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## African Sovereign Wealth Funds: Facts and Figures

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**Abstract:** This article discusses the features of sovereign wealth funds (SWFs) created from accumulated foreign reserves in African countries that export commodities. The author describes the investment targets of African SWFs, using empirical data and a research method based on a detailed analysis of available information on the investment activities of SWFs in the last 20 years.

Conclusions from the analysis indicate that, due to the poor transparency of African SWFs, gathering the necessary statistics, general information and literature on the institutional arrangements and business strategies involved still remains a challenge.

The study uses press articles and reports that are compared against other sources of information in order to increase credibility. Due to the small size of African SWFs, their role in stimulating the economic development of the continent is limited by many institutional, economic and political factors.

African SWFs are not a homogeneous group. They can be beneficial for nations if they are used and structured properly in order to take advantage of their full potential. This implies that most of the African SWFs would have to expand their stabilization goals and move gradually to instruments intended for achieving economic development, intergenerational transfers of resources, financial sector stabilization, and promotion of regional integration.

**Keywords:** sovereign wealth fund, Africa, investment targets

**JEL classification codes:** F21, G23, O16, O55

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## Introduction

The term “sovereign wealth fund” (SWF) often appears in press reports focusing on the current global economic crisis. At this time of a global economic downturn, sovereign wealth funds have become very active in developing countries, especially those in Asia and the Middle East. Although such national investment vehicles have been in operation for 60 years<sup>1</sup>, their activity was never as extensive as today. The existence of such funds is the result of internationalization and progressive abolition of restrictions on the movement of capital, and the global economic crisis has added to the scale of capital available to these vehicles. The activity of SWFs on capital markets stems mainly from the need for more profitable investments in the wake of the depreciation of the U.S. dollar, accompanied by declining rates of return on investment in safe debt instruments such as Treasury bonds. Since mid-2008, SWFs have invested heavily in the largest international corporations on the brink of bankruptcy. In view of the prevailing economic downturn, sovereign investment vehicles often play the role of the lender of last resort for many capital market institutions, corporations, and even whole countries suffering from the crisis.

Economic analysts watching the activities of the SWFs agree that sovereign wealth funds play an important role in mitigating the consequences of the crisis. However, the same economists are still concerned with the growing dependence of many corporations, and even entire countries, on the capital belonging to SWFs. In addition, the lack of (or poor) transparency in the functioning of many sovereign investment funds does not allow for a clear evaluation of the activities of these institutions and increases concerns about the real intentions of SWFs<sup>2</sup>. Other doubt-raising factors include the aggressive conduct of SWFs, their investment focused on the strategic sectors of specific countries (e.g. energy sector, telecommunications, transport) and the ability to pursue the geopolitical objectives of the countries they represent (Bolton et al., 2012). So far there is no consensus among economists on whether

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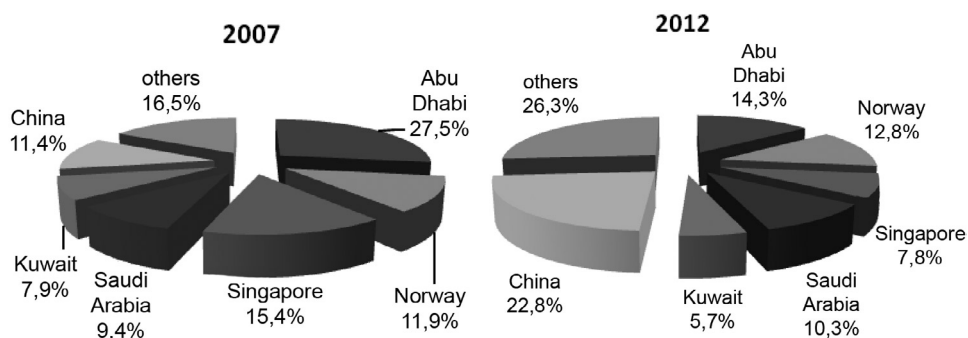
The first such fund, the Kuwait Investment Board (recently renamed Kuwait Investment Authority), was established in Kuwait in 1953 after the discovery of oil in that country. The purpose of the fund was the management of surplus revenue from oil exports. Another small SWF, the Revenue Stabilization Fund, deriving capital from gas fields, was established 13 years later on Kiribati, an island in the Pacific.

<sup>2</sup> According to the SWF Institute, the largest SWFs in 2012, in terms of managed assets, were the Norwegian Government Pension Fund, the Abu Dhabi Investment Authority, the Chinese SAFE IC, Saudi Arabian Monetary Authority Foreign Holdings, and China’s CIC. Only the Norwegian fund has high transparency; other major funds rank at the bottom of the list in terms of transparency.

these vehicles are a threat or a boon to the host economies (Truman, 2010), (Baran, 2012).

At the end of 2012, all SWFs in the world officially managed \$5.3 trillion worth of assets (roughly a third of the total GDP of the United States) (SWF Institute, 2013). About 80% of these assets were in the hands of SWFs from developing countries. According to the UNCTAD World Investment Report 2013, most of the FDI by SWFs was located in finance (16.8%), real estate (15.4%), mining (10.1%), and electricity, gas and water (8.8%) (UNCTAD, 2013). Due to the high prices of commodities such as oil, the United Arab Emirates (UAE) has the largest SWF assets (UNCTAD, 2014). The assets of the funds from Abu Dhabi accounted for 14.3% of total SWF assets. Two funds from Saudi Arabia, the Public Investment Fund and SAMA Foreign Holdings, together account for more than 10% of total SWF assets. The Chinese State Administration of Foreign Exchange Investment Corporation, China Investment Corporation, the National Social Security Fund, and the China-Africa Development Fund together officially manage nearly \$1.2 trillion. This means that together they own 22.8% of total SWF assets (Figure 1). African SWFs accounted for only 3–4% of total SWF assets in 2012. Together African nations officially control around \$214 billion through SWFs, but according to some assumptions, Africa may become the largest sponsor of SWFs in the world economy in the future (Dixon & Ashby, 2011). However, it is difficult to calculate the exact value of their assets because they often do not release this information. Around 63% of SWF assets were managed by countries from North Africa (Figure 2).

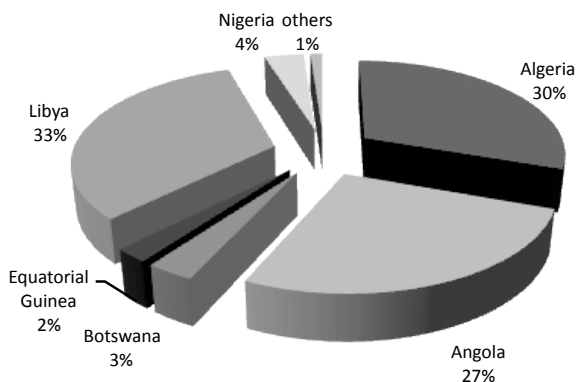
**Figure 1. Share of SWF Assets by Country in 2007 and 2012**



The item “others” comprises mainly assets belonging to: the Hong Kong Monetary Authority Investment Portfolio, the Australian Future Fund, and the Russian National Welfare Fund.

Source: author’s own study on the basis of (SWF Institute, 2013).

Figure 2. Share of African SWF Assets by Country in 2012



Source: author's own study on the basis of (SWF Institute, 2013).

### The SWF Concept

The SWF concept is difficult to define (O'Brien et al., 2011). Numerous definitions of the funds exist side by side, though some aspects are common. A sovereign investment fund is defined as a state-owned investment vehicle managing funds from reserve assets denominated in foreign currencies. Some authors assume that an SWF is a vehicle that belongs to the sovereign authority of a state, manages a portfolio of non-official foreign exchange reserves of the country and is involved in foreign investment. According to this definition, some SWFs (e.g. Saudi Arabian Monetary Agency Foreign Holdings, which also performs central bank functions) have been excluded from this group (Shemirani, 2011). The most important features of SWFs were accurately defined in a report by Morgan Stanley that lists five characteristics distinguishing SWFs from other investment vehicles: full sovereignty, high currency exposure, high risk tolerance, a long-term investment horizon, and being free of encumbrances (IMF, 2008). This article adopts the above definition of an SWF.

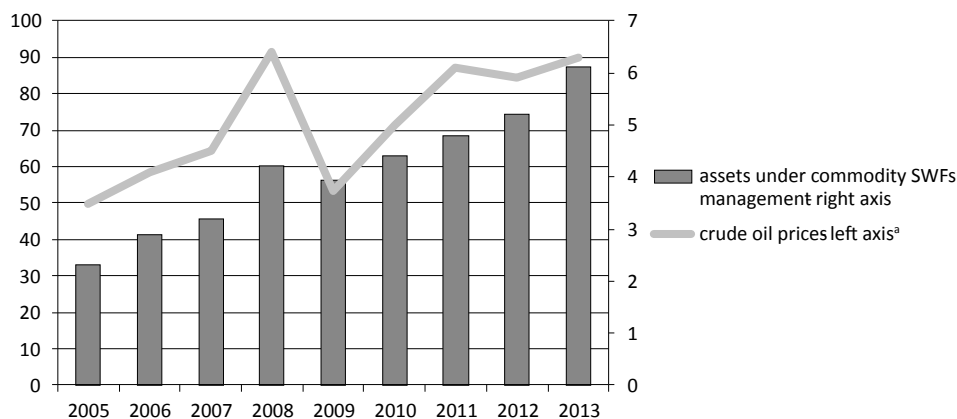
Trading in part of the reserves accumulated by the state by a specially appointed fund allows for higher efficiency in multiplying the national surplus than in the case of traditional, less risky forms of reserve management. Therefore SWFs are based on principles similar to those governing popular investment funds (mutual funds) or hedge funds with high risk tolerance and the purpose of maximizing investment returns.

The SWF Institute and the International Monetary Fund (IMF) have identified different types of sovereign vehicles. According to the SWF Institute, there are two types of SWFs: saving funds and stabilization funds. Stabilization SWFs are established mainly to reduce the volatility of government revenues, to counter the adverse effect of boom and bust cycles on government spending and the economy. It is popular in the literature to present this type of SWF as an antidote to the so-called "resource curse". Sometimes stabilization funds may be treated as a lender of last resort that protects the economy from external and

internal macroeconomic shocks (e.g. a financial or banking crisis). In turn, saving SWFs collect savings for future generations. This type of funds is a useful tool for countries struggling with the so-called Dutch disease (SWF Institute, 2013). Additionally, the IMF identifies development funds established to allocate resources to socioeconomic projects, mostly infrastructure (IMF, 2008).

Most sovereign investment funds originate from countries with significant natural resources, known as resource-rich countries (Figure 1, Table 2). It was believed that there is a direct link between the establishment of the major SWFs and the prices of raw materials such as oil (Figure 3), gas and copper (the so-called “commodity SWFs”) (Farrel & Lund, 2008). Recent years, however, have also seen the emergence of vehicles in economies that are only to a small extent based on the export of natural resources, whereas the funds of these SWFs come from foreign exchange reserves accumulated over the years. Most of these “non-commodity SWFs” were established in South and East Asia as well as in Oceania<sup>3</sup>. Most of these countries have significant resources of a relatively cheap work force, in comparison to Western countries, and economies that are largely focused on exports, ranging from labor-intensive goods to the most technologically advanced products. Although the most dominant type of SWFs are still those collecting funds from the export of raw materials, their share is reduced each year. This kind of SWF is the most popular in Africa. In 2007, the assets of “commodity SWFs” accounted for almost 67% of all the known assets of all SWFs in the world. By 2012, however, this share had fallen to 57%, mainly due to the emergence of Asian “non-commodity” sovereign investment funds (SWF Institute, 2013).

**Figure 3. SWF Assets as Compared to Oil Prices in 2005–2013**



<sup>a</sup> average annual prices.

Source: Author’s own study on the basis of (SWF Institute, 2013), (NASDAQ, 2014).

<sup>3</sup> Financing for the funds comes mostly from central banks and economy and finance ministries. In some cases the main source of funding is government shares in state-owned enterprises (such as Temasek).

## Reasons for the Existence of African Sovereign Wealth Funds

SWFs have succeeded in many regions as effective measures to deal with both micro- and macro-economic problems and tools that allow states to transform limited raw materials and commodities into long-term capital-growing entities through innovative asset management and profit reinvestment projects. SWFs have the ability to strengthen the economies of nations on the rise due to their ability to stabilize economies through providing funding for infrastructure projects as well as being used as tools for the global asset market (Oleka, 2014). Relying on these assertions, African states have established their own SWFs.

The world's largest SWFs originated not in Africa, but in Asia and the Middle East. Seventeen African nations have established active sovereign wealth funds to date. Africa's SWFs have benefited from two trends: higher commodity prices, coupled with rising production (oil has seen the largest gains) that have inflated government revenues and fiscal discipline, thus enabling greater savings. These trends are the main reason for the establishment of SWFs. With the rise of commodity prices, African countries are beginning to put their surpluses into government-owned funds established to manage a country's wealth for future generations and better economic stabilization. With high reserves and a substantial share in the global production of natural resources, Africa held an important weapon against poverty. Accounting for 78% of the world's total diamond production, 54% of platinum group metals, 51% of vanadium, and 20% of gold production, African countries can influence commodity prices and gather significant reserves from export revenues (Table 1). While in the past African development plans focused on diversifying from commodities, nowadays they put commodities at center stage. Africa takes advantage of the rising demand for the commodities they own. Key Asian markets such as China and India and generally all developing countries are at early stages of industrialization and will need Africa's natural resources to develop their economies. However, African countries should learn how to manage these reserves efficiently.

Many African countries are at risk of the so-called "resource curse" or "paradox of plenty" (Auty, 1993)<sup>4</sup>. Non-renewable natural resources are their main exports (Guenther, 2008) (Diamond & Mosbacher, 2013). Figure 4 shows that the largest SWF owners in Africa have a low export diversification level. In Angola, Algeria and Nigeria, the Herfindahl-Hirschman Index (HHI) ranges from 0.8 to 1.0. In Libya, the HHI is also close to 0.8<sup>5</sup>. It is significantly above the average export concentration level for Africa as a whole. This means that these countries rely on one or several export products. In the 1998–2012 period the export concentration indexes of African countries with SWFs (measured by the HHI) remained unchanged or increased (e.g. in Sudan, Chad, and Angola) to exceed the African average (Figure 4).

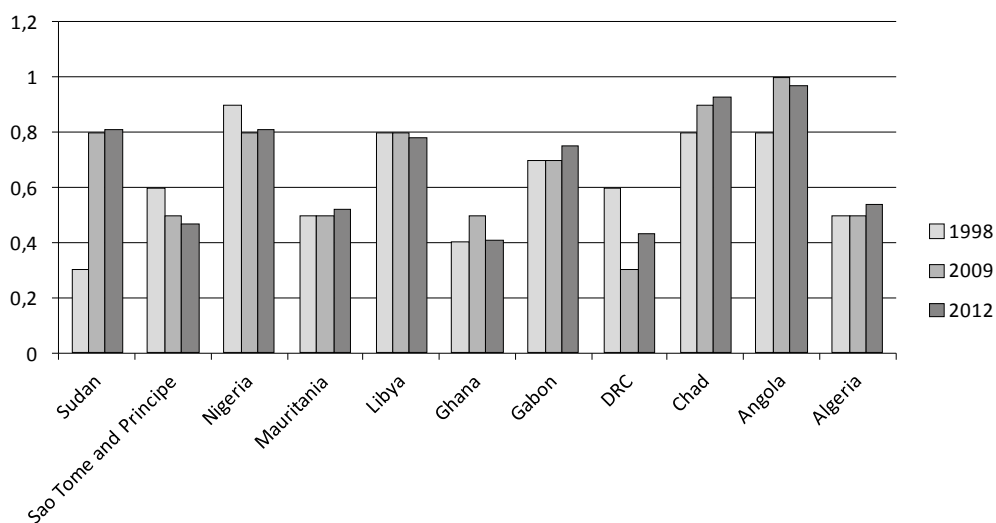
<sup>4</sup> Equatorial Guinea has become a textbook example of the so-called "resource curse" (Diamond & Mosbacher, 2013).

<sup>5</sup> An HH index below 0.01 indicates a highly competitive index. An HH index below 0.15 indicates an unconcentrated index. An HH index between 0.15 and 0.25 indicates moderate concentration. An HH index above 0.25 indicates high concentration.

**Table 1. Africa's Share of Global Reserves and Production of Natural Resources in 2010 (%)**

| Natural resource      | Reserves | Production |
|-----------------------|----------|------------|
| Oil                   | 9.5      | 12.2       |
| Gas                   | 7.9      | n.a.       |
| Platinum group metals | >60      | 54         |
| Gold                  | 42       | 20         |
| Chromium              | 44       | 40         |
| Manganese             | 82       | 28         |
| Vanadium              | 95       | 51         |
| Cobalt                | >55      | 18         |
| Diamonds              | 88       | 78         |
| Aluminum              | 45       | 4          |

Source: author's own study on the basis of (UN Economic Commission for Africa, 2011); (Energy Intelligence Group, 2014).

**Figure 4. Comparison of Export Diversification Between African Countries with SWFs in 1998, 2009 and 2012 (Herfindahl-Hirschman Index)**

Source: author's own study on the basis of (United Nations, 2013).

To avoid the “resource curse”, some African countries have decided to establish vehicles that indirectly protect them from the negative impact of such a commodity concentrated export (Czerniachowski et al., 2012). These SWFs can play a critical role in avoiding the Dutch disease phenomenon, which results from an appreciation of the real exchange rate, thus crowding out non-resource-related economic activities. If we look closer, all African SWFs are commodity-based and derive their funding from the sale of commodities, mostly oil (Table 2). “Commodity SWFs” are subject to many parallel goals, including fiscal revenue stabilization and in many cases sterilization of foreign currency inflows (Kimmitt, 2008).

Table 2. African SWF Statistics and the Position of SWF Founding Countries in the World Economy

| Country (origin)      | Fund   | Date of establishment | Commodity                    | Assets (\$ billion) 2012 | Assets as % of GDP of origin country | Index of Economic Freedom <sup>a</sup> | Linaburg-Maduell Transparency Index |
|-----------------------|--|-----------------------|------------------------------|--------------------------|--------------------------------------|--|-------------------------------------|
| Algeria               | Revenue Regulation Fund  | 1981/2006             | Oil                          | 77.2                     | 27.1                                 | 50.8                                   | 1                                   |
| Angola                | Fundo Soberano de Angola   | 2012                  | Oil                          | 56.7                     | 43.0                                 | 47.7                                   | n.a.                                |
| Botswana              | Pula Fund  | 1994                  | Diamonds and Minerals        | 6.9                      | 20.3                                 | 72.0                                   | 6                                   |
| Equatorial Guinea     | Fund for Future Generations  | 2004                  | Oil                          | 5                        | 25.4                                 | 44.4                                   | n.a.                                |
| Gabon                 | Fonds pour les Générations Futures                                       | 2011<br>2004          | Oil                          | 0.998                    | 3.3                                  | 57.8                                   | n.a.                                |
| Libya                 | Libyan Investment Authority  | 1998/2012             | Oil                          | 70                       | 95.1                                 | n.a.                                   | 1                                   |
| Nigeria               | Sovereign Investment Authority Excess Crude Oil Account                  | 2008                  | Oil                          | 8                        | 1.8                                  | 54.3                                   | 9                                   |
| Senegal               | Fonds souverain d'investissements stratégiques                           | 2012                  | Not specified                | 1                        | 3.6                                  | 55.4                                   | n.a.                                |
| Ghana                 | Ghana Petroleum Funds (Ghana Heritage Fund and Ghana Stabilisation Fund) | 2011<br>1994          | Oil, gold and other minerals | 0.069                    | 0.08                                 | 64.2                                   | n.a.                                |
| Chad                  | Oil Revenue Management Plan  | 2006                  | Oil                          | 0.034                    | 0.1                                  | 44.5                                   | n.a.                                |
| Mauritania            | National Fund for Hydrocarbon Reserves                                   | 2006                  | Oil                          | 0.003                    | 0.04                                 | 53.2                                   | 1                                   |
| Sudan                 | Oil Revenues Stabilization Account                                       | 2012                  | Oil                          | n.a.                     | n.a.                                 | n.a.                                   | n.a.                                |
| Sao Tome and Principe | National Oil Account   | 2004                  | Oil                          | 0.009                    | 2.1                                  | 48.8                                   | n.a.                                |
| Namibia               | Minerals Development Fund  | 1995                  | Minerals                     | n.a.                     | n.a.                                 | 59.4                                   | n.a.                                |

<sup>a</sup> (0–49.9) – repressed; (50–59.9) – mostly unfree; (60–69.9) – moderately free; (70–79.9) – mostly free. Source: author's own study on the basis of (Heritage Foundation, 2014); (CIA, 2014); (Libyan (Gouvernement du Senegal, 2014); (Truman, 2008); (SWF Institute, 2013); (Minerals Development 2014) (CIA, 2014).

## – Selected Indicators (2012 Data)

| Truman Index (2008) | Santiago Principles Signatory | Investment strategy of SWF   | Separate website of SWF | Current account balance (\$ billion) | Reserves of foreign exchange and gold (\$ billion) | 3 top products exported <sup>c</sup>                                    |
|---------------------|-------------------------------|--|-------------------------|--------------------------------------|--|---|
| 27                  | No                            | Conservative and safe investments  | Yes <sup>b</sup>        | 12.30                                | 191.60   | Crude Petroleum (45%), Petroleum Gas (37%), Refined Petroleum (14%)     |
| n.a.                | No                            | Diversify investment portfolio, long-term investments  | Yes                     | 13.85                                | 33.41  | Crude Petroleum (98%), Petroleum Gas (0.79%), Refined Petroleum (0.25%) |
| 55                  | Yes                           | Long-term investments, not specified   | Yes <sup>b</sup>        | -0.80                                | 7.63   | Diamonds, Copper, Nickel  |
| n.a.                | Yes                           | n.a.   | No                      | -2.95                                | 4.40   | Crude Petroleum (70%), Petroleum Gas (25%), Acyclic Alcohols (2.1%)     |
| n.a.                | No                            | n.a.   | No                      | 2.69                                 | 2.37   | Crude Petroleum (70%), Petroleum Gas (25%), Acyclic Alcohols (2.1%)     |
| n.a.                | Yes                           | Diversify, variety assets, including direct acquisition of stake in companies                                | Yes                     | 27.17                                | 118.60   | Crude Petroleum (88%), Petroleum Gas (6.6%), Refined Petroleum (4.6%)   |
| 26                  | No                            | Safe investments, low-risk assets  | Yes                     | 20.35                                | 46.41  | Crude Petroleum (72%), Petroleum Gas (14%), Refined Petroleum (5.3%)    |
| n.a.                | No                            | Sectors that employ many people; sectors strategic and structuring such as energy, mining and infrastructure | Yes <sup>b</sup>        | 1.62                                 | 2.08   | Refined Petroleum (19%), Gold (11%), Phosphoric Acid (8.8%)             |
| n.a.                | No                            | Fixed income securities  | No                      | -4.78                                | 5.71   | Gold (44%), Crude Petroleum (18%), Cocoa Beans (15%)                    |
| n.a.                | No                            | n.a.   | No                      | -0.38                                | 1.17   | Crude Petroleum (64%), Raw Cotton (14%), Insect Resins (8.1%)           |
| n.a.                | No                            | Long-term investments, not specified   | No                      | -1.26                                | n.a.   | Iron Ore (46%), Copper Ore (12%), Mollusks (9.8%)                       |
| 20                  | No                            | Long-term, not specified   | No                      | -5.28                                | 0.19   | Gold (45%), Crude Petroleum (37%), Other Oily Seeds (3.6%)              |
| 48                  | No                            | n.a.   |                         | -0.59                                | 0.05   | Cocoa Beans (47%), Precious Metal Watches (8.9%), Jewelry (8.3%)        |
| n.a.                | No                            | Long-term, high interest-earning investments, not specified  | Yes                     | -0.41                                | 1.74   | Diamonds, Copper, Gold  |

<sup>b</sup> website as a tab of the government or the central bank website, <sup>c</sup> share in total exports. Investment Authority, 2014); (Fundo Soberano de Angola, 2014); (Bank of Botswana, 2014); Fund, 2014); (International Working Group of Sovereign Wealth Funds, 2014) (The World Bank,

A useful scheme of deploying SWFs in resource-rich African countries is the so-called “SWF cascade” effect that funnels a country’s wealth through a fiscal rule<sup>6</sup>. The largest part of resource wealth goes (likely) to the state budget (central or local budgets), but the rest may funnel into several SWFs. First, the country should stabilize its economy and protect it from price volatility. Stabilization funds are the perfect tool for this policy. Most developing African countries are at the stage of taking off to development and need a high rate of investment. Consequently, the next step in deploying SWFs should focus on investments, especially those that produce externalities. Development SWFs can fulfill this task. Finally, when a country reaches appropriate stabilization and investment levels (is mature), the saving fund can gather and transfer the resource wealth for the next generations (Dixon & Ashby, 2011).

A look at the type of SWFs existing in developing African countries, their motives, and stage of development reveals that stabilization funds are predominant. This stems from the logic behind the aforementioned “SWF cascade” effect. Generally, stabilization vehicles try to reduce the impact of volatile fiscal revenues or foreign exchange receipts. The main objective of a stabilization fund is to provide budgetary support and protect the economy from unstable commodity prices (Griffith-Jones & Ocampo, 2009). These vehicles are established in times of high commodity prices and use gathered funds in cases of low commodity prices or a shortage of reserves. Less commonly found are SWFs that focus on multiplying revenues and creating wealth for the next generations.

For most African countries, such stabilization needs should be considered in the short and long term. In the short-term perspective, African nations need to balance their expenses in the context of volatile commodity prices. This helps avoid the challenges in macroeconomic management resulting from revenue instability. In the long term, African countries need to protect themselves against potential declines in revenues resulting from the depletion of nonrenewable commodities. This means that SWFs should continue to invest on financial markets to pursue long-term stabilization goals. They can also help limit problematic privatizations and the looting of national wealth (Beck et al., 2011).

A less official reason for the existence of African SWFs is that they are treated as a hidden, domestic source of financing debt. There have been many cases of capital withdrawal from funds in order to balance the budget or pay back external debt. However, these cases of treating SWFs as a lender of last resort are not occasional accidents. The relatively short history of African SWFs has seen regular withdrawals of huge amounts of money from these vehic-

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<sup>6</sup> According to the IMF, fiscal rules impose a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates. Fiscal rules typically aim at correcting distorted incentives and containing pressures to overspend, particularly in good times, so as to ensure fiscal responsibility and debt sustainability (IMF, 2014).

les (e.g. the Oil Revenue Stabilization Fund in Sudan or Chad's Oil Revenue Management Model) (Medani, 2010) (Jaén, 2010).

To sum up, there are two main reasons why so many SWFs have been created in Africa: growing commodity prices and the rising foreign currency reserves of African countries. Other reasons include the ability of SWFs to provide a buffer for countries in the event of potential fiscal difficulties and shocks. SWFs help countries reduce their reliance on single commodities for fiscal revenues by diversifying their income streams. Finally, they help countries obtain higher credit ratings, which subsequently enable a country and its businesses to reduce their costs of borrowing on international markets. However, almost no information is available about the strategies or investment targets of African SWFs.

### **African SWFs – General Overview**

The first sovereign vehicles in Africa were established in 1993 in Botswana (Pula Fund) and Ghana (Minerals Development Fund). In terms of assets these are relatively small in comparison to the world's largest SWFs. The two largest vehicles, the Libyan Investment Authority and the Algerian Revenue Regulation Fund, together control \$142.2 billion. In the global SWF ranking in terms of assets, the Algerian Revenue Regulation Fund is among the largest 20 vehicles in the world. It ranks 16<sup>th</sup>, ahead of the Korea Investment Corporation and the Investment Corporation of Dubai. The Libyan Investment Authority is 21<sup>st</sup>. All African sovereign vehicles manage natural resource wealth, mostly oil. Exceptions include Botswana's Pula Fund, Senegal's Fonds souverain d'investissements stratégiques, one of Ghana's funds, and a Namibian vehicle that collects money from selling minerals, diamonds, and gold. It is worth taking a look at the share of SWF assets in GDP. It ranges from 0.08% in Ghana to 95.1% in Libya (Table 2).

There is a serious problem with the transparency of African funds. Only three SWFs (in Libya, Botswana, and Equatorial Guinea) seem to have implemented the Santiago Principles and supported efforts to promote free capital flows and cross-border investments (International Working Group of Sovereign Wealth Funds, 2014). However, these signatory countries seldom disclose information about the activities of their SWFs. They do not publish any annual reports or press releases. Little is known about the structure of African SWFs and the institutions (governmental departments) they answer to. The transparency of each fund (presented as the Linaburg-Maduell Transparency Index<sup>7</sup>

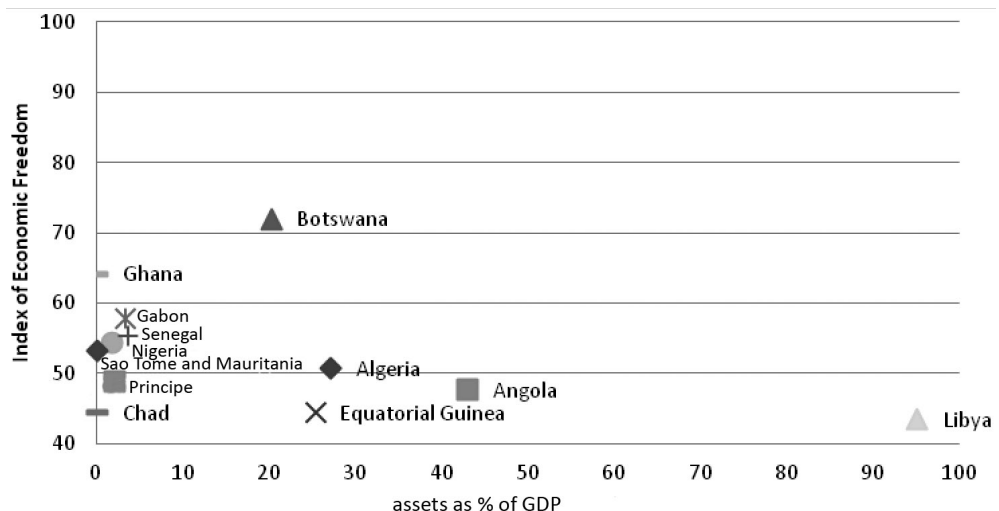
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<sup>7</sup> "This index is based on 10 essential principles that depict sovereign wealth fund transparency to the public. The following principles each add one point of transparency to the index rating. The index is an ongoing project of the Sovereign Wealth Fund Institute. The minimum rating a fund can receive is 1; however, the Sovereign Wealth Fund Institute recommends a minimum rating of 8 in order to claim adequate transparency" (SWF Institute, 2013).

and the Truman Index<sup>8</sup>) is usually related to the Index of Economic Freedom. The freer a country is, the higher its score in the transparency index. Nigeria and Botswana boast the highest Linaburg-Maduell Transparency Index levels. The largest African SWFs have very low transparency (e.g. Libya or Algeria). Calculating the transparency index, the SWF Institute does not take into account the most repressed countries' sovereign vehicles (e.g. those from the DRC or Chad). With the Truman Index the result is similar: African SWFs rank at the bottom of the list (Table 2).

An interesting aspect of the African SWFs is the relationship between the size of funds (as a percentage of GDP) and the level of economic freedom in a country (Index of Economic Freedom). In Africa there is no positive relationship between the high level of good governance, accountability and transparency, on the one hand, and the assets of SWFs as a percentage of GDP, on the other. Generally, African countries with their own SWFs have a low level of economic freedom, except for Botswana. Most of the analyzed countries with a low level of economic freedom have gathered a significant amount of assets in SWFs. The best examples are the largest SWFs in Africa—those in Libya and Angola (Figure 5).

**Figure 5. Relationship Between SWF Assets as % of GDP and the Economic Freedom of the Founding Countries**



Source: author's own study on the basis of (SWF Institute, 2013) (CIA, 2014).

It is worth taking a look at the latest developments in the African SWF landscape. Since 2011, major oil producers such as Nigeria, Ghana, and Angola

<sup>8</sup> The Truman Index was developed by Edwin Truman and takes into account 25 dimensions of transparency. It is more complex than the Linaburg-Maduell Transparency Index (Truman, 2008).

have established SWFs that manage \$8 billion, \$100 million and \$5 billion worth of assets respectively. Analysts expect that if Mozambique, Tanzania, Uganda, and Kenya (all of which are large natural gas exporters) set up their own SWFs, large financial institutions such as Goldman Sachs and Credit Suisse will benefit from the sale of advisory and consultancy services. Even Sierra Leone is expected to launch its own vehicle in the near future (Blas, 2013). Since the end of 2012, Senegal has been making arrangements to set up a new sovereign fund for strategic investment (*Fonds souverain d'investissements strategiques – Fonsis*), whose assets under management are expected to reach around \$1 billion in the medium term. Zambia has become the latest African country with plans to establish an SWF to expand investment outside the mining industry of Africa's biggest copper producer. It will get funding from the dividends of about 40 state-owned companies, while the government will also provide some seed capital, according to the Zambian commerce minister (Ministry of Commerce, Trade and Industry Republic of Zambia, 2014).

An interesting aspect of African SWFs is the perception of these vehicles' investments by host economies. According to the *Sovereign Brands Survey 2010*, African SWFs were the least welcome sovereign investors, especially in developed countries. Surprisingly, even respondents from Egypt ranked funds from Algeria, Botswana and Nigeria less favorably than other vehicles (Hill & Knowlton and Penn Schoen Berland, 2010). The survey covered attitudes in seven countries (the U.S., UK, Germany, Egypt, Brazil, India and China) towards 19 SWFs in Norway, Singapore, Hong Kong, Malaysia, Abu Dhabi, Dubai, Kuwait, Qatar, China, Bahrain, Oman, Mexico, Russia, Libya, Kazakhstan, Brunei, Algeria, Nigeria and Botswana. The survey took into account only a small sample of African SWFs, but the negative perception likely reflects the negative image and lack of knowledge of African nations rather than wrongdoing by these funds.

### Characteristic Features of Africa's Largest SWFs

The most active among all African SWFs is the **Libyan Investment Authority** (LIA). This fund is based on oil and gas. Its mission statement calls for an "optimum use and development of Libyan assets and funds locally and abroad based on professional economic development standards" (Libyan Investment Authority, 2014). According to the official website of the LIA, funds operate through four companies: the Libyan Company for Foreign Investments, Petroleum Investment Company (Tamoil), Long-Term Investment Portfolio, and Libya Africa Investment Portfolio. Moreover, the LIA operates through associates and affiliates such as the Economic and Social Development Fund, Libyan Arab Foreign Investment Company, and Libyan Norwegian Fertilizer Company. Investigations since the deposition of Muammar Qadhafi have uncovered misconduct and misappropriation by the fund's former management. The Libyan SWF has made numerous investments across Africa that frequently reflected

Qadhafi's politically-motivated investment strategies. These politically-directed investments included the purchase of large stakes in Afriqiyah Airlines and several agricultural holdings and hotels in Africa (CAI, 2013). Today the LIA still owns around 550 companies and direct investments in North Africa, the Middle East and Europe. It intends to wind up some of these. Recently the LIA has been making plans to establish a "future-generation fund" focusing on oil income and a stabilization fund from which the government can cover the budget deficit (Financial Times, 2014). So far the LIA has invested in Bahrain's First Energy Bank (16.25%), Pearson from the UK (3.27%), and Italy's UniCredit (2.59%), Finmaccanica (2.01%), Fiat, and Juventus Football Club (Wright, 2014).

Angola's process of launching a SWF was long and difficult. Efforts to set up **Fundo Soberano Angolano** (FSA) began in November 2008, but the global economic downturn delayed the project. It was not until 2012 that the fund finally got off the ground. The FSA is funded by revenues from Angola's oil sector (Angola is the third-largest oil producer in Africa). All revenues surpassing \$58 per barrel of oil are placed in the fund's pool. It is expected that the fund will replicate the investment strategy of the Government Pension Fund of Norway (which has advised the fund on the best way to manage oil revenues) by purchasing small stakes of common stock in international companies (Fundo Soberano de Angola, 2014). The Angolan SWF aims to invest in sub-Saharan Africa, primarily in the infrastructure and hospitality sectors. Other Sub-Saharan African sectors targeted by the FSA include agriculture, water, power generation, and transport (African Development Bank, 2013).

Algeria established its **Revenue Regulation Fund** (RRF) in 2000 to manage and preserve its oil wealth and earnings. Favorable differentials between the market price of oil sold and the reference price set at \$37 per barrel are credited to RRF accounts every year. According to the SWF Institute, the RRF was valued at \$77.2 billion in 2013. However, there are no restrictions on fund withdrawals for spending—a major limitation in its operations, particularly if fiscal policy is not prudent enough (Euromonitor International, 2014).

Botswana is not only rich in diamonds and minerals, but has also generated high economic growth rates recently. Botswana's **Pula Fund** was established in 1994 under the management of the Bank of Botswana. The Pula Fund is the only African member of the International Forum of Sovereign Wealth Funds and a signatory of the so-called Santiago Principles. This vehicle represents almost two-thirds of the region's SWF assets and is funded by income from exports of minerals and (mostly) diamonds. The Pula Fund was established with the aim of preserving part of the income from diamond exports for future generations. The Pula Fund has substantially increased in value since it was established. This reflects both a sustained period of substantial balance-of-payments surpluses and returns on investment. However, there have been substantial outflows following the establishment of the Public Officers Pension Fund, which resulted in a substantial transfer of assets from

the government; and after the financial turmoil of 2008, due to adverse market conditions and outflows designed to maintain a sufficient level of foreign reserves in the Bank of Botswana. The fund takes a conservative investment approach, investing exclusively in foreign currency-denominated public equity and fixed-income instruments in industrialized and developed economies (Bank of Botswana, 2014).

The recently created Nigerian fund represents 4% of the region's total SWF assets (Figure 2). Currently, the surpluses linked with oil revenues are held in the **Excess Crude Account** (ECA) to help stabilize the country's budget. The rationale behind the ECA is to act as a stabilization fund, closing budget deficits that are a product of oil price volatility, and to potentially fund domestic infrastructure investments. In mid-2010, the government decided that the Excess Crude Account (ECA) would be replaced by a SWF with a long-term perspective. The government established this SWF under the control of the Nigerian Sovereign Investment Authority. The Nigerian Sovereign Investment Authority (NSIA) has three objectives: bridging the national infrastructure gap, building a savings base for the benefit of future generations of Nigerians, and providing stabilization support in times of financial difficulties (Yonga, 2012). Discussions and negotiations among various stakeholders have been going on since 2010. There is a lingering disagreement between the states and the federal government over the funding of the SWF. The federal government does not want the fund to be financed exclusively from excess crude revenues and aims to bring about a situation in which the states would make monthly contributions from other sources. Meanwhile, state governors do not want any other source of funding that would make the states receive less while contributing more (Rice, 2012).

## Conclusions

African nations need to own and control their natural resources to profit from the exploitation of these, but it is worth remembering that SWFs are not a universal remedy for the problems facing resource-rich states. Prudential resource management is a complex issue, and SWFs alone, without the support of other national institutions, especially governmental ones, cannot guarantee that this goal will be achieved. Of course, they can learn from the experience of developed countries, such as Norway (Knowledge Development Ltd, 2012), but the natural, social and economic conditions in Africa are vastly different from those in highly developed countries. In particular the continent's institutional structure and domestic political problems are the main obstacles to building a healthy, sustainable economy. This article describes African countries highly dependent on commodity exports and natural resource production responsible for a significant share of in GDP. This reliance can be dangerous for Africa in the long term. By setting up SWFs, African governments want to avoid the negative aspects of this dependence. At the same time, they would

prefer to create a “dual model” of SWFs whereby development goals and financial aims would be realized together. There is another problem related to the activity of SWFs in Africa. African SWFs could improve productivity and encourage investment within Africa through allocating a part of their assets to growing sectors in the region. On the one hand, many African countries fighting with poverty and inequality need investment to facilitate sustainable growth and help their populations overcome poverty. On the other hand, SWFs are not usually tools and institutions oriented toward short-term economic development, but their strategies focus mostly on long-term wealth preservation, fixed return investment, and domestic stabilization, as reflected by their names (Table 2).

Based on whatever limited information about African SWFs is available it can be said that these vehicles are still too small to become the main driving force for African economies. It is also difficult to determine their investment strategies because they have not published their investment transactions. Theoretically, African countries are free to use their own SWF assets to invest in domestic companies to boost growth and create jobs through developing the role of the private sector in Africa. This goal seems to be easier to achieve because Africa’s SWFs are not generally oriented towards investment on global financial markets. It is necessary to be aware that SWFs are new and unique institutions in African economies with no prior experience. Most of the analyzed funds have been operating for less than a decade and have yet to develop mature investment practices and techniques. Their performance is strongly affected by their limited economic freedom as well as by political decisions and the lack of efficient market mechanisms. This distorts SWF investment decisions, which usually result from political and particularistic goals (as in the case of the LIA). Nevertheless, African governments across the continent seeking to establish their own SWFs will likely emulate the investment strategies of globally respected examples of successful vehicles, especially those in the Middle East and Asia. These SWFs are perceived in Africa as institutions that have effectively combined the competing needs of local economic development and wealth maintenance and accumulation. African SWFs can be beneficial for developing nations if they are used and structured properly in order to take advantage of their full potential. This implies that most of the African SWFs would have to broaden their stabilization motives to position themselves as instruments prepared for achieving economic development, intergenerational transfers of resources, financial sector stabilization, and promotion of regional integration.

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## **AFRYKAŃSKIE NARODOWE FUNDUSZE INWESTYCYJNE: WPROWADZENIE DO CHARAKTERYSTYKI WEHIKUŁÓW**

### **Streszczenie**

Celem artykułu jest przegląd najważniejszych cech państwowych funduszy inwestycyjnych (*sovereign wealth funds* – SWFs), utworzonych w wyniku zgromadzonych rezerw walutowych w krajach afrykańskich eksportujących surowce naturalne. W opracowaniu podjęto próbę wskazania celów inwestycyjnych wybranych SWFs z Afryki. Stąd artykuł należy uznać za empiryczny. Zastosowana metoda badawcza opiera się na możliwie szczegółowej analizie dostępnych danych statystycznych i informacji z działalności inwestycyjnej SWFs z ostatnich dwudziestu lat. Wnioski z analizy wskazują, że z uwagi na niską (lub brak) transparentność afrykańskich SWFs, zgromadzenie niezbędnych danych statystycznych i ogólnych informacji oraz literatury fachowej na temat rozwiązań instytucjonalnych i strategii inwestycyjnych tych wehikułów nadal pozostaje dużym wyzwaniem. W analizie uwzględniono także raporty i artykuły publicystyczne, które w celu zwiększenia rzetelności skonfrontowano z różnymi źródłami informacji. Należy podkreślić, że ze względu na niewielkie rozmiary afrykańskich SWFs, ich rola w stymulowaniu rozwoju gospodarczego kontynentu jest ograniczana przez wiele instytucjonalnych, ekonomicznych i przede wszystkim politycznych zakłóceń. Jednocześnie afrykańskie SWFs nie stanowią jednorodnej grupy. Działalność SWFs może być korzystna dla gospodarki wewnętrznej krajów-założycieli, jeśli wehikuly są wykorzystywane i skonstruowane w sposób umożliwiający wykorzystanie ich pełnego potencjału. W praktyce oznacza to, że większość afrykańskich SWFs musiałby poszerzyć swoje obszary działalności i wprowadzać stopniowo instrumenty zmierzające do promowania rozwoju gospodarczego, międzypokoleniowego podziału zasobów, utrzymania stabilizacji sektora finansowego i popularyzowania integracji regionalnej.

**Słowa kluczowe:** narodowy fundusz inwestycyjny, Afryka, cel inwestycji

**Kody JEL:** F21, G23, O16, O55

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