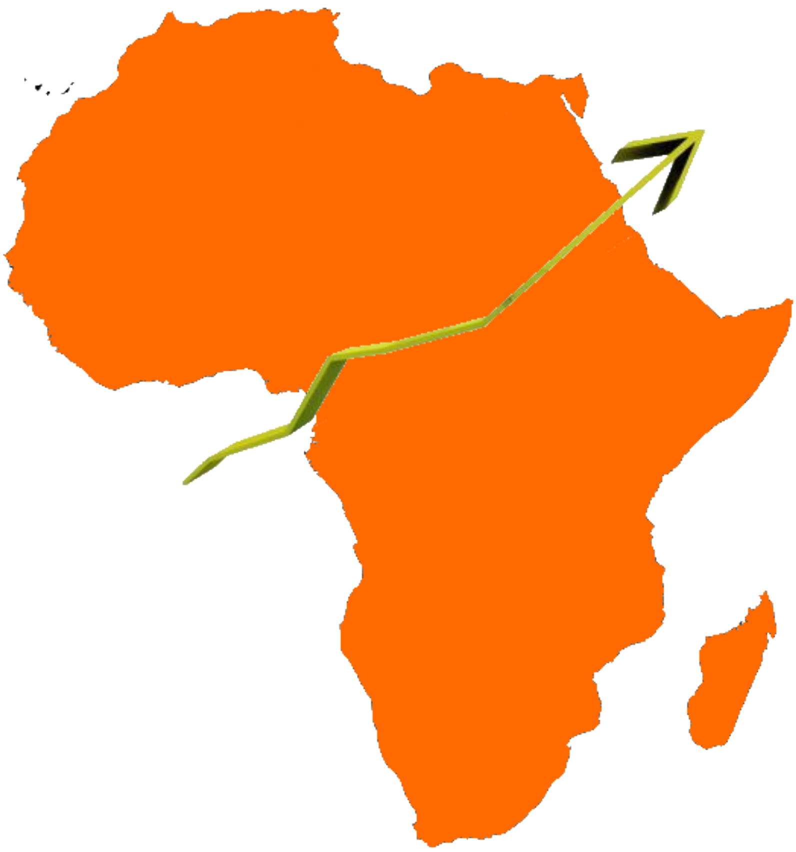
# African Sovereign Wealth Funds Guide



# AFRICAN MARKETS

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# Introduction

Sovereign Wealth Funds (SFWs) are investment funds that respond to 3 main criteria:

- They are owned or managed by a Government
- Financial assets are managed with long term perspective
- Their investment policy have specific objectives, such as the stabilization of the economy, the savings for future generations or the diversification of the GDP

Their resources come from an excess in current account accumulated either from the exportations of raw materials or from the national savings surplus. Some funds also benefit from a part of Central Banks foreign exchange reserves.

There are now more than 50 active SFWs in the world, the first one being Abu Dhabi Investment Authority, with more than USD 600 billion Assets Under Management (AUM), followed by Norway's biggest pension fund the Government Pension Fund and finally, China's SAFE investment Company.

One of the first African sovereign funds, the Pula Fund, was launched in 1994 by Botswana. Its goal was to save, a part of the revenues generated by the exportations of diamonds for future generations. Several African countries then followed the lead with Libyan Investment Authority being the most powerful ($70 billion AUM). Africa now counts than 7 major SFWs in activity.

This document is an overview of existing African SFWs, or that are under development, by focusing mainly on the reasons that lead to their creation, their origins, their financing and investment strategy aspects. This document will be updated as and when new information will be known.

SFWs being known for their lack of transparency (pointed out during and after the subprime crisis), two rating models were created to tackle this issue: The transparency Index, by the Sovereign Wealth Fund Institute, and the Truman Index developed by the Economist Edwin Truman.

**Linaburg-Maduell Transparency Index**

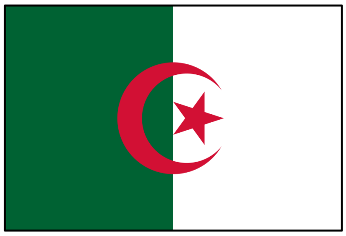
The Linaburg_Maduell Transparency Index or Transparency Index is an index rating the transparency of SFWs, developed by Carl and Michael Linaburg-Maduell, co-founders of the Sovereign Wealth Fund Institute.

The index is based on 10 evaluation criteria that portray the transparency of sovereign public funds, each of the criteria assigning 1 point or 0 to the rating of a fund, depending on whether the criteria is met or not. The minimum rating for a fund is 1, however the Sovereign Wealth Fund Institute estimated at 8 the minimum rating for a fund to have an acceptable level of transparency.

| Points | Linaburg-Maduell Transparency Index fundamentals |
|---|---|
| +1 | The fund must provide its track record, the reason of its creation, where the money comes from and how the fund is governed |
| +1 | The fund must provide an annual report up-to-date |
| +1 | The fund must provide the percentage of participation and geographical distribution |
| +1 | The fund must provide details on its assets under management and its performances |
| +1 | The fund must provide its ethical guidelines and its investment & participation policy |
| +1 | The fund must provide its objectives and strategy |
| +1 | If applicable, the fund must provide information regarding other subsidiaries and contacts |
| +1 | If applicable, the fund must provide information on external managers |
| +1 | The fund must have an internet web mail |
| +1 | The fund must provide information regarding the headquarter, address & Contact |

Ratings are updated on a regular basis as new information is provided on the fund.

**Truman Index**
Unlike the Linaburg-Maduell Transparency index that only measures the transparency of SWFs, the Truman index is based on 25 questions that evaluate the level of transparency, the structure, the management, and the accounting.
A closed YES or NO questionnaire attributes 1 point if the answer is YES and 0 if the answer is NO. Some answers may give intermediary point (0.25, 0.50, 0.75), 25 points being the maximum.



# Algeria

## Fonds de Régulation des Recettes

| | |
|---|---|
| Inception date: | 2000 |
| Funds source: | Oil and natural gas |
| AUM (USD): | 69 billion |

Transparency Rating: **1**

Truman Index

| Structure | Governance | Transparency & Accounting | Attitude | **Total** |
|---|---|---|---|---|
| 3 | 1 | 0.5 | 0 | **4.5** |

The hydrocarbon sector is the driving force for the Algerian economy, generating alone 70% of budget revenues and representing more than a third of GDP contribution. The Algerian sovereign fund, the Revenue Regulation Fund (RRF), was launched in 2000 in order to reduce the impact of price volatility of oil and natural gas on the country's economy.

The RRF is financed by the difference between the price of oil sold on the market and the benchmark price (USD 37 per barrel) set in the state budget.

The fund is managed by The Bank of Algeria.

# Botswana

## Pula Fund

| | |
|---|---|
| Inception date: | 1994 |
| Funds source: | Diamond |
| AUM (USD): | 6.9 billion |

Transparency Rating: **6**

Truman Index

| Structure | Governance | Transparency & Accounting | Attitude | **Total** |
|---|---|---|---|---|
| 5.5 | 2 | 7 | 0 | **14.5** |

Botswana is not only one of the richest Diamond and Mineral countries in Africa, but also one of the countries that had the fastest growth rate. This strong growth is mainly driven by exports, particularly diamonds, as the country benefits from the surge of Asian exponential diamond demand.
The Pula Fund was launched in 1994 by The Bank of Botswana, which makes it one of the oldest SFWs on the African continent.
Its objective is to save a part of the revenues generated from diamond exportations for future generations. It is included in the foreign exchange reserves of the country; the excess in foreign exchange reserves in regards to the medium term requirements, are transferred to the fund and invested depending on its strategy.
According to the Sovereign Wealth Fund Institute, The Pula Fund is the most transparent fund in Africa, It also obtain the best rating from Truman.

# Gabon

## Fonds Souverain de la République Gabonaise

| | |
|---|---|
| Inception date: | 2012 |
| Funds source: | Oil |
| AUM (USD): | 955 Million |

Transparency Rating: N/A

Truman Index: N/A

Gabon, fourth oil producer in Sub-Saharan Africa, derives most of its revenues from the oil industry, which represent 45% of the GDP, 80% of exportations and 50% of the government budget.

The Sovereign Fund of the Gabonese Republic was launched in 2012 to replace The Fund for future generations existing at the Bank of Central African Countries launched in 1998. The objective of this new fund is to reach 500 billion FCFA over 5 years.

It is supported by 10% of oil revenues, on top of which half of fiscal revenues from a surplus of hard cash (from the forecasts made for the state budget) is added. The profits from equity holdings in public companies by the government are also be affected.

Resources are managed by the Gabonese Strategic Investment Fund, whose mission is to make them profitable through strategic investments.

# Ghana

## Ghana Petroleum Funds

| | |
|---|---|
| Inception date: | 2012 |
| Funds source: | Oil |
| AUM (USD): | 69 Million |

Transparency Rating: N/A

Truman Index: N/A

Having entered the club of oil-producing countries in December 2010, Ghana is now in the process of creating two SFWs in order to channel surplus revenues resulting from the production of petrol:

- **Ghana Heritage Fund**: Future generations fund – over $54 Million have been allocated to this fund
- **Ghana Stabilization Fund:** With $14.4 Million, the objective of this fund is to offset the effects of oil prices volatility and sustain public spending in deficit periods.

# Libya

## Libyan Investment Authority

| | |
|---|---|
| Inception date | 2006 |
| Funds source | Oil |
| AUM (USD) | 70 billion |

Transparency Rating: 1

Truman Index: N/A

Despite an economy that was heavily affected by the political crisis in 2011, Libya remains the third oil producer in Africa after Nigeria and Angola and has the largest reserves of the continent. The latter were estimated at 46.4 billion barrels in 2011. The oil sector contributes to 70% of the country's GDP, provides 90% of government revenue and about 95% of its exports. In addition, the country has large natural gas reserves that are yet to be exploited.

Thus, the Libyan economy is faced with a significant challenge, which many oil-dependent economies are confronted with: low sectorial diversification that links economic growth, government investment programs and macro-economic to oil price fluctuations.

For decades, oil revenues were invested in financial institutions, earning decent interests. However, interest rate decreases led the government to diversify its investments in search of higher yields. This is how the government came to create the Libyan Investment authority (LIA) in 2006, primarily funded by surpluses from oil exports.

A portion of the assets is shared between different funds acting as LIA's subsidiaries/

- **Long Term Investment Portfolio**: Created in 1982, it oversees over $10 Billion in assets under management (AUM), most of it invested in financial institutions and real estate portfolios
- **Libyan African Investment Portfolio**: As the name indicates, it is the Libya's African financial arm, with over $5 billion AUM. Investments are mainly focused on mining, real estate, tourism and telecom sectors.
- **Libyan Arab Foreign Investment Company (LAFIC):** Created in 1981 and controlled by the Central Bank of Libya, the LAFIC invests in industries, businesses, agriculture, tourism and real estate. With an office in Rome, it manages over $2 Billion worth of AUM.

- **Oil Invest Company:** this entity controls refineries and about 3000 gas stations in Europe.
- **DALIA Advisory Limited: Incorporated in 2009,** it is the armed wing of the LIA in Great Britain.

In 2009, LIA managed over $70 billion worth of assets, thus making it one of the 15 largest SFWs in the world in terms of assets under management. Nonetheless, it remains one of the most opaque sovereign wealth funds.

# Mauritania

## National Fund for Hydrocarbon Reserves

| | |
|---|---|
| Inception date | 2006 |
| Funds source | Oil & Gas |
| AUM (USD) | 400 million |

Transparency Rating: 1

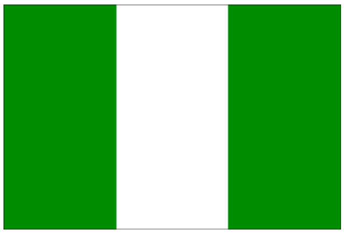
Truman Index: N/A

Mauritania officially became a member of the oil producers club in February 2006, after the discovery of reserves in its territorial waters.

Created in 2006, the National Fund for Hydrocarbon Reserves plays a role, not only in stabilizing the Mauritian economy but its objective in the long run is to accumulate savings for future generations.

It is funded by the revenues that the government receives from oil and gas exploration companies, taxes and charges of the latter as well as the profits gained from the fund's investment activities.

The central bank of Mauritania manages the fund.



# Nigeria

## Nigerian Sovereign Investment Authority

| | |
|---|---|
| Inception date | 2012 |
| Funds source | Oil |
| AUM (USD) | 1 billion |

Transparency Rating: 1

Truman Index: N/A

Leading oil producer in Africa, Nigeria has the second largest oil reserves in Africa right behind Libya and the 9th in the world. According to a statement from the Nigerian Petroleum Corporation in 2012, oil production reached a peak of 2.7 million barrels per day. Oil production accounts for 90% of Nigeria's exports and contributes to more than a third of GDP.

Therefore, the country had to remedy its excessive dependence on oil.

***The Excess Crude Account***

Created in 2004, the Excess Crude Account is the fund on which were formerly placed oil revenue surpluses in Nigeria. It is in some sort the old Nigerian SFW with some minor changes. The latter mainly played the role of a budget stabilization fund. Its role was to protect Nigerian economy against sharp declines in crude oil prices and potentially fund infrastructure investments. With over $20 billion in 2007, the ECA had no more than $3 billion in 2010.

**The Nigerian Sovereign Investment Authority**

The governors of Nigeria's 36 states approved the creation of the NSIA in June 2012 with an initial capital of $1 billion. The NSIA would progressively replace the ECA, pinned for mismanagement.

The NSIA will be funded by the difference between the crude oil market price and a reference price set in the state budget.

This new fund is made up of 3 smaller funds with a clear objective:

- **The Future Generations Fund** protects future generations savings
- **The Nigerian Infrastructure Fund** aims at providing long-term financing to infrastructure projects
- **The stabilization Fund** is the financial cushion meant to absorb the decrease of oil prices

Even though the new fund is to fill the same mission as the previous one, it has also been provided with the opportunity to invest a percentage of oil revenues in international financial markets.

# Angola

## Fundo Soberano de Angola

| | |
|---|---|
| Inception date | 2012 |
| Funds source | Oil |
| AUM (USD) | 5 billion |

Transparency Rating: N/A

Truman Index: N/A

Second oil producer in Africa after Nigeria, with a capacity to produce 1.9 Million barrels per day, Angola has long been one of the few countries members of the OPEC without a Sovereign Fund. Oil revenue represents over 95% of export earnings and about 45% of the country's GDP. After years of double-digit growth, the Angolan economy suffered from the rapid decrease in oil prices in 2008.

In October 2012, Angola launched a sovereign fund with over $ 5 billion aiming at investing in domestic and foreign assets by channeling its vast oil wealth into infrastructures, hotels and other high-growth projects. The country hopes by doing so to diversify its oil-dependent economy.

The Angolan Sovereign Fund (ASF), which will also be investing in financial shares, will be headed by the president's bureau of economic affairs.

The fund is thus not to serve as a cushion in case of an oil shock as it is the case for many African countries. It aims at diversifying the country's economy and creating wealth. It will be financed by oil excess revenue transferred by the government and the returns on its investment projects.

# SWF under development or in reflection

## Mauritius

In November 2010, concerned with stabilizing foreign exchange markets, the government announced in the 2011 budget, the creation of the Mauritius Sovereign Wealth Fund, that will be invested in various asset classes, with an initial amount of $ 3 billion.
The fund will be managed by the Bank of Mauritius.

## Senegal

In December 2012, following the Macky Sall's campaign promise, the Senegalese government voted a decree in favor of the creation of the Strategic Investment Sovereign Wealth Fund.
The main objective of the fund is the massive creation of jobs for the present and future generations and the promotion of social and economic growth in the country.
With an initial capital of approximately $ 1 billion, the fund's objective will be to promote the role of government as an investor. The government will hold 70% of this fund and will have to manage, develop the assets and the government's participation, play a role of leverage in mobilizing resources to facilitate a privileged partnership with private investors for strategic and structural projects.
The expected growth rate should be 3.7% for 2012 and 4.3% in 2013.

## Tanzania

In August 2012, the president of the republic of Tanzania, Jakaya Kikwete, announced the project of creating a Sovereign Wealth Fund in order to capitalize and maximize financial returns from the development of gas production. The Tanzania gas reserves are estimated at 28.9 billion m3. According to the World Bank, Tanzania could expect up to $ 3 billion of additional annual revenue.

Even though Africa is still new in this field, despite its wealth in commodities, some countries have taken the lead for several years; others are jumping on the bandwagon and have realized the importance of reserving part of this wealth for future generations or to address an excessive dependence to commodities.

**African Sovereign Wealth Funds Map**

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