



United Nations  
Economic Commission for Africa

Third International Conference on Financing for Development

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*Side Event*

*On*

***“Leveraging pension funds for financing infrastructure  
development in Africa”***

**Talking Points (moderated discussion)**

**by**

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Excellencies,  
Distinguished Guests,  
Ladies and Gentlemen,

Good afternoon,

It is my great pleasure and honor to join all of you in this side event on “Leveraging pension funds for financing infrastructure development in Africa” organized in the margins of the third International Conference on Financing for Development.

Africa is home to some of the world’s fastest growing economies, and poised to becoming the world’s leading “resource frontier”. The continent now has a clear vision of how it would like to progress towards the future: achieving its Agenda 2063, the establishment of a Continental Free Trade Area by 2017 (indicative date), achieving Commodity-led industrialization, and the realization of the African Mining Vision — all of which remain at the heart of Africa’s path to structural transformation and diversification.

The AU Agenda 2063 signifies Africa’s determination to take all necessary measures, using the continent’s natural endowments and human resources, to transform Africa and make it a leading continent in manufacturing, innovation and creativity. Agenda 63 is designed to transform Africa into an economically integrated continent and politically united which is an influential global player and partner, based on the ideals of Pan-Africanism and a vision of an African Renaissance. It also reaffirms the strategic importance of changing Africa’s status quo in terms of its overwhelming reliance on extracting and exporting raw

materials and minerals to overseas markets into more value-added industrialization and development strategy and broad-based growth.

This transformation vision for Africa will obviously drive demand for more and better infrastructure, bearing in mind that the infrastructure conundrum is one of the continent's Achilles' heels. Africa's need is not just for an adequate, efficient and viable infrastructure stock, but for transformational infrastructure that will spur it to the next frontier of development and reposition the continent as an esteemed player in the global economy.

It is against this backdrop that Africa's political leaders, with the support of the African Union Commission, the African Development Bank and ECA, have put in motion the Programme for Infrastructure Development in Africa (PIDA). As you all know, PIDA is undoubtedly mammoth and state-of-the art infrastructure intensification and modernization program, which if faithfully implemented, will be a game changer in Africa's infrastructure landscape.

Estimates posit Africa's infrastructural needs at about US\$93 billion a year. Current investments are sitting at about US\$45.3 billion, creating a deficit of more than US\$40 billion a year. Of the US\$93 billion investment needs, priority investments of US\$ 67.9 billion up to the year 2020 are required in the critical subsectors of energy, transboundary water supply, transport and information and communications technology.

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Analysis from ECA and AUC studies and policy dialogues have highlighted a number of instruments on mobilization of domestic resources in Africa, including:

- a. African Infrastructure Development Fund - to supplement investment in national and regional infrastructure projects, particularly the implementation of PIDA.
- b. African Credit Guarantee Facility (ACGF) to support bond issuance, and build investor confidence.
- c. Africa-owned Private Equity Funds. Today, there is a thriving private equity industry in Africa, compared to the situation a decade ago. Africa's Private Equity Market is worth about US\$30 billion. There are up to 38 private equity funds which are investing in infrastructure in Africa including toll roads, dams, and airports.
- d. African bond issues are flourishing in the international bond market, though relatively new and limited to a few countries. Recent notable examples of the use of Infrastructure Bonds are Ethiopia, Kenya, Nigeria, South Africa, and Zambia. An example of this is the diaspora Bonds to raise development finance from the Diaspora community as an alternative to borrowing from the international capital market.

Furthermore, Africa generates more than US\$520 billion annually from domestic taxes; earns more than US\$168 billion annually from minerals and mineral fuels;

and has more than US\$400 billion in international reserves held by its Central/Reserve Banks. The continent's Diaspora remittances was US\$40 billion in 2012 and have the potential to raise up to US\$10 billion annually through securitization. Banking revenues are estimated at about US\$60 billion and there is high liquidity in the banking sector. Some ten African countries today have established Sovereign Wealth Funds. Illicit financial flows from the continent reached US\$854 billion over the period between 1970 and 2008. All these point to resources that could support development programmes and projects, if appropriate instruments and vehicles are deployed.

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Besides all these resources, Africa has public pension fund assets that are growing impressively, and I want to focus the rest of my intervention with a few remarks on this topic. Pension Fund is a rapidly growing pool of capital and its growth opens up an enormous opportunity for investments in infrastructure and other projects needed to support Africa's transformation agenda.

Pension funds play a critical role in finance through the mobilisation and allocation of stable long-term savings to support investment. Recent reforms in many African countries have created private pension systems, which are rapidly accumulating assets under management. The Nigerian pension industry, for example, grew from US\$7 billion in December 2008 to US\$25 billion in December 2013. Similarly, Ghana's pension industry is expected to expand by up to 400 per cent in the four years from 2014 to 2018. And Botswana's local. In

December 2012, South Africa's pension funds reached the tune of US\$322 billion.

However, a major interest of Africa's pension fund regulators has been to protect the pensions of their fellow citizens. Governments are therefore generally reluctant to take risks in terms of using pension fund money for investments in infrastructure, and are very mindful of the imperative responsibility to invest pension funds wisely. The growing resource is managed carefully and properly because people's old age lives depend on it. Infrastructure projects usually have a long gestation period. The added complication with infrastructure in Africa relates to the lack of bankable projects, time to develop projects and who takes project development risk.

Countries like Nigeria also have their Pension industry portfolio spread across investments such as state and government bonds, money market securities, and real estate properties. And African pension funds that focus on stocks and bonds in their home markets have increased. South Africa allows as much as 10 percent of its Pension Fund assets to be invested in Private Equity. Last year, South Africa's Eskom Pension and Provident Fund invested US\$30 million in infrastructure projects through the Abraaj Group of Private Equity investors. South Africa plans intend to invest a further US\$100 million in infrastructure projects outside the country. It is estimated that other government-backed funds are making moves to invest US\$30 billion pension money in infrastructure projects.

These examples show that there is ample room to use pension funds to finance infrastructure projects in Africa. However, the interest to keep retirees' money

safe perhaps explain why there is not widespread pension money flowing into infrastructure projects across the African continent. Some financiers and pension funds regulators contend that pension funds are too risk averse to venture into mega infrastructure projects that could change Africa's development trajectory. Allocations would therefore tend to favor brownfield projects which are already generating cash flow. And we don't have many of those in Africa.

One of the key challenges is therefore how to encourage the portfolio diversification necessary for African Pension Fund systems to manage risk, whilst ensuring that diversification in itself does not become a source of risk as pension funds venture into hitherto unknown asset classes and markets.

In this regard, there is need to promote financial literacy among citizens and transparency in terms of ensuring that all players are disclosing how the pension funds investments in infrastructure and other sectors of the economy are going to be deployed. Ultimately, proper dialog should be undertaken between all stakeholders, to bridge the knowledge gap and create thereafter solutions agreeable to all parties.

I thank you for your attention.