Financing Africa's Infrastructure Gap through New Forms of Co-investments and Partnerships with Sovereign Wealth Funds

LSE's Juergen Braunstein assesses the implications of the trend of direct investment of state-owned investment funds and how this relates to the infrastructure financing needs of sub-Saharan Africa.

As of 2014 global *Sovereign Wealth Fund (SWFs)* assets under management are an estimated US$ 6.5 trillion. Due to their deep pockets and a long-term investment horizon, SWFs are ideal financiers for long term and capital intensive infrastructure projects.

It is no surprise that this was a talking point at the 2014 UNCTAD World Investment Forum biennial meeting which brought together more than 3000 investment experts, including Ministers of Finance, representatives from international investment agencies, sovereign investors, chief executives of multinational corporations, international organisations and academia.

Emerging trends of direct investment by Sovereign Wealth Funds (SWFs) – state owned investment funds and infrastructure financing in sub-Saharan Africa was the point under discussion. The need for financing infrastructure combined with the search for higher yields and diversification among SWFs leads to the emergence of new forms of co-investments and partnerships in the near future.

So far the investment potential of SWFs for financing infrastructure development in sub-Saharan Africa has remained largely unexploited. By only allocating about 1.3% of their total assets SWFs have the potential to bridge Africa's infrastructure financing gap which is approximately US$90 billion per year. SWFs have the potential to become important players in the financing of this gap in the coming years.

At the SWFs Roundtable at the 2014 World Investment Forum (WIF), representatives from a number of SWFs highlighted their interest to increase their exposure in sub-Saharan Africa. This is partly because of economic growth and political stability on the continent. Booming economies, such as Nigeria with growth rates of above 6%, offer SWFs the opportunity for higher yields and diversification. Experts note that African countries are expected to become one of most promising investment destinations for large institutional investors, such as SWFs, over the next few years.

Finding good infrastructure deals,with precedents and in stable predictable policyenvironments, are specifically attractive for SWFs.

However market conditions in sub-Saharan Africa differ from those in Europe and in the US. For example, equity markets are shallow, capital markets lack size as well as liquidity, and debt markets are under-developed. As a result of this, a significant part of capital flows into Africa takes the form of direct investments.

In recent years SWFs have already started deepening their investment exposure to sub-Saharan Africa. Thus far they have co-invested or invested in large publicly-listed companies operating in extractive sectors, such as mining or hydrocarbon (see table 1).

In the near future service as well as consumer sectors will grow in importance. But the continent's infrastructure sectors are the sectors, which are critically in need of investment.

Table 1, selected SWF deals with subSaharan African firms between 2011-2014

SWF Name	target			size of stake in		deal type
	country	name	sector	US$ mn	in %	
Temasek	Nigeria	Seven Energy	oil/gas	150	26%	convertible loan notes
Temasek	Tanzania	Ophir Energy (listed in London)	gas	1,300	20%	public equity purchase
China African Development Fund	South Africa	Shanduka Group	diversified conglomerate	250	25%	n.a.
Temasek	South Africa	Tana Investment	private equity fund with focus on Africa	300	n.a.	venture with Oppenheimer & Son Ltd
Dubai Investment Corporation	Nigeria	Dangote Group	agriculture, oil and infrastructure	300	1.4%	n.a.
China-Africa Development Fund & Hebei Steel	South Africa	n.a.	greenfield investments in the steel sector	n.a	n.a	venture with South Africa's Ind. Dev. Corp.
China-Africa Development Fund & Jidong Dev. Group	South Africa	Mamba Cement Project	cement industry	n.a	n.a	venture with Nedbank Capital & Bank of China Johannesburg

The Financial Times, 15 April 2014; Reuters, 1 Oct 2014; Seven Energy, 2014 [Homepage].

According to a representative from a large institutional investor, making direct deals in Africa continues to be difficult. Investors need to have local partners, with expertise or who are willing to share risks. As such, SWFs need to link up with local entities, or specialists with local expertise. Alternatively they can also do this by themselves; one way of addressing this is by opening satellite offices. For example, Qatar Diar – Qatar Investment Authority's real estate & infrastructure arm – has created satellite offices in Sudan and Mauritania. Satellite offices of SWFs search for local deals and co-ordinate investments.

Encouraged by the WIF, the continent's political leaders and policy-makers are increasingly aware of governing investment inflows, and channeling capital into projects, which are important for a country's development (eg infrastructure).

Over the last decade more and more sub-Saharan African countries have set up their own SWFs. For example in 2012 Angola, Ghana, and Nigeria created SWFs, with Angola and Nigeria targeting infrastructure projects. The Tanzanian government has also announced plans to create a SWF to manage the country's revenues from new gas and oil discoveries. However, compared to their SWF peers in Asia, Europe or Middle East, African SWFs remain small in terms of their assets under management (see table 2). Therefore, African economies are expected to increasingly leverage domestic investments by joining up with foreign investors, including cash-rich SWFs, or Development Banks.

Table 2, 10 largest SWFs of sub-Saharan Africa compared with 10 largest SWFs globally

rank	country	SWF	year of est.	funding source	size in US $ bn
1	Botswana	Pula Fund	1994	diamonds & minerals	5.1
2	Angola	Fundo Soberano de Angola	2012	hydrocarbon	5
3	Congo	Fonds de Stabilisation des Recettes Budgetaires	2005	n.a.	1.7
4	Nigeria	Sovereign Investment Authority	2011	hydrocarbon	1
5	Ghana	Stabilisation Fund	2011	hydrocarbon	0.3
6	Ghana	Heritage Fund	2011	hydrocarbon	0.1
7	Rwanda	Agaciro Development Fund	2014	n.a	0.03
8	Mauritius	Sovereign Wealth Fund	2010	non-commodity	n.a.
9	Mauretania	National Fund for Hydrocarbon Reserves	2006	hydrocarbon	n.a.
10	Equatorial Guinea	Fund for Future Generations	2002	hydrocarbon	n.a.
1	Norway	Government Pension Fund Global	1990	hydrocarbon	897.6
2	Saudi Arabia	SAMA Foreign Holdings	1952	hydrocarbon	741.8
3	Abu Dhabi	Abu Dhabi Investment Authority	1976	hydrocarbon	589
4	China	China Investment Corporation	2007	non-commodity	575.1
5	Kuwait	Kuwait Investment Authority	1953	hydrocarbon	355
6	Singapore	Government of Sing. Invest. Corp.	1981	non-commodity	315
7	China	SAFE Investment Corporation	1997	non-commodity	300
8	Singapore	Temasek	1974	non-commodity	215
9	China	National Social Security Fund	2000	non-commodity	179.6
10	Qatar	Qatar Investment Authority	2005	hydrocarbon	175

ESADEgeo (2014) Sovereign Wealth Funds Ranking.

Co-investments can also refer to the joining up of SWFs with Development Finance Corporations or Development Banks, such as the International Finance Corporation, the African Development Bank or the Islamic Development Bank.

For example, in 2014 the Islamic Development Bank established a US$2 billion infrastructure fund in corporation with Brunei, Bahrain and Saudi Arabia for member countries with infrastructure financing needs, such as Nigeria.

Co-investments, where local and regional partners using their own money signals credibility for foreign cash rich institutional investors, notably SWFs. Showing willingness to share risks is an important step for attracting SWFs in the financing of long-term capital intensive infrastructure projects.

If sub-Saharan African countries remain politically stable, there will be a rise in the interaction between SWFs and stakeholders in the region.

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November 21st, 2014 | Finance | 0 Comments