabilise the foreign exchange resources of central banks and assist member countries whose fiscal revenues are tied to specific export revenues, such as mineral royalties.

African institutional investors are important stakeholders in addressing the lack of trade finance which has been attributed as a significant factor limiting the full trade potential of the continent.

- ▶ Collaborate through the AfCFTA to put intra-African trade at the heart of Africa's economic recovery post-pandemic.
- ▶ Investigate options for investing in trade finance in Africa.
- ▶ Support and provide asset owner insights and recommendations, to AfCFTA trade negotiators on policy options to attract long-term institutional capital for trade related and digital infrastructure investments.

8.4. DEVELOP A GOVERNANCE FRAMEWORK FOR AFRICAN INSTITUTIONAL INVESTORS TO SUPPORT THE AfCFTA

The AfCFTA Investment and intellectual property Protocols are currently being negotiated. Once finalised, they will contribute to increased transparency and efficiency of trade on the continent by creating a uniform set of trade-treaty rules. Investment is part of most regional economic integration agreements. Institutional investors are very familiar with drafting and implementing robust, global best-practice investment governance frameworks. Their input in the negotiation and drafting of the AfCFTA Investment and Intellectual Property Protocols for Africa would prove very valuable.

This participation will help fast track governance frameworks that will ultimately create better alignment with the investment policies and mandates of target investors. It also has the potential to significantly accelerate allocation and investment approvals to support investable intra-Africa trade transactions and related infrastructure investments.

- ▶ Seek out the participation of African institutional investors in the drafting and formulation of the AfCFTA investment and intellectual property protocols.

8.5. HOW INSTITUTIONAL INVESTORS CAN INVEST IN AFRICAN TRADE AS AN ASSET CLASS

The Agenda 2063 Financing and Domestic Resource Mobilisation Strategy already contemplates the need for several investment channels to harness institutional capital to support trade. The resilience of the asset class in Africa is shown in the below graph, which indicates low default rates for the continent in comparison to other regions:



GRAPH 23: OBLIGOR-WEIGHTED DEFAULT RATES BY PRODUCT AND REGION, 2008-2018

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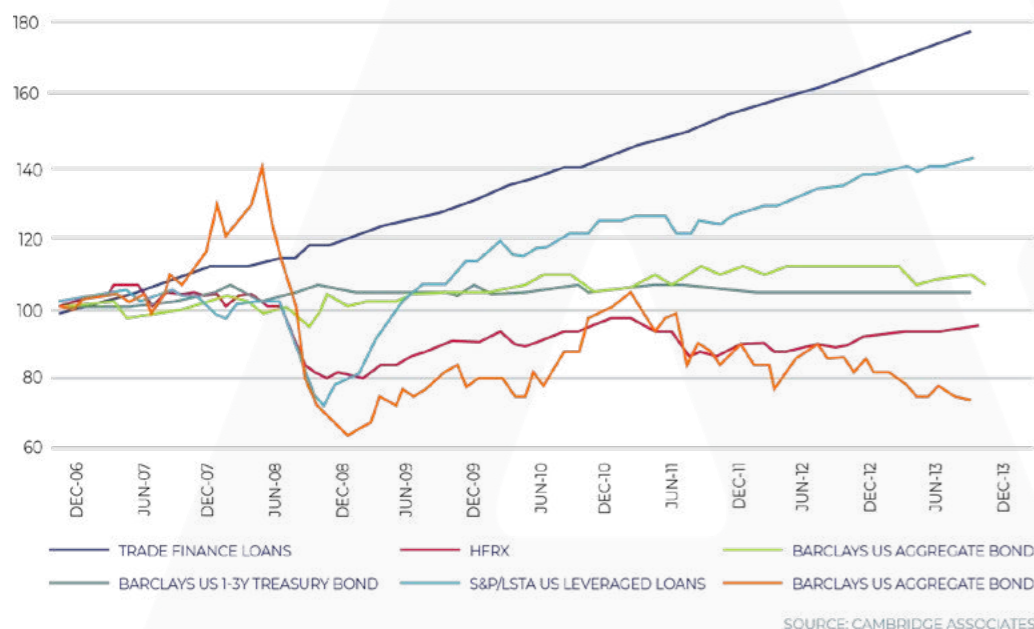
There are some strategies that could be pursued to invest in trade in Africa.

The financing of trade provides institutional investors access to an asset class that provides:

- ▶ Low duration asset class and low risk, as the transactions are structured to limit downside risk.
- ▶ Repeatable and traceable cash flows linked to an identifiable trade flow.
- ▶ Non-directional and uncorrelated returns over hard-currency base rates.

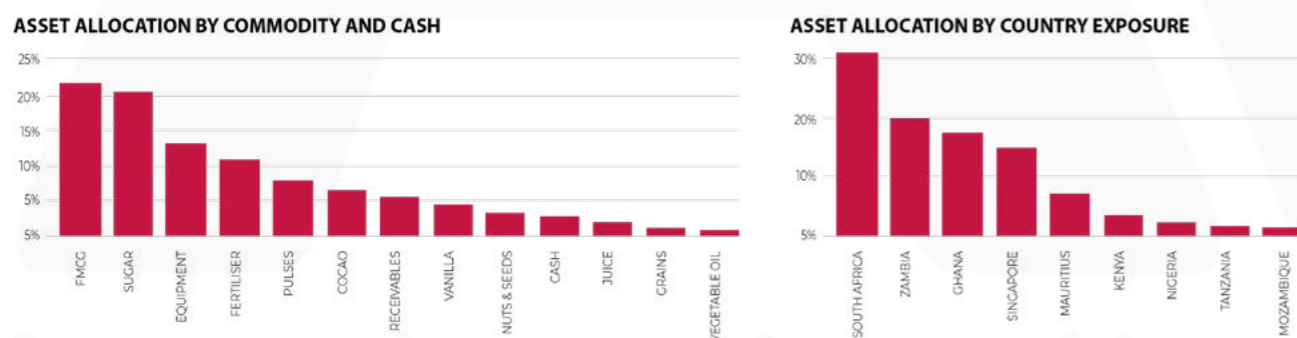
TRADE FINANCE FUNDS

The performance of trade as an asset class has been resilient. Although global trade volumes may suffer during an economic downturn, strategic commodities such as metals, energy and agriculture will still be produced, processed and consumed. The action of financing these real economy flows, therefore, allows for investors to earn returns despite economic downturns.



GRAPH 24: RECENT PERFORMANCE OF TRADE-RELATED FUNDS

Portfolio diversity can also be high. Africa is a continent of 54 sovereign states. Below is an example of the portfolio diversity of an established African trade finance fund:



GRAPH 25: ASSET ALLOCATION BY COMMODITY AND BY COUNTRY EXPOSURE

There are already a handful of trade finance funds available on the continent. Some of these have been set up by private-sector participants. Others have been set up by regional development finance institutions (DFIs). Examples of these include:

1. **International Islamic Trade Finance Corporation (ITFC)** and US investment manager Federated Investors, launched the ITFC Sovereign Energy Fund (ISEF); and
2. Trade and Development Bank (TDB) - Eastern and Southern African Trade Fund (ESATF).

The opportunity exists for collaboration between institutional investors and a DFI sponsor to establish regional trade finance funds to mobilise resources from African institutional investors. Sponsorship of these funds can draw on regional and international DFIs (*See Establishing a DFI-sponsored regional trade finance fund*).

- ▶ Investigate the establishment of a regional trade finance fund sponsored by a regional or international DFI that collaborates with local and global institutions to attract investment in trade on the continent.
- ▶ Invest in an existing Africa trade finance fund as an allocation within the debt or alternative assets categories.

ESTABLISHING A DFI-SPONSORED REGIONAL TRADE FINANCE FUND

Africa could benefit from a trade finance fund structure which enables investors to participate across a spectrum of trade exposure strategies. Ideally the fund should be sponsored by a local DFI such as the African Development Bank or the Trade and Development Bank. Sponsorship would entail the DFI helping to set up the fund and playing a role as an anchor or seed investor in each of the local feeder funds. The fund could invest regionally, but could look to establish local feeder funds in African countries, which can serve as a means to encourage greater domestic (in-country) resource mobilisation. The envisaged fund platform would make it easier to pursue bespoke investment strategies as well as enable subscriptions across a broad spectrum of institutional investors.

PARTICIPATION FROM TRADE FINANCE BANKS

The fund would share in the risks assumed by trade finance banks by purchasing an obligation from a bank that has originated and arranged a loan ("originate and distribute") model. This strategy will enable the fund to mitigate risk, through diversifying its exposure across a number of bank-originated portfolios, alongside diversification through varying tenors. In the case of any loan default, the recovery process would be driven by the originating bank with support from the sponsor.

ORIGINATION OF TRADE FINANCE TRANSACTIONS

The fund will look to originate its own trade finance transactions. Under this strategy, it will be possible for the fund to focus on the provision of trade finance to African SMEs, to address market failures. The fund may look to contract with a third-party investment manager, specialising in trade finance, in order to provide expertise. Given the higher risk profile of counterparties under this strategy, the strategy may need to be ring-fenced (where exposure to this strategy is offered to investors on a segregated basis).

TRADE INSURANCE PARTICIPATION

The fund would participate in a trade financing transaction on a risk-participation basis. Under this strategy, the fund negotiates to fully bear or share in losses from a minimum up to a maximum percentage, at which point the originating bank or trade insurer would agree to begin assuming the losses in their entirety. This would effectively cover the originating bank or trade insurer of any losses up to a certain level, thus enabling the originating bank or trade insurer to allocate less regulatory capital to their portfolio of trade finance exposures.

INVEST IN SECURITIES ISSUED BY EXPORT CREDIT AGENCIES

The need for export credit financing in Africa is as great as ever, and institutional investors can support continental trade growth through export credit agencies.

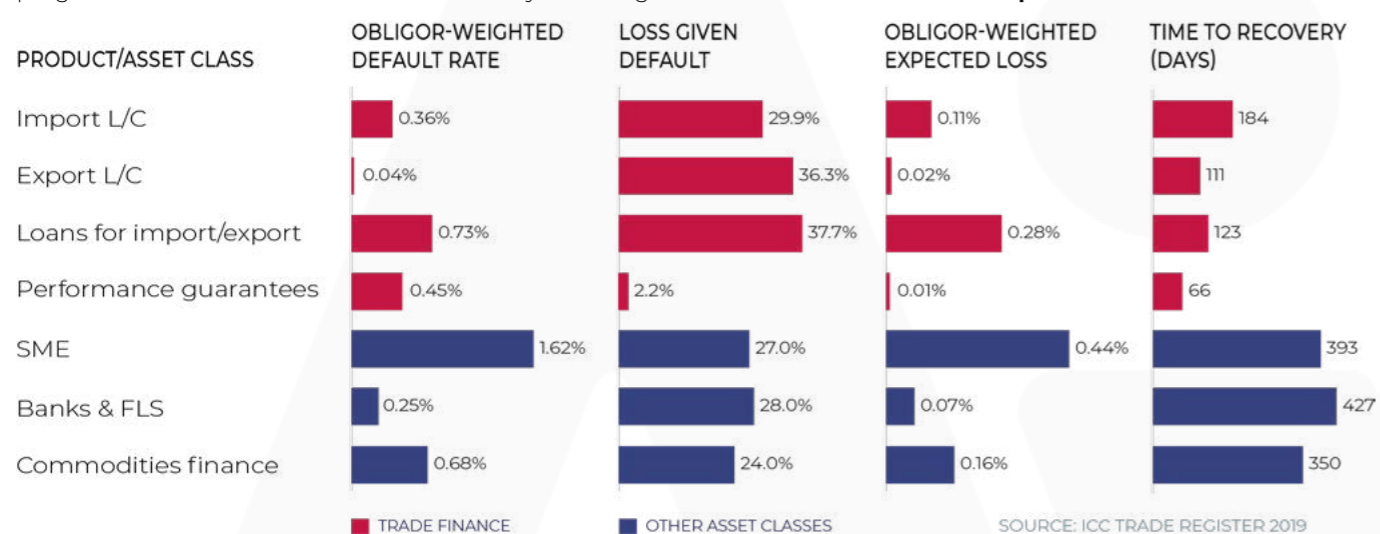
Institutional investors can finance increased regional exports by subscribing to investment securities issued by export credit agencies through their respective securitisation programmes. These securities would be denominated in appropriate currencies (whether local or other) that support trade flows. Export credit agencies provide support to exporters in the form of officially

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supported export credits to help mitigate the commercial and political risks of non-payment by an overseas buyer. The investment securities issued by the securitisation programme are credit enhanced by way of guarantees. The norm is for the guarantees to be provided either by a sovereign or a multilateral development finance institution or global insurers. The purpose of the guarantee is to secure the highest possible investment-grade rating on the securitisation investment programme. Institutional investors benefit by investing in

high-quality, investment-grade credit securities. Importantly, given the underlying nature of trade, the maturity profile of these instruments is much shorter than traditional long-dated government bonds. Export credit agencies allow institutional investors to demonstrate direct support for the real economy and the AfCFTA.

Default rates in trade finance have been significantly lower than for other credit products:



GRAPH 26: PERFORMANCE OF TRADE FINANCE VS OTHER ASSET CLASSES

- Invest in securities issued by export credit agencies through their respective securitisation programmes.

CO-GUARANTEE TRADE FINANCE POOLS

Institutional investors can act as co-guarantors alongside development finance institutions, in guarantee programmes that look to enhance the ability of African businesses to obtain trade financing from banks or other financial institutions funding trade on the continent.

- Establish sponsored co-guarantee trade finance pools to mobilise resources from African institutional investors. Sponsorship of these funds can draw on regional and international DFIs.
- Act as a co-guarantor in a DFI-sponsored co-guarantee trade finance pool.

REVERSE FACTORING PROGRAMMES

Institutional investors can perform the role of being anchor investors in reverse factoring programmes (see Reverse factoring programmes for definition). Generally, such programmes enable SMEs to receive funding if they furnish credible off-take agreements from larger counterparties. Reverse factoring programmes are ideal in providing capital to SME-sensitive supply chains like agriculture and construction.

- Establish a shared regional data pool of available SME receivables for reverse factoring.

REVERSE FACTORING PROGRAMMES

Otherwise known as supply-chain financing, reverse factoring involves the buyer of goods helping suppliers to finance their working capital more effectively. This is usually done through providing guarantees in order to reduce the credit risk of the supplier and lower the interest rate suppliers would have to pay to a trade finance intermediary or bank.

DIGITISED RECEIVABLES AS COLLATERAL FOR DEBT ISSUANCES

Cloud-based platforms that enable SME receivables to be digitised can dramatically increase the provision of financing to SMEs involved in trade in Africa, as digitised receivables can be used as collateral. Blockchain technologies are also adding scale and enhanced security measures to this innovative form of financing. African institutional investors looking to invest in SMEs should seek out this form of collateral when investing in African SMEs.

TRADE DATA REPOSITORIES

While not directly related to trade investment, there is a strong case to be made for African institutional investors supporting the creation of regional trade data repositories. These enable market participants such as regulatory authorities, banks, institutional investors and issuers to build shared knowledge and understanding of the performance of trade as an asset class within and between specific regions in Africa. This data will also enhance how Africa-specific risk and return attributes for the asset class are captured and modelled over time.

AFRICAPLC'S REGTECH DATA PLATFORM

Most investors who shy away from the region do so because they feel they lack sufficient information on African entities. The **AfricaPLC Regtech Data platform** was developed in response to this. The **digital trade** platform brings data together from all African trade counterparts: traders, buyers, sellers, financiers and investors, and connects them with domestic and global partners.

The platform covers more than six million African businesses located throughout Africa, providing a single digital source of vetted primary data, assisting trade finance banks, corporates and export credit agencies perform customer due diligence and credit and risk management checks on trade counterparties in Africa. The data is used by global firms such as Dun and Bradstreet and Moody's Bureau van Dijk.

- Adapt regulation and or legislation to allow for valid and legally enforceable, electronically concluded contracts that allow for remote signature and transactions.

8.6. HARMONISE THE INVESTMENT REGULATORY ENVIRONMENT TO SUPPORT THE AfCFTA

Regulators of institutional investment can help channel more investment towards trade by formulating a regulatory framework of investment and trade that covers standardised terms and definitions.

A framework that establishes clear linkages between trade policy terms such as "sustainable socio-economic", "industrial development" and "competitiveness", to equally important investment policy terms such as "stable asset growth", "liability matching" and "inflation-linked" is crucial. The absence of these linkages will curtail investments in trade by African institutional investors.

To counter this, a multi-stakeholder grouping consisting of asset owners, regulators and African capital markets operators, should be established to harmonise the language and create common definitions, classifications and ratings of trade finance instruments. Liquidity thresholds, issue size and the tax status afforded to such instruments should also be considered.

- Establish a multi-stakeholder grouping consisting of asset owners, regulators and African capital market operations, to establish standardised definitions, classifications and ratings of trade finance instruments.
- Encourage regulators to establish a common understanding of trade as an investable asset class, thereby promoting access and investment in the asset class.



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8.7. MANAGING ACCELERATING TRADE IN AFRICA

We expect that the implementation of the AfCFTA will result in increased intra-Africa trade both in terms of value and volume. This will place strain on current systems and will require change and action in several different areas.

HARMONISED LEGAL AND REGULATORY FRAMEWORKS

Greater institutional investment in market infrastructure that supports trade is necessary. Just as the free flow of goods and services is critical to increasing intra-regional trade, so the efficient movement of financial flows across borders is crucial. To function smoothly, cross-border payment and financing require harmonised legal and regulatory frameworks. Smart contracts that replace physical (paper-based) contracts can introduce greater trust and efficiency in the payment and financing of trade. Smart contracts are digital agreements between transacting parties that are written in computer code and deployed to the blockchain, where they will self-execute when predetermined conditions are met. Increased investments in payments and financial market infrastructure are critical to ensure that the AfCFTA is fully implemented. [\(#Smartcontracts\)](#)

REGIONAL CO-OPERATION WITHIN THE FINANCIAL SECTOR

Regional co-operation among central bank regulators, developers of financial market structures, commercial banks and micro-finance institutions, is crucial as all these parties have a role to play in ensuring the delivery of faster intra-regional payments.

GREATER EXCHANGE RATE FLEXIBILITY

Increasing cross-border financial flows requires greater exchange rate flexibility. The market will also innovate to bring about more trade in African currency pairs. Greater trade between African countries should see domestic currencies exhibit greater sensitivity to the currencies of trading partners and, as a function of the balance of trade, less sensitivity to developed market currencies. For those regional blocs that have historically been pegged to the Euro, the [UN Conference on Trade and Development](#) provides guidance, advocating for pegs to regional currencies as offering greater advantages than pegs to international key currencies²¹.

- ▶ Explore the benefits of smart contracts to provide greater trust and efficiency in trade transactions, and to streamline implementation of the AfCFTA.
- ▶ Encourage institutional investors to support trade by investing in financial market infrastructure that enables certainty and greater transparency and efficiency in financial transactions.

8.8. A VISION FOR AFCFTA THROUGH TO 2063

It's hard to imagine a successful implementation of the AfCFTA without a quantum shift in trade processes in Africa to a more digital future. The face of trade has already changed and will continue to evolve further. To attract investment and increase trade on the continent, requires the lowering of risks and raising of trust in the area of trade execution. Here is a list of likely future states of trade through to 2063, which all participants of the trade process should plan around.

1. Online trading or e-commerce platforms such as AfricaPLC, Alibaba and Amazon will become increasingly powerful.
2. Data captured by e-commerce trading platforms will serve as a financial credit rating system. Supply-chain actors and trade financiers will be able to access and use such data (in real-time and at much lower cost) to make informed and faster credit and supply credit decisions.
3. Data captured by social networks allow for identity verification and access management capabilities to be carried out on third-party e-commerce trading platforms. These will play an increasingly larger role in the future of global trade.
4. Platforms that manage supply-chain transactions

- capture data about supplier reliability and performance, and allow firms to make better decisions in a digital economy.
5. Supply-chain platforms track and trace input products along the supply chain and create more responsible and sustainable supply chains allowing firms to differentiate products more clearly in a digital economy.
6. Electronic Know Your Customer (e-KYC) enables paperless and rapid verification of address and identity and strengthens anti-money laundering control.
7. Electronic signature or e-sign technology, whereby users attach a legally valid electronic signature to a document, is widely used.
8. Digitised single windows simplify and speed up the trade process.
9. Digital lockers are widely utilised for the issuing and verifying of documents and certificates.
10. Unified payments interface (UPI) enables cashless payments.
11. QR codes are ubiquitous identifiers of traded goods allowing for further mechanisation of the trade processes.
12. Embedded geo-location devices on goods contribute to secure trade processes [\(#QRCode, #geolocation\)](#)

FUTUREPROOF APPLICATIONS IN TRADE COMPILED BY AFRICA'S LEADERS OF TOMORROW

#DLT	Applying distributed ledger technology (#DLT) to the trade finance receivables books of all African banks and investment funds presents an opportunity to create a unified platform of trade finance receivables.
#digitalisation #RegTech #smartcontracts	Smart contracts will introduce greater trust and efficiency in trade transactions. Smart contracts are digital agreements between transacting parties that are written in computer code and deployed to the blockchain, where they will self-execute when predetermined conditions are met.
#artificialIntelligence #machinelearning	An African Development Bank report found that in Africa the average customs transaction involved 20 to 30 parties, 40 documents, 200 data points, and the re-keying of 60% to 70% of all data at least once. Artificial intelligence, machine learning and AfricaPLC's electronic certificates of origin issued through African Chambers of Commerce, can make the process faster and more efficient.

#Tags: #DLT, #digitalisation, #artificialintelligence, #machinelearning, #RegTech, #smartcontracts, #eKYC

INVESTING IN AFRICAN TRADE TOWARDS THE ACHIEVEMENT OF AGENDA 2063

INVESTMENT VEHICLES/ OPPORTUNITIES
Pan African Trade Finance Funds
Local Trade Finance Funds
Securitised ECA assets
Co-guarantee trade finance pools
Invest in reverse factoring programmes
Use receivables as collateral for investment
Invest in trade data repositories

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²¹ UNCTAD: Regional Cooperation and Integration in Sub-Saharan Africa (No. 189, September 2008).

SECTION NINE

INFRASTRUCTURE RESILIENCE: CO-INVESTMENT, IIPPS AND THE AU'S 5% AGENDA



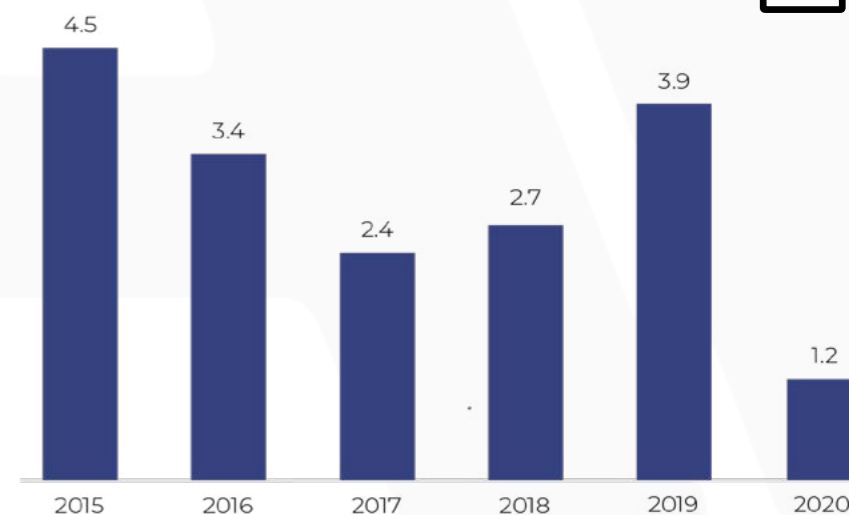
9.1. OVERVIEW

It is impossible to predict how the alternative investments sector in Africa will weather the COVID-19 crisis. However, looking at how the industry endured the last significant market disruption and contraction, the Global Financial Crisis, is useful. Research from the **African Venture Capital Association (Avca)** shows that both dealmaking and fundraising declined sharply in Africa after the crisis²². A 2020 Avca survey shows similar trends with 92% of private capital investment managers reporting that they were either not fundraising or that they expected that the pandemic will influence the timeline of their fundraising materially²³.

- 9.1 OVERVIEW
- 9.2 CLOSING THE INFRASTRUCTURE GAP THROUGH LONG-TERM PARTNERSHIPS AND IIPPS
- 9.3 INHIBITORS AND ENABLERS OF INFRASTRUCTURE INVESTMENT
- 9.4 ESG CONSIDERATIONS IN INFRASTRUCTURE INVESTMENTS
- 9.5 AFRICAN INFRASTRUCTURE INVESTMENT THROUGH TO 2063



GRAPH 27: TOTAL VALUE OF AFRICAN PE FUNDRAISING, BY YEAR OF FINAL CLOSE, USD BN



SOURCE: AVCA

Institutional investment in healthcare, energy and trade-related infrastructure has never been more critical. Unfortunately, the economic damage wrought by COVID-19 will likely significantly reduce African government spending on infrastructure. To build and sustain investor confidence in African infrastructure as an investable asset class, African governments must take bold steps.

Unless attractive and stable investment environments can be created and promoted in this globally competitive and complex environment for private capital, significant long-term investment is unlikely to follow. African institutional investors have a limited pool of capital to invest, with a 5% allocation to infrastructure investments, as provided for in the AU's 5% Institutional Infrastructure

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²² Annual African PE Data Tracker, African Venture Capital Association
²³ Avca COVID-19 GP Survey, African Venture Capital Association

Investment Agenda, which is likely to generate less than USD 20bn in investment. Most of this capital is concentrated in South Africa, a country that has signalled an inward focus on infrastructure development to fund its recovery – see more on the [Sustainable Infrastructure Development Symposium South Africa](#) in this section.

SUSTAINABLE INFRASTRUCTURE DEVELOPMENT SYMPOSIUM SOUTH AFRICA

The Infrastructure and Investment Office in South Africa's Presidency embarked on a process with a similar methodology to the AU's 5% Agenda IIPP framework, for planning and project preparation, to ensure that infrastructure development is not merely undertaken in a transactional manner.

The methodology complements and reinforces the requirements for infrastructure development in South Africa, as envisaged by the Infrastructure Development Act. This act in itself is a lever the country has at its disposal to help achieve its infrastructure development goals and focus on prioritised implementation. The Sustainable Infrastructure Development Symposium methodology covers the identification, consideration, evaluation, approval, and implementation of sustainable infrastructure projects, in order for these to achieve bankability. The evaluation includes a strategic, technical, functional, inter-sectoral, needs and financial perspective.

The methodology forms part of the Presidential Infrastructure Co-ordinating Commission (PICC), which was set up by the South African government to co-ordinate long-term infrastructure development as set out in the country's National Infrastructure Plan of 2012.

Despite limited capital available from pension and sovereign wealth funds in Africa, these funds can play a catalytic capital mobilisation role. This they can do by dedicating a share of their assets specifically to infrastructure as an anchor and direct investors (see [AUDA-NEPAD-CBN 5% Agenda Report](#)), as is commonplace in other countries around the world. However, many constraints exist in getting pension and sovereign funds to invest in Africa's infrastructure.

AUDA-NEPAD'S 5% AGENDA INITIATIVE

The 5% Agenda is an initiative that the AU Development Agency (AUDA-Nepad) has developed under the guidance and recommendation of the AU's Programme for Infrastructure Development in Africa (PIDA), the Continental Business Network (CBN) and the African Sovereign Wealth and Pension Fund Leaders Forum (ASWPFF).

The 5% Agenda represents a pact where African governments commit to work collaboratively on project design and better alignment of infrastructure investment policy regimes with the investment mandates of African assets owners. This includes pursuing the 5% Agenda's new institutional investor public-partnership (IIPP) model, similar to those successfully pursued by pension funds and the governments of Australia and Canada.

In return, African institutional investors represented by the ASWPFF have agreed to increase their allocations to African infrastructure investment to 5% of assets under management and support the African Institutional Infrastructure Co-Investment Platform initiative for African sovereign investors and international pension and sovereign wealth fund peers to collaboratively co-invest in each other's markets across the continent.

The 5% Agenda's Institutional Investor Public-Partnership (IIPP) model, which was endorsed by AU heads of state, is compelling as it offers: **governments** with limited funds and competing expenditure requirements world-class, essential and well-maintained infrastructure assets; **consumers and civil society** reliable infrastructure delivery, budgetary discipline and long-term real investment returns; and **institutional infrastructure investment** over the full life-cycle of the asset(s). As it is over the full life-cycle of the asset, rather than the investment, economic or political cycle, the prospects for the assets to catalyse and increase economic and private-sector development, job creation and regional and domestic trade and investment competitiveness are significantly improved.

This increased 5% share of African institutional investment, will also have the following five key impacts for Africa's infrastructure development and financing:

- ▶ Unlocking African institutional savings capital to implement regional, domestic and trade-related infrastructure projects on the continent and industrial infrastructure projects that facilitate the African Continental Free Trade Area (AfCFTA).
- ▶ Bringing PIDA and the [AU's Presidential Infrastructure Champions Initiative \(PIC\)](#) projects to financial close, for improved access to energy, transport, digital and trade-related infrastructure.
- ▶ Broadening and deepening the currently shallow African primary and secondary capital markets.
- ▶ Contributing significantly to regional integration and job creation.
- ▶ Facilitating co-investment partnerships with international institutional investors and financiers – especially into green infrastructure, who are hesitant to allocate to African infrastructure, in the absence of African institutional co-investors that serve as anchor partners.

The 5% Agenda's potential to attract sustained foreign direct investment (FDI) and nurture the necessary long-term structural changes, could be catalytic in deepening African capital markets and unlocking significant FDI. This capital could transform the continent.

AFRICAN INFRASTRUCTURE RESPONSES TO COVID-19

GHANA INFRASTRUCTURE INVESTMENT FUND (GIIF)

The Ghana Infrastructure Investment Fund has assessed the impact of COVID-19 on its portfolio and identified areas that may be attractive for investment such as the gold sector.

THE AFRICAN UNION DEVELOPMENT AGENCY

The African Union Development Agency (AUDA-Nepad) has launched a COVID-19 Response Plan of Action to assist African countries to improve access to sustainable and resilient health services and protect economies. The plan will be in place for as long as COVID-19 exists and a further three years after the pandemic. The response focusses on key themes including health service delivery; capacity building for healthcare human resources; research, development, and innovation to enhance local manufacturing; education and training skills and employability; food and nutrition security; and financing.

Without the ability to attract sustained foreign direct investment (FDI), the effect of USD 20bn investment in local infrastructure would be fleeting. However, with the necessary long-term structural changes, the investment could be catalytic, deepening capital market and unlocking significant FDI. This capital could transform the continent.

The macro-economic benefit seen by sustained infrastructure investment will always need to be measured against the risk and return required by these ultimate owners.

By lowering the risk and perceived risk of these investments, governments can enter into long-term Institutional investment public partnerships (IIPPs). These partnerships can unlock the triple benefit of more robust diversified investment portfolios, attractive investment opportunities and more robust and resilient macro-economic environments.

Institutional investors further need to consider their ability to contribute to a more resilient and robust macro-economic environment. The primary fiduciary responsibility of these institutional investors remains to the ultimate owners



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9.2. CLOSING THE INFRASTRUCTURE GAP THROUGH LONG-TERM PARTNERSHIPS AND IIPPs

The continent has a significant infrastructure funding gap, estimated to be in excess of USD 100bn annually by the African Development Bank²⁴. This offers an opportunity for governments and institutional investors to form significant long-term institutional investment public partnerships (IIPPs). The ability to fund this gap can have a significant beneficial effect for the continent, through both direct and indirect impacts. The indirect effect on trade and commerce through improved operating conditions can result in compounding secondary and tertiary multiplier effects that include:

- ▶ Creating direct jobs.
- ▶ Improving the operating environment for enterprises, increasing employment further and increasing tax revenue.
- ▶ Lowering the cost of goods for citizens, effectively decreasing poverty.

- ▶ Creating more stable and supportive environments for SMEs – the drivers of GDP growth — to flourish.
- ▶ Improving intercontinental connectivity, which will drive intercontinental trade. Better connectivity will also lower the cost of goods and support import substitution on the continent.
- ▶ Driving the continent's green infrastructure investment agenda in pursuit of the Paris Agreement

The African Development Bank has estimated that the continent's shortfall in infrastructure investment translates to an effective two percentage points (i.e. 2%) reduction in annual GDP growth²⁵. The multiplier effect of targeted, well-designed infrastructure investment programmes will have the effect of dwarfing the impact of the COVID-19 pandemic in the medium-term. Governments across the world have used private sector investment to accelerate infrastructure investment, and the mobilisation of this capital is crucial for the continent's recovery.

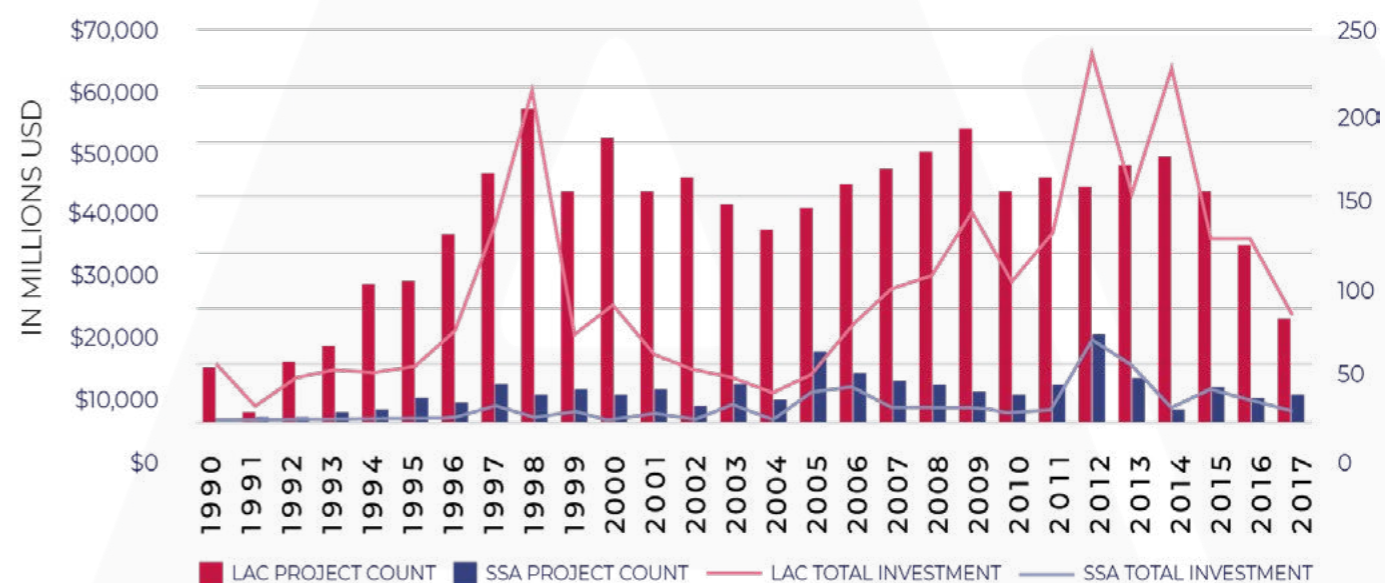


9.3. INHIBITORS AND ENABLERS OF INFRASTRUCTURE INVESTMENT

BUILD A ROBUST INVESTMENT ECOSYSTEM

One of the most significant inhibitors of infrastructure investment on the continent is the absence of an investment ecosystem for this type of asset class. For the industry to flourish, it requires bankable projects, project developers, project preparation funders, project finance consultants, bankers that specialise in infrastructure funding, infrastructure investment managers, institutional investors with an appetite for the asset class and various intermediaries and market makers. The lack of development in Africa's infrastructure market is well illustrated by the lack of growth in the number and value of deals over the last 20 years.

INFRASTRUCTURE TRANSACTION VALUE AND COUNT - A REGIONAL COMPARISON OF LATIN AMERICA AND THE CARIBBEAN (LAC) AND SUB-SAHARAN AFRICA (SSA)



SOURCE: MERCER - MIDA | WORLD BANK PRIVATE PARTICIPATION IN INFRASTRUCTURE (PPI) DATABASE, AVAILABLE AT [HTTP://PPI.WORLDBANK.ORG/VISUALIZATION/PPI.HTML](http://ppi.worldbank.org/visualization/ppi.html)

GRAPH 28: INVESTMENT OPPORTUNITIES IN AFRICAN INFRASTRUCTURE – JULY 2018

Although there are some market participants, a healthy ecosystem will include numerous participants as this increases competitiveness and efficiency. For the formation of such an ecosystem, a sufficient supply of assets at a price that justifies their inherent risk is required. Both supply (through the pipeline of investable projects presented by the government) and demand (from institutional investors for investment products) pressure needs to be exerted to create this ecosystem. This again highlights the need for IIPPs to catalyse investment.

One of the most significant inhibitors of infrastructure investment on the continent is the absence of an investment ecosystem

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HOW SOUTH AFRICA'S REIPPP ENCOURAGES INFRASTRUCTURE INVESTMENTS

The Renewable Energy Independent Power Producer Procurement (REIPPP) programme in South Africa provided a catalyst for deeper market formation by providing a steady stream of investable assets. The constant supply of investment opportunities over time allowed for the establishment of a capital market for these assets. Investment houses and banks either established or significantly expanded their teams. Many see the REIPPP programme as the most successful public-private partnership (PPP) in Africa in the last 20 years and is among the top 10 privately-funded renewable energy programmes in the world.

The key success factors necessary to run South Africa's REIPPP programme have been identified as follows²⁶:

- ▶ Build an enabling policy and regulatory environment.
- ▶ Capacitate and authorise a leadership team to manage the REIPPP programme.
- ▶ Provide adequate resources for hiring experienced transaction advisors.
- ▶ Ensure the design of an auction process built on international best practice.
- ▶ Draft high quality, bankable documentation and contracts.
- ▶ Ensure a procurement process built on fairness, transparency and credibility to earn private-sector trust.
- ▶ Develop capital markets that provide adequate and competitively priced funding.

These critical success factors are required to build a long-term sustainable public-private partnership (PPP) programme. This requires an enabling policy and regulatory environment that encompasses a wide range of policy and regulatory interventions including procurement legislation, value for money frameworks, and the establishment and strengthening of PPP units and law. These reforms are critical to attracting significant FDI and local institutional capital.

PROVIDE REGULATORY CLARITY

Although some of the previously mentioned legislative and regulatory reforms cannot be concluded in the short-term, there are some smaller, yet meaningful changes in regulation that can be made to enable the participation of local institutional investors. One of these is to provide regulatory clarity, as institutional investors often cite a lack of clarity as to why they do not consider alternative investments as part of their investment strategies. Initial reforms do not require a large-scale overhaul of legislation and regulation, but rather the clarification of existing regulations.

With small and illiquid listed equity and corporate bond markets, and severe restrictions on investment outside of their own country, African institutional investors have a very limited investment landscape. This makes it even more critical to explore alternative assets. African institutional investors through the 5% Agenda and the African Union's Continental Business Network (CBN), have a unique understanding of political risk, as well as

country-specific (local currency) return requirements and have a unique role to play in building the ecosystem. Alternative assets also include several uncorrelated asset types, such as infrastructure and the addition of these assets would make portfolios more resilient by ensuring diversification of assets.

To improve regulation of infrastructure investment, the regulator needs to begin by having a clear definition of infrastructure, paying particular attention to what is, and is not deemed to be, an infrastructure investment.

This is particularly relevant if regulators want to consider setting investment limits for such assets. An often-cited reason for institutional investors not wanting to invest in infrastructure is that they believe it to be the role of government to invest in infrastructure and that institutional investors already lend the government substantial money in the form of government bonds. It is these kinds of arguments that call for the use of clear definitions when considering infrastructure investments (see boxed text regarding infrastructure definitions).

Clarity from regulators is also required regarding the statutory standing of the different investment structures used by asset managers to invest in infrastructure, such as collective investment scheme vehicles and limited liability partnerships. Another aspect that may require attention is the regulation that managers of these vehicles would be subject to.

Finally, the initial categorisation of infrastructure as an alternative investment, has in some areas worked against efforts to mobilise capital to fund infrastructure projects. The term "alternative investment" implies something different to the norm of standard assets (such as equity, bonds and cash) and typically includes investments in private equity, venture capital, commodities and hedge funds, among others. Hedge funds, in particular, are often considered riskier by conservative institutional fiduciaries, so lumping infrastructure with them under alternative investments may incorrectly imply that infrastructure is a riskier type of investment.

In reality, investment opportunities in infrastructure present themselves as standard assets such as equity and bonds and should fall under those asset classes for risk management and regulatory reporting purposes using the look-through principle. Investors can report these investments as being in underlying infrastructure projects, and the total exposure to "infrastructure assets" could then be separately measured and if necessary,

regulated.

- ▶ Provide regulatory clarity to institutional investors regarding what kinds of alternative investments are permissible and how they will be regulated.
- ▶ Give regulatory guidance to local institutional investors on what risk management will be required when pursuing alternative investment programmes.
- ▶ Make it a regulatory requirement that institutional investors consider alternative investments (including infrastructure) when designing an investment strategy.

- ▶ Use a common definition of infrastructure throughout the economy and capital markets.
- ▶ Categorise infrastructure assets as being part of their underlying asset classes such as equity and bonds for risk management purposes. Use the look-through principle for infrastructure funds containing a blend of these asset classes.
- ▶ Develop an accepted classification system for infrastructure assets so that investment in different types of infrastructure can be measured effectively.

REGULATORY CLARITY

The need for regulatory clarity to enable investment into Infrastructure includes not only clarity regarding permissible investments, but also what is included in the definition of an Infrastructure investment.

RisCura, supported by ASISA (Association of Savings and Investment South Africa), has developed a taxonomy for Infrastructure. The definition of Infrastructure is in line with widely used international definitions such as those of the OECD (Organization for Economic Co-operation and Development).

The classifications applied to Infrastructure allows for differentiation both in terms of risk and the impact of Infrastructure investments. The classification makes use of the widely accepted TICCS (The Infrastructure Company Classification Standard), created by EDHECinfra. The impact portion of the classification addresses the level of public access as well as which SDGs the investment addresses.

INFRASTRUCTURE INVESTMENT TRUSTS

An infrastructure investment structure that is growing in popularity (and as recommended in a June 2020 G20 and OECD infrastructure report), that allows institutional and even retail investors access to infrastructure investment, is the infrastructure investment trust. Modelled on the Real Estate Investment Trust (REIT), these vehicles aggregate a portfolio of infrastructure investments to allow investors access to a diversified portfolio of yield-bearing infrastructure assets. They are generally listed on highly liquid exchanges and allow investors access to liquid, flexible and diversified investments in infrastructure assets.

The long-term inflation-linked nature of infrastructure assets makes them extremely attractive as investment opportunities. However, they are currently packaged in closed-ended, limited life vehicles. One of the main advantages of an infrastructure investment trust is its perpetual nature, allowing institutional investors access to these highly desirable assets in the most efficient way.

The use of REITs is well-developed in the South African market, enabled by the highly liquid JSE and a deep commercial and retail property market. Infrastructure investment trusts have been used very successfully to aggregate portfolios of telecommunications towers internationally. This example highlights some of the requirements for the effective use of such trusts, namely a sufficient supply of diversified mature assets and a deep, liquid capital market.

The need for pre-existing market conditions for infrastructure investment trusts highlights the interconnectivity of different market development strategies, as such trusts can only be effectively utilised if capital markets are developed.

THE AFRICAN INFRASTRUCTURE INVESTMENT TRUST INITIATIVE

The African Sovereign Wealth and Pensions Fund Leaders Forum is working with the [African Stock Exchange Association](#), which represents all exchanges on the continent, and the Global Listed Infrastructure Organisation in Brussels, which represents about USD 1 trillion in listed infrastructure assets, on an initiative to establish and list infrastructure investment trusts on African and global exchanges.

CAPACITATE GOVERNMENT

The implementation of infrastructure investment programmes requires significant skills from government and the private sector. For example, South Africa's REIPPP programme required the support of over 100 professionals from 13 firms offering legal, financial, technical or socio-economic and environmental advisory services.

While the extensive use of professional firms is expensive and the limited market of specialised professionals makes conflicts of interest challenging to avoid, a successful infrastructure investment programme requires such support. DFIs that are active on the continent can assist governments and ensure long-term change by providing technical assistance to African governments. To avoid any conflict of interest in future funding transactions, experts deployed should preferably not be employed

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²⁶ Anton Eberhard and Raine Naude, The South African Renewable Energy IPP Procurement Programme: Review, Lessons Learned & Proposals to Reduce Transaction Costs

by any DFI, and should be independent.

- ▶ Establish an independent panel of experienced international experts that can support African governments to execute PPP programmes that market participants see as world-class and reliable. Professionals should preferably not be connected to any DFI or private-sector parties that will enter into the PPPs.
- ▶ Engage DFIs in an enabling capacity to provide technical assistance to African governments for developing infrastructure investment programmes.
- ▶ Utilise the 5% Agenda's Institutional Investor Public Partnership (IIPP) framework, to ensure alignment with asset owners investment policy statements and risk-adjusted return requirements.

DEVELOP MARKET TRUST

PPP programmes remain untested by institutional investors. At the same time, governments are often unable to execute successful PPPs, making it difficult for institutional investors to trust the potential of long-term institutional investment public partnerships. Smaller-scale projects directly contribute to economic development and sustainable job creation and limit the perception of political risk that plagues larger projects.

- ▶ Promote small-scale projects in which the private sector has shown an appetite. Execute these to build market confidence and allow SMEs to participate in the delivery of projects, which will allow projects to be brought to market more quickly.
- ▶ Avoid prestige projects, which are notoriously difficult to bring to market and are often perceived as being subject to corruption.

The use of small-scale projects also allows projects that don't necessarily involve the government as an off-taker to be developed. Fundamentally, infrastructure investors require long-term assurance of the willingness and ability of off-takers to pay. Providing this assurance may prove an impossible burden for governments already stretched by the need to alleviate the suffering of their citizens during the COVID-19 crisis.

AUDA-CBN'S 5% PLATFORM AIMS TO BOOST INVESTMENT INFRASTRUCTURE ASSETS

The ASWPFF is collaborating with the Continental Business Network (CBN) on its 5% Agenda infrastructure co-investment platform.

The platform was established following extensive consultations with domestic and international asset owners and their trustees, who ranked the identification of qualifying infrastructure investment partners and investable projects as the single biggest challenge for domestic and global institutional investors seeking to allocate investments to African infrastructure as an investable asset class.

The platform originates vetted bankable projects, provided exclusively by African asset owners, their infrastructure private equity managers and Africa Investors' (Ai's) 500-strong network of Africa's foremost private sector infrastructure project developers.

The platform is hosted on the blockchain online (at www.aiassetx.com; see corporate video here) and aggregates the capital introduction and capital raising process for sell-side participants. Furthermore, it harmonises asset owners' strategies to ensure that they can efficiently engage with project developers and fund managers who have the requisite track record and expertise, to enable them to deploy capital and discharge their fiduciary responsibilities in a predictable and transparent, secure environment.

The platform was designed to be a smarter and easier way to profile infrastructure investment opportunities and connect project owners and investment managers to institutional investors. It is a practical collaboration platform that leverages the long-term investment horizon of public financial investors, such as sovereign wealth funds and pension funds, to invest in both direct investments and fund and investment manager strategies that meet asset owners' mandates and investment criteria.

- ▶ Enable the supply of infrastructure services such as energy provision between private parties. Although this may result in a loss of future revenue opportunities, it would enable immediate economic activity, which would drive job creation and tax revenues. It would also allow the participants to become more familiar with the investment market.

- ▶ Create an Africa-wide feed-in tariff policy for renewable energy sources. Instead of relying solely on large power utilities, electricity production should be decentralised. This can be done by creating an enabling regulatory environment for locally or privately produced renewable energy. (#smartderegulation)

The development of trust between institutional investors and the government is a crucial component of long-term institutional investment public partnerships in infrastructure investment. When infrastructure investment is prescribed by a government, the ability of institutional investors to perform their fiduciary duty is obstructed, damaging the trust relationship between investors and the government.

The volume of and pace, at which governments champion and drive projects to financial close is another important factor. To sustain investor interest, there needs to be a growing pipeline of shovel ready investable projects capable of reaching financial close with a 12-18 month timeframe, otherwise investors will pursue competing opportunities that offer predictability.

- ▶ Create an environment of trust that allows institutional investment public partnerships to grow and shovel ready pipelines to increase and reach financial close with 12-18 months.
- ▶ Institutional investors should be free to execute their fiduciary duty to invest only in suitable opportunities, taking into consideration the required risk and return profile and social needs of the ultimate asset owners.

INCREASE THE SUPPLY OF INVESTABLE ASSETS

To catalyse institutional investment in infrastructure, it is critical to have a steady supply of bankable or investable

mature investment opportunities. This allows the infrastructure investment ecosystem to develop.

The AUDA-CBN 5% IIPP framework, makes provision for the co-creation and design of projects with asset owners, which goes a long way to ensure the pipeline of assets are ultimately bankable and investable.

On the continent, DFIs own or finance the majority of these assets. They therefore remain critical as market-enablers in infrastructure investment. A further step to building the trust of institutional investors into the asset class would be if DFIs were to restructure and sell (even if partially) infrastructure assets that have proven to be resilient and creditworthy to institutional investors. This would allow institutional investors to build confidence with the asset class in the longer-term and in doing so, initiate a long-term institutional investment public partnership. This action would also free up capital in these development institutions that can be immediately recycled to invest in the continent's recovery post-COVID-19 and the creation of a secondary market for African infrastructure.

- ▶ Engage with DFIs to restructure and sell (even if partially) infrastructure assets that have proven to be resilient and creditworthy to institutional investors to build trust in the asset class.

DFIs can help further enable the market, by facilitating co-investment opportunities. As they are likely to participate in most large-scale infrastructure projects, institutional investors can

benefit enormously from the due diligence performed by DFIs as well as the explicit and implicit credit enhancement supplied by such institutions. An example of a co-investment platform is The IFC's Managed Co-lending Portfolio Programme (MCP) discussed in more detail in the section Multilateral lending for improved resilience.

- ▶ Create partnerships between institutional investors that want to build the internal capacity to evaluate, invest in and manage infrastructure investment and DFIs that have the experience and ability to do so. This can be done through strong bi-lateral relationships or more structured co-investment platforms.

Commercial investors do, however, have significantly different needs to DFIs when it comes to how investment instruments and opportunities are structured. Therefore, there is a need for such investors to participate much earlier in the investment process to ensure that their specific needs and fiduciary requirements are catered for. These may include housing projects in corporatised structures or securitised SPVs.

While it can be onerous to allow a large number of institutions to participate in structuring an opportunity, there are several mechanisms that can be of some help. Investors in South America have used non-competitive, co-investment platforms that allow several institutional investors to participate while having their interests represented and due diligence performed on assets. Currently, pension funds in Kenya have established such a platform through the award winning, Kenyan Pension Funds Investment Consortium (KEPFIC). But to date, the efficacy of

CANADA, COLOMBIA CREATE INFRASTRUCTURE CO-INVESTMENT FUND

Caisse de Depot et Placement du Québec based in Montreal, created an infrastructure co-investment fund with the Colombian government and four pension funds. The organisation contributed up to USD 510m to the fund. Colombia's national development finance agency and administrators at Colombian pension funds Colfondos, Old Mutual, Porvenir and Proteccion contributed a combined USD 490m. Infrastructure investments targeted renewable and other forms of energy, transportation, social infrastructure, telecommunications, water and basic sanitation.

this type of platform is unproven on the continent.

- ▶ Explore the establishment of non-competitive co-operation agreements that allow for knowledge and investment costs to be shared. Advisors independent of the transaction should be used to enable effective risk management.

Foreign institutional investors have long cited the lack of local institutional investors, as an obstacle to participating in African infrastructure investment opportunities as they would like to see local institutions trusting in the opportunities. In turn, African institutional investors have cited the lack of capacity and the large cheque sizes of foreign infrastructure investment as an obstacle to participating in the asset class.

- ▶ Leverage the 5% Agenda to create African institutional infrastructure co-investment platforms that combine African institutional investors, international pension and sovereign funds and DFIs (local and international), to collaboratively co-invest. Such a platform would represent all participants' interests.

This kind of collaboration allows each party to contribute critical elements to the success of the partnership. DFIs would bring their know-how and creditability to international investors. Local institutional investors would bring their market knowledge and the long-term commitment from local governments that results from the exposure of local capital holders to the success of the project. Finally, international institutional investors would bring extensive knowledge of the asset class as well as the ability to invest substantial amounts of capital.

The terms of a co-investment platform would need to allow for participants to grow their trust in the arrangement over time. These would include being able to choose in which projects they participate, a shared understanding of due diligence requirements and a sharing of the results of viability and due diligence investigations undertaken by all parties. The platform would also need to be coordinated by a highly trusted African market participant working with international peers. (see *Mobilising international institutional capital on next page*).

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MOBILISING INTERNATIONAL INSTITUTIONAL CAPITAL

Mobilising institutional investors to develop Africa's infrastructure (MIDA) is such an initiative. MIDA seeks to expose US institutional investors to opportunities to co-invest with their African counterparts in sub-Saharan Africa's infrastructure. The initiative helps by offering to expand partnerships, facilitate co-investment opportunities, and provide transactions support. MIDA has published informative research highlighting the actions that it could take to enable African infrastructure investments. These include:

- ▶ Targeted outreach to asset owners and asset managers with large existing infrastructure allocations that are not yet invested in Africa.
- ▶ Arrangement of club deals and syndicated financing opportunities.
- ▶ Capacity building: Engaging investors in collaborative research initiatives.
- ▶ Promotion of opportunities for investors to invest in brownfield assets.

Another way for institutional investors to contribute to the development of the infrastructure investment industry is to assist in developing performance benchmarks that help other investors form return expectations. Institutional investors invest assets to meet specific liabilities, and an understanding of both the expected risk and return of an investment opportunity is essential to setting an investment strategy. Africa investor and RisCura have embarked on creating Africa's first infrastructure Investment Performance benchmark.

- ▶ Participate in and encourage the contribution by asset managers of infrastructure investment risk and performance data to benchmark providers.

AFRICAN PLATFORMS FOR CONTINENTAL CO-OPERATION TO PROMOTE AND IMPLEMENT REGIONAL PROJECTS

PROGRAMME FOR INFRASTRUCTURE DEVELOPMENT IN AFRICA - PIDA

- ▶ The **Programme for Infrastructure Development in Africa (PIDA)**, an AU Commission initiative, in partnership with the **Nepad Planning and Co-ordinating Agency**, the African Development Bank and the UN Economic Commission for Africa, aims to accelerate infrastructure development across the continent.
- ▶ PIDA is a strategic framework to develop continental (cross-border) infrastructure (including energy, transport, information and communication technologies (ICT) and trans-boundary water resources). Its main purpose is to strengthen the consensus and ownership of large cross-border infrastructure projects that integrate energy, transportation and water development on a continental scale.

PRESIDENTIAL INFRASTRUCTURE CHAMPIONING INITIATIVE – PICI

- ▶ The **Presidential Infrastructure Championing Initiative (PICI)** supports regional integration, economic development and industrialisation within the framework of Agenda 2063. There are large infrastructure projects in the pipeline being driven by the PICI, like the Trans-Maghreb Highway in North Africa; the North-South Road, Rail and Related Infrastructure Corridor connecting extensive parts of southern Africa; as well as the Central Corridor and the Abidjan-Lagos Corridor Highway.
- ▶ The AU has designated various heads of state as champions of trans-boundary infrastructure projects in the following sectors: ICT, transport, energy, water and sanitation and agriculture. This enables PICI countries to provide the necessary strategic impetus for infrastructure build in the sub-regions and on the continent.

Another source of investable projects could be so-called unsolicited projects. These are initiated by the private sector and presented to the government. Although these kinds of projects do present a challenge as they are often perceived as being open to corruption and sub-optimal execution, they are nevertheless an opportunity to exploit private-sector expertise to initiate and develop projects.

- ▶ Governments to develop robust frameworks for dealing with innovative (unsolicited) bids, that ensure optimal allocation of resources, as well as fair procurement practice while harnessing the power of the private sector to develop projects.

9.4. ESG CONSIDERATIONS IN INFRASTRUCTURE INVESTMENTS

International as well as large African institutional investors have well developed environmental, social and governance (ESG) frameworks, which if not followed, could disqualify any infrastructure project from getting investment from these institutions. Considering the size of investment that is required for any infrastructure projects, it is often large institutional investors and their representatives (the asset managers) who will be the material commercial investors in African infrastructure projects. This has led to industry bodies such as the CFA Asset Owners Council establishing tools such as the **CFA SDG-ESG Infrastructure Investment Impact Framework**.

CFA SDG-ESG INFRASTRUCTURE INVESTMENT IMPACT FRAMEWORK

The **CFA SDG-ESG Infrastructure Investment Impact Framework**, developed by Africa investor (Ai), GRESB and The University of Cambridge Institute for Sustainability Leadership (CISL), with the support of a high-level 'brain trust' of global asset owners, was launched during the 2020 World Bank Annual Meetings, to assist asset owners globally, measure ESG and their contribution to the SDGs for infrastructure assets and projects.

This framework identifies the SDGs relevant to infrastructure assets and projects based on their sector, materiality, and lifecycle stage and defines cases, and associated conditions, for which an SDG contribution statement can be made. It is intended that a user could use this framework to develop an SDG Contribution Report for use in communication with stakeholders.

This framework is an important step in facilitating better reporting against the SDGs for infrastructure assets/projects.

Ai is currently regionalising the framework to the goals of Agenda 2063, to assist African and global asset owners, dynamically align and measure their contribution to Agenda 2063, the SDGs and ESG best practice through the framework.

<https://www.cfany.org/asset-owner-series/infrastructure-investment-framework/>

Because DFIs have traditionally been the most prominent investors in infrastructure on the continent, the ESG requirements of projects have been high and the monitoring of these factors extensive. These standards would need to be maintained to attract commercial capital. The G20 recently issued its Principles for Quality Infrastructure Investment, which sets out the necessary standards for infrastructure investment (*see The G20 Principles for Quality Infrastructure Investment*).

THE G20 PRINCIPLES FOR QUALITY INFRASTRUCTURE INVESTMENT

The G20 Principles for Quality Infrastructure Investment is a set of voluntary, non-binding principles that reflect a common strategic direction and aspiration for quality infrastructure investment within the G20, namely:

- ▶ Maximising the positive impact of infrastructure to achieve sustainable growth and development;
- ▶ Raising economic efficiency in view of life-cycle cost;
- ▶ Integrating environmental considerations in infrastructure investments;
- ▶ Building resilience against natural disasters and other risks;
- ▶ Integrating social considerations in infrastructure investment; and
- ▶ Strengthening infrastructure governance.

These principles show an increased focus on understanding and maximising the flow-through effect of infrastructure investment, taking into account the effects of climate change, the increased need for resilience and the increased focus on ESG.

The G20/OECD report on collaboration with institutional investors and asset managers is currently being drafted. This report should also provide good guidance in identifying positive action that can be taken to collaborate with institutional investors and asset managers.

- ▶ Integrate sustainability considerations into government infrastructure decision-making frameworks, across the project life cycle.
- ▶ Consider the development of clear, shared principles for sustainable infrastructure across relevant government ministries and regulatory agencies.
- ▶ Apply the CFA SDG-ESG Infrastructure Investment Impact Framework.

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Compounded by COVID-19, Africa needs approximately USD 100bn per annum for the next 10 years, to address energy poverty and pursue the Paris Agreement and energy-related SDGs.

In the run-up to COP27, which will be hosted in Africa, recognising this cannot be financed solely from public funds, the African asset owner community announced the AfGIIB initiative, to mobilise domestic and global institutional green capital, to bolster the continent's green commercial finance market.

ABOUT THE AFRICAN GREEN INFRASTRUCTURE INVESTMENT BANK (AFGIIB)

The **African Green Infrastructure Investment Bank** (AfGIIB) initiative, is an African Union convened, African institutional investor led global finance initiative, to catalyse private capital for Africa's green transition.

The AfGIIB was announced by the African Sovereign Wealth and Pension Fund Leaders Forum during the 2021 Conference of African Ministers of Finance, Planning and Economic Development, hosted by the United Nations Economic Commission for Africa.

The AfGIIB initiative recognises that the African green finance market is highly fragmented, representing a need to create a world class international pan African investment platform to mobilise this financing market and institutional capital at scale.

The AfGIIB's mission, is to create a specialist, independent and commercially-run, pan **African Green Infrastructure Investment Bank**, that is both green and profitable, with a pure green focus.

The AfGIIB model is based on the successful UK Green Investment Bank (UKGIIB), model, which was seeded with £3.8bn of UK government capital, and has been admired and copied around the world.

The Forum assisted establish a high-level working group of African and international institutional investment leaders, governments and technical advisors, to structure the platform and present it during the upcoming African Union (AU), G7, G20 and COP26 Summits.

The AfGIIB initiative also offers technical assistance opportunities for development partners, to participate in the set-up funding arrangements, where their mandates support catalysing long-term domestic and international institutional capital for green infrastructure, to assist the continent's post Covid-19 economic recovery.



9.5. AFRICAN INFRASTRUCTURE INVESTMENT THROUGH TO 2063

The AU's Agenda 2063 sets out a clear vision for Africa. Infrastructure development is one of the drivers that will help achieve this vision. Like any other sector in the new digital economy, infrastructure will be influenced by the availability of big data sets that can be analysed to maximise decision-making. The increasing availability of granular data is leading to a new understanding of how different infrastructure drives GDP growth, and how inclusive this growth is.

- ▶ The use of artificial intelligence (AI) enhanced data analytics helps prioritise infrastructure spending across the continent. (#artificialintelligence)
- ▶ City infrastructure planning takes advantage of the current low levels of infrastructure in African cities to plan and build infrastructure that takes into account changing work patterns, digitisation and public transport options to build cities of the future.
- ▶ Africa leads the world in the adoption of the Blended Finance Taskforce principles that will lead to greater leverage for development investment.

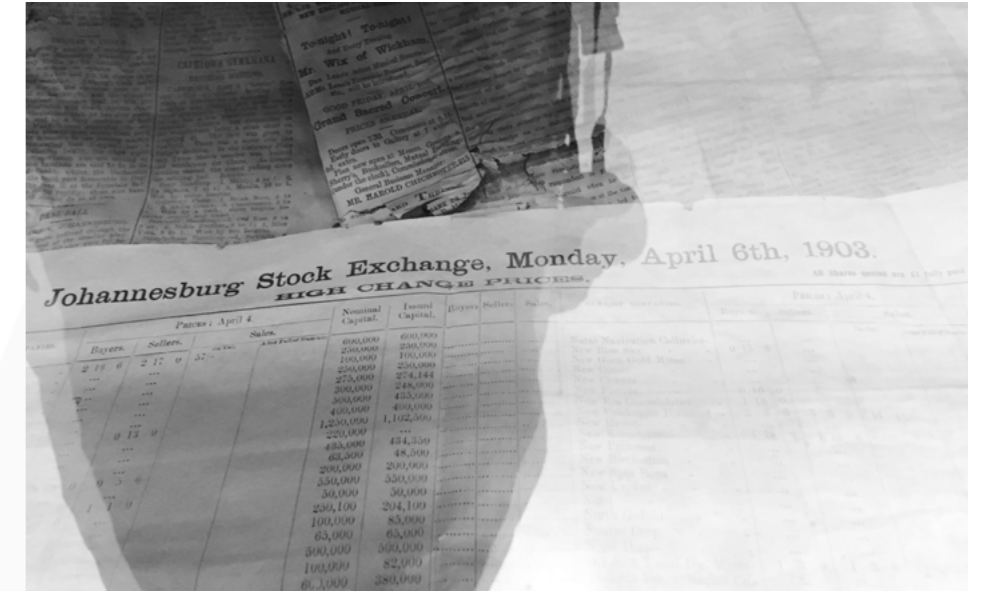
- ▶ African governments and institutional investors leverage the "Leave no one behind" principle of the SDGs to attract global co-investment funding for key African infrastructure project development.
- ▶ Africa becomes a leader when it comes to reporting both on the direct impact of Infrastructure investment, as well as the indirect impact of private capital mobilised by development and government investment.
- ▶ Africa's infrastructure deficit leaves it in a unique position in the world to build climate change considerations and infrastructure resilience into the procurement process for major projects going forward. This would allow the continent to become more resilient in the face of these threats.
- ▶ The African Development Bank sponsored Africa Infrastructure Knowledge Programme provides a foundation of data to facilitate infrastructure investment on the continent.
- ▶ The AUDA-CBN 5% Agenda initiative and Co-Investment platform, represents an overarching framework through IIPPs, to support the pursuit and mobilisation of domestic and global institutional capital and expertise in infrastructure.

AFRICAN INFRASTRUCTURE FUTUREPROOFING - COMPILED BY AFRICA'S LEADERS OF TOMORROW

#smartderegulation	An Africa-wide feed-in tariff policy for solar energy. Instead of relying solely on large power utilities to produce and supply electricity, electricity production should be decentralised. This can be done by creating an enabling regulatory environment for rooftop solar, making each property its power plant.
#smartgrid	As a means to regulate demand on existing grid networks alongside increasing private investment in energy infrastructure, incentives should be created for any excess power generated to be fed back into the grid. This would create the space for financiers to invest relatively small amounts in companies that lease roof space from property owners.
#crowdfunding #UAVdelivery #3Dprinting #broadbandforall	Crowd-based funding for local infrastructure that is critical to uplifting the lives of local communities will become more commonplace. This, as broadband allows for the aggregation of e-money contributions, online purchases and UAV delivery to remote communities of components and regionally 3D-printed spare parts for critical community infrastructure build and maintenance.

#Tags: #smartderegulation, #smartgrid, #crowdfunding, #UAVdelivery, #3Dprinting, #broadbandforall

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In the wake of the COVID-19 pandemic, the African institutional investment community of sovereign wealth and pension funds are committed to making a constructive contribution and playing a leadership role in building Africa's post-COVID-19 economies and laying the foundation to the achievement of Africa's Agenda 2063. With over 200 categorised practical action steps, the report lays out a roadmap for the achievement of these goals.

The ASWPF report, titled "The Investable Africa We Want & Agenda 2063: Post-pandemic Asset Owner Partnership Proposals", calls for and showcases innovative partnerships between African

institutional investors and African governments, multilateral development banks and international investors alike. It provides high-level insights on critical developmental investment opportunities for African pension and sovereign wealth funds in support of capital markets development, SME growth, the African Continental Free Trade Area (AfCFTA) and the African Union's 5% Institutional Infrastructure Investment Agenda.

The report also contemplates what the future of African SWFs and pension funds will look like and how the landscape of investment in SMEs, trade and infrastructure will change along with the developments in capital markets through to 2063.

investment matters

SECTION TEN CONCLUSION



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AFRICAN GREEN

INFRASTRUCTURE
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BRIEFING NOTE

CONVENED AND LED BY:



Ai **africaninvestor**
AFRICAN INVESTOR

THE AFRICAN SOVEREIGN WEALTH
& PENSIONS FUND LEADERS FORUM
INVESTMENT LEADERSHIP FOR AFRICAN DEVELOPMENT

1 EXECUTIVE SUMMARY

About the AfGIIB

The **African Green Infrastructure Investment Bank** (AfGIIB) initiative is an African Union-convened, African institutional investor-led global finance initiative, to catalyse private capital for Africa's green transition.

The AfGIIB's mission is to create, ahead of COP27 that will be hosted in Africa, a specialist, independent and commercially run financial institution that is both sustainable and profitable, with a pure green focus.

The AfGIIB initiative was announced by the African Sovereign Wealth and Pension Fund Leaders Forum, during the 2021 Conference of African Ministers of Finance, Planning and Economic Development, hosted by the United Nations Economic Commission for Africa.

The AfGIIB's primary purpose is to act as a catalyst to encourage more private sector lenders and investors to support and accelerate Africa's transition to a greener and more resilient economy. As we do this, we are working to build an enduring institution.

The AfGIIB will be incorporated in an African offshore financial centre to be determined.

AfGIIB Sponsors

African Union-convened, African institutional investor-led.

1. African Union Development Agency (AUDA), Continental Business Network (CBN)
2. African institutional investors: African Sovereign Wealth and Pension Fund Leaders Forum (ASWPF)

AfGIIB's Market

Africa needs at least US\$100bn per annum for the next 10 years to address energy poverty across the continent and meet the goals of the Paris Agreement. The continent has enormous underutilised renewable energy potential in the form of 10 terawatts of solar, 350 gigawatts of hydro and 15 gigawatts of geothermal.

Despite this, there is no leading green financial institution in Africa.

Due to COVID-19, there remains sharply-reduced capacity and appetite from banks for the long-term 'project financing' of such assets, largely as a consequence of the change in their own long-term funding costs and the regulatory environment regarding the way in which they manage risk on their own balance sheets.

The AfGIIB initiative recognises that the African green finance market is challenged, highly fragmented and does not offer

platforms of scale for institutional investors to deploy sizeable green capital allocations. This represents a need to create a world-class, international, pan-African specialist green investment platform, dedicated to mobilising the financing of this market and institutional capital at scale.

Despite the availability of green investment capital from institutional investors being at a historic high, the biggest challenge to Africa's energy transition lies not in its access to capital, but in creating a pipeline of investible projects that can reach accelerated financial close and absorb capital at scale.

The AfGIIB model is specifically designed to address this market need through a unique combination of entrepreneurial origination, commercial early-stage investing expertise, InfraTech, proprietary risk management solutions, and a long-term commitment to project developers and sponsors – from pre-feasibility to operations, maintenance and continual technological innovation.

The AfGIIB's model is based on the successful UK Green Investment Bank (GIB) model, which was seeded with £3.8bn of UK government capital. The model has been admired and emulated around the world.

The AfGIIB initially seeks to raise \$3bn-\$5bn from African institutional investors and governments, and mobilise approximately \$20bn from G7 and G20 investment partners.

AfGIIB's Business Model

The AfGIIB will use its capital, knowledge and reputation to complete transactions that wouldn't otherwise go ahead.

The AfGIIB is committed to being innovative by building and strengthening the African green market, not simply serving it.

The AfGIIB will be a responsible investor and evaluate environmental, social and governance (ESG) related risks and alignment with the UN Sustainable Development Goals (SDGs), in the consideration of each and every investment it reviews or pursues.

The AfGIIB will ensure each project and its portfolio as a whole, will enable the AfGIIB to earn risk-appropriate commercial returns.

The AfGIIB's business model will be as follows:

- ▶ The AfGIIB will be a responsible and impactful investor in Africa-based green infrastructure projects;
- ▶ The AfGIIB will primarily invest in five sectors – energy efficiency, waste and bioenergy, community-scale renewables, offshore wind, supply chain and digital infrastructure assets.
- ▶ The AfGIIB will invest on terms equivalent to others in the market, we do not offer low cost finance or grants.

- ▶ The AfGIIB, through its direct investments, will provide the capital necessary for projects to proceed.
- ▶ The AfGIIB will work to mobilise other private sector capital, crowding-in additional finance, not displacing other investors.
- ▶ This will be aligned to and support the objectives of the African Continental Free Trade Area (AfCFTA) agreement.

AfGIIB Building and Supporting Resilient AfCFTA Supply Chains

COVID-19 has revealed the weaknesses in Africa's supply chains, catalysing widespread public and private sector commitments to invest ahead, and build more resilient supply chains that are in support of the implementation of the continent's \$3.2 trillion-AfCFTA.

AfGIIB will assist private companies in greening their supply chains across Africa through corporate power purchase agreements (PPAs) and export credit solutions. These are a key driver of growth in the number and size of captive renewable energy assets, tied to new project development and onsite power generation for private and public sector organisations seeking new green power solutions.

AfGIIB Corporate Governance

The creation of a new bank funded by institutional capital and public money demands the highest standards of corporate governance. It is not enough that we operate with best practice; we must also show that we do this through a commitment to transparency across all our operations.

The constitution of the AfGIIB, will consist of its Articles of Association and a Shareholder Relationship Framework Document (together the "Constitution").

The Shareholder Relationship Framework Document will ensure that AfGIIB operates according to a corporate governance framework, which accords with international best corporate governance practice.

Our proposed governance structure will be based on the underlying principles of all good governance: accountability, transparency, probity, and focusing on the sustainable success of the AfGIIB entity over the longer-term. AfGIIB considers these values to be important to the success of our operations.

AfGIIB Priority Next

Steps – Road to COP27 in Africa

At the announcement of the AfGIIB, during the 2021 Conference of African Ministers of Finance, Planning and Economic Development, hosted by the United Nations Economic Commission for Africa, it was agreed that the AfGIIB would establish a high-level advisory board of African and international institutional investment leaders, governments and technical advisors to develop the AfGIIB's Implementation Roadmap structure and present it during upcoming African Union (AU), G7, G20 and COP26 Summits.

The key next steps for the AfGIIB initiative are therefore to:

1. **Establish and convene the AfGIIB's High-Level Advisory Board, and**
2. **Develop and pursue the AfGIIB's Implementation Roadmap**

In parallel, the AfGIIB will mobilise technical assistance resources from development partners and foundations, to participate in the set-up funding arrangements, where their mandates support catalysing long-term domestic and international institutional capital for green African infrastructure, to assist the continent's post COVID-19 economic recovery.

Click below to play video:

The time is now for a bold African and global institutional investor-led, green financing partnership for the continent.



ICC calls for coordination to support green investments in Africa

News • 26/03/2021

ICC has welcomed plans to create a pan [African Green infrastructure Investment Bank](#). The announcement was made at last weekend's African Sovereign Wealth and Pension Fund Leaders Forum as part of the 2021 Conference of African Ministers of Finance, Planning and Economic Development, hosted by the United Nations Economic Commission for Africa.

Recognising the highly fragmented nature of the African green finance market, the initiative aims to create a world-class, international pan African investment platform to mobilise the financing market and institutional capital at scale.

ICC Secretary General John W.H. Denton AO joined African ministers of Finance and leading institutional investors from Africa and around the world at a conference side event on Sunday to discuss how best to support green investments in Africa, the implementation of the African Continental Free Trade Area and stronger economic recovery and resilience.

Providing ICC perspective on how to scale up green investments, make Africa more attractive to institutional investors, and foster public and private markets for green investment projects, Mr Denton said that sustainable investment and investment in sustainability would position African economies for more resilient growth in the face of looming climate change challenges while also supporting significant job creation.

Mr Denton said that issues like environmental, social and corporate governance (ESG), impact investing, circular economy and green investments had for too long been regarded as discussions for developed economies stating:

“The reality is that investors and investments in emerging economies, including in Africa, must also be central to the development of policy settings that will drive the green transition,” he said. “This recovery must emphasise sustainability and resilience with policy settings, public-private partnerships and incentives that allow all countries to share in the benefits from a green transition.”

To effectively scale up investment, Mr Denton said that African economies and emerging markets would need to ensure strong institutions, good governance, policy stability, deeper local financial markets and increased technical skills to engage with investors but said that a coordinated, pan-African approach to enabling investment would send a strong signal to domestic and foreign investors alike, with African sovereign wealth funds catalysing further co-investment.

Mr Denton also called for alignment of approaches by global standard setters and by regional and national standard setters, including in Africa, saying:

“Coordination is key to avoiding fragmentation stemming from the recent flurry of activity and progress in ESG and to a non-aligned range of standards, inconsistent practices and the development of a two-speed financial ecosystem.”

Referring to the AGIIB initiative, Hubert Danso, Chair of the African Sovereign Wealth and Pension Fund Leader's Forum, said:

“We are proud to play our role as the continent's institutional investment community, to champion and create a specialist green infrastructure investment platform, that supports the continent's green transition, creates jobs, increases the continent's share of the industrial green global economy, whilst at the same time delivers globally competitive risk adjusted returns for its investors.”

The Forum has established a high-level working group of African and international institutional investment leaders, governments and technical advisors, to structure the new platform and present it during upcoming African Union, G7, G20 and COP 26 Summits.

New green investment bank addresses infrastructure needs in Africa

Investors - MARCH 24, 2021

by Kali Persall

Institutional investors are participating in a new investment initiative focused on the green infrastructure market in Africa.

The [African Green Infrastructure Investment Bank](#) (AGIIB) initiative will seek to raise between \$3 billion and \$5 billion from African institutional investors and governments and mobilise \$20 billion from investment partners.

According to Hubert Danso, chairman of the African Sovereign Wealth and Pension Fund Leader's Forum, Africa needs \$100 billion per year for the next decade to address energy poverty across the continent. The AGIIB initiative will address fragmentation in the African green finance market through the creation of an international pan-African investment platform to mobilise institutional capital.

“We are proud to play our role as the continent's institutional investment community, to champion and create a specialist green infrastructure investment platform that supports the continent's green transition, creates jobs, increases the continent's share of the industrial green global economy, whilst at the same time delivers globally competitive risk-adjusted returns for its investors,” said Danso.

The AGIIB's model is based on the successful U.K. Green investment Bank (UKGIIB) model, which was seeded with \$5.2 billion of government capital.

AFRICAN GREEN

INFRASTRUCTURE
INVESTMENT
BANK

For more information contact:

HUBERT DANSO

Chairman, AU Continental Business Network (CBN),
African Sovereign Wealth and Pension Fund
Leaders Forum

Email: hdanso@africaninvestor.com

www.afgiib.com

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