

Conference Paper

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Africa's Sovereign Wealth Funds

Demand, Development and Delivery



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This conference considered how SWFs can develop strategies to ensure their performance as accountable financial tools in service of national economies. It focused on what these funds can deliver for sub-Saharan African states, reviewed their demand, development and delivery on expectations, and discussed their role in the international financial system.

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Preface

This publication is based on the presentations and discussions at a conference on ‘Africa’s Sovereign Wealth Funds: Demand, Development and Delivery’, held at Chatham House on 5 September 2014.

The keynote speech was given by José Filomeno de Sousa dos Santos, Chairman of the Board of Directors, Fundo Soberano de Angola. This was followed by sessions on ‘Exploring the Emergence of Sovereign Wealth Funds in Africa’, ‘Best Practices for Investment Management and Governance’, ‘The Social and Political Impacts of Sovereign Wealth Funds’ and ‘African Sovereign Wealth Funds in the International Financial System’.

The purpose of the conference was to explore the current expansion of sovereign wealth funds (SWFs) in Africa, and the impacts this may have on Africa’s social and political landscape. The conference added to the increasing global discussion on Africa’s SWFs, as well as feeding into the research of the Chatham House Africa Programme on this topic.

For more information, including recordings, transcripts, summaries and further resources on this and other related topics, please visit: www.chathamhouse.org/research/regions/africa.

Introduction

Although sovereign wealth funds (SWFs) have existed for over 60 years, their number has increased rapidly since 2000. In particular, countries dependent on natural resources have sought to diversify their economic exposure and SWFs have been promoted as a useful vehicle for this. Their low leverage and exposure to alternative assets gave them resilience during the global financial crisis, and consequently 15 new SWFs have been created since 2008. The value of assets held by the funds has similarly been increasing, to a record \$5.78 trillion in 2013. This is due in part to the creation of the 15 new SWFs.

Countries in Africa are among those moving to harness the potential of SWFs. Many of these countries have been significant exporters of natural resources since independence, yet have relatively little to show for it in terms of infrastructural development or savings. Over the past decade, SWFs have come to be viewed as a mechanism to reverse this trend. New discoveries of oil and gas reserves in East and West Africa have motivated the creation of several funds on the continent in recent years, joining those in Botswana, Libya, Algeria, Gabon, Equatorial Guinea and Mauritania. Since 2012, Angola, Nigeria, Senegal and Ghana have established SWFs with initial seed capital of \$5 billion, \$1 billion, \$1 billion and \$100 million respectively. Mozambique and Tanzania are set to become large exporters of natural gas by 2020 and both are expected to set up SWFs, while Sierra Leone has suggested it could launch its own fund.

SWFs are defined as state-owned investment enterprises composed of financial assets. They tend to invest globally, and around 60 per cent of SWF assets worldwide are derived from oil and gas revenues. SWFs are particularly attractive to resource-exporting countries because they can ease the impact of commodity price volatility, while ensuring that the profits from exhaustible resources are shared with future generations. High commodity prices and faster extraction methods have made the prospect of establishing a SWF particularly enticing in recent times. In addition, the promise of better management of these revenues offered by an SWF can help boost credit ratings and support further growth. For example, prior to the launch of the Fundo Soberano de Angola, the country's credit rating was upgraded by all of the big three credit-rating agencies, with the impending establishment of the SWF being cited as a key factor.

However, commentators have warned that SWFs are not a panacea and that African countries are especially vulnerable to problems associated with the funds. Weak institutions, political instability and a lack of transparency and accountability can turn SWFs into nuclei of corruption and financial abuse.

To overcome these difficulties, newly developed African SWFs can benefit from learning from the experiences of other funds. They also have the guidance of the Santiago Principles, a set of general rules aimed at informing best practice for fund management.

This conference analysed in-depth the reasons behind the growth of SWFs in Africa. It also examined the challenges they face and looked to the future to assess what impact the funds will have on the social and political landscape of the continent.

Keynote Address

José Filomeno de Sousa dos Santos, Chairman of the Board of Directors, Fundo Soberano de Angola (FSDEA).

A growing number of state reserves across several countries and continents are being managed by sovereign wealth funds: from the US to China, Iran to Korea, and several countries in Africa, all are increasing the amounts that are managed by sovereign wealth funds. This is perhaps why they are becoming so interesting for people and arousing so much curiosity.

The sizes of sovereign wealth funds obviously vary; we have Norway's sovereign wealth fund which has assets up to \$878 billion on the one hand, and we have sovereign wealth funds such as Ghana's which has assets up to \$70 million. The size is irrelevant; what is truly relevant is the purpose of these institutions and the work they can do for their countries. Worldwide, it is estimated that about \$6.7 trillion is managed by sovereign wealth funds, and more than half of this amount derives from oil and gas. This says something interesting about this industry that generates so many revenues, and yet there are other institutions needed to make complementary use of the revenues it generates.

Another interesting observation is that very few European Union (EU) countries have sovereign wealth funds: except for France, Italy and Ireland, no other EU member country has one. We believe that the primary goal of these institutions is to preserve the nation's wealth and ensure that this wealth is used for the benefit of future generations. Our main thought regarding this is that cash sitting in banks tends to be eroded by inflation, or in some cases by investment advisers taken over by the speculative whims of the market as happened after the 2008 crisis. Given these observations, we conclude that the best way to preserve wealth is to invest it wisely.

We believe that wealth should be invested in a way that benefits the country it originates from. We spent a great deal of time in 2013 focusing on the policy of Angola's sovereign wealth fund and how it would operate internally, and the relationship between the fund and the other institutions of government. What we came up with was a clear policy, ratified by the government, that determined how these assets should be invested, and determined that they should be invested for the benefit of the people of Angola. This investment policy document is a public document; it represents not only the nature of the fund but also the reason why it exists and how it plans to invest in the future. We believe that it is a very important document to us on how it is mandated.

The cases of Angola and Africa will differ from the case of Norway, for example. In Norway we have a society that is established, impeccable public infrastructure, high levels of income and very low unemployment. The context in Africa is very different. The needs are much greater and more immediate, which impacts on how the sovereign wealth funds are set up and their prospects in the future. For instance, the Norwegian population might not even be aware in their daily lives of any investment being done by their sovereign wealth fund. Their society is not in a situation where it should be impacted by this amount and type of investment. In Africa, the situation is very different. There are social needs and investment needs at various levels.

More importantly, the main insufficiencies in the continent overall are individual and institutional capacities. The problems are the ones that we know: difficulty in access to healthcare, access to clean water, to power supply and education. This is not because of a lack of willingness on the part of governments to provide for their citizens or for their nations, but because there is a clear lack of institutional capacity and a clear demand for additional assistance in investing in these sectors. We at the sovereign wealth fund of Angola believe that the best way to address this issue is through education and through vocational training.

Recently we have launched a scholarship programme for 45 graduates of business to attend a special programme in the Swiss University of Applied Sciences. This programme will be focusing on asset management and finance. These areas will not only benefit the fund in the future. These are graduates and professionals that we would be looking to hire to work for us, but also professionals who would go to the market in the rest of the country to support the financial sector and to support other sectors that need efficient management. So this type of expertise, in our perspective, is key for the country to develop and for the region as well.

In addition to that, we are setting up a hospitality school in Angola, open to regional nations, which is aimed at supporting the service sector and the hotel industry, which we believe is the doorway into additional investment in the country. Obviously, as a foreign investor, when one lands in the country one tends to stay in a hotel and the hotel tends to be the basis for the start of several businesses. In Africa, the number of international-standard hotel rooms is still relatively low. It is an area where we see a lot of potential for investment. But in order for this investment to reach its potential so that the African countries don't have to import both the labour and the type of supplies that these businesses

need, we need to develop internal capacity to first generate this service, to be able to manage these businesses and eventually to develop the supply chains that will cater for the output of the industry.

The key thing to notice here is that our approach to investment, being from a region of the world that has very different needs to the developed world, is not just on financial returns but is also on social returns. We see social returns, and even in some cases humanitarian assistance, as important because these are the efforts that tackle issues such as high child mortality. Angola, for instance, is a country that has one of the highest GDPs in Africa as well as having significant financial reserves; but it still has the second highest child mortality in Africa and lacks doctors and hospitals. Our approach to long-term investment is not purely financial; it also examines how future generations will be able to take advantage of the work that we do today.

In addition to improvements to child mortality, we can talk about an increase in employability which allows people to provide not only for themselves, but also for their families and for the whole economy. Up to 7.5 per cent of the endowments of the fund can be allocated to the social sector. This is how much commitment we believe is necessary, not only for finance-related issues but also to help the people of Angola make the most of whatever investment might come.

As most of you may know, Africa has been quite successful in attracting foreign direct investment (FDI), and has one of the highest rates of FDI growth. However, most participants in this event will agree that it is not fair to watch the continent's wealth and resources fly away, while most of its nations remain stagnant in terms of development. Something needs to be done to that end; but this task is usually left to governments. In a context where states have deficiencies in terms of institutional capacity, however, all actors able to help should assist in delivering – not only financially but also in terms of social returns to their populations which ultimately are the true owners of the assets they manage.

Approximately 49 per cent of the assets managed by SWFs are derived from oil and gas. The most visible funds tend not to invest so much in these industries but instead diversify their income sources away from their original capital providers. We believe that this demonstrates something very important: that they are attempting to support their national economies to become more stable, diverse and able to provide for their citizens in whatever situation arises in the future. In the case of Africa, we believe that investment starts with the people. By investing in the people and institutions, countries are prepared for any economic occurrence in the coming years.

Explaining the Emergence of Sovereign Wealth Funds in Africa

Hon. Mona Helen Quartey, Deputy Minister of Finance in Ghana, began her presentation by noting that African countries have been an integral part of the global trade architecture for decades, mainly as exporters of primary commodities. In recent times, there have been major discoveries in many African countries of natural resources such as oil, gas and minerals, and the potential for new discoveries is enormous. The Minister cautioned that, similar to Africa's prior experience with trading primary commodities, it will not be long before all the resources are exported with very little to show in terms of development in the continent as a whole. Therefore, resource-rich African countries are racing against time to implement a change to the status quo that will elevate their peoples from poverty and create first-class infrastructure that is consistent with the norms of economic development.

The Minister said that historical failures and the exhaustible nature of many natural resources have made many African governments, including Ghana's, think more about the future. Across Africa, years of corruption and wastage have widened income disparities and worsened the plight of the poorest. Existing infrastructure is in a dilapidated state despite receipts from past resource extractions. Ms Quartey described how in the past decade there has been an unprecedented move to develop spending and savings mechanisms that aim to guarantee value for money in investments and ensure inter-generational equity. These mechanisms have strict spending rules and guidelines to allow for optimal benefits, and are often created alongside 'rainy-day funds' as a defence against commodity price declines. These accounts and mechanisms mark the genesis of sovereign wealth funds in Africa.

There is some debate around what precisely constitutes a sovereign wealth fund. Ms Quartey defined SWFs as state-held investment funds that are financed by the proceeds of commodity exports, fiscal or trade surpluses and privatizations, with their main objective being investment in real or financial assets. She argued that SWFs must fulfil three key criteria to be characterized as such. First, they are owned by governments. Second, investment strategies must include investments in foreign financial assets and thus those funds which invest exclusively in domestic assets are excluded. Finally, they must be established by the government for macroeconomic purposes.

Building on Mr dos Santos's speech, Ms Quartey detailed the main features of the Angolan sovereign wealth fund. She said the fund was established in 2012 with an initial endowment of \$5 billion from petroleum proceeds, and created

in accordance with international government standards as stated in the Santiago Principles. Its portfolio is diversified across a number of industries and asset classes, including: global private and public stocks, bonds, foreign currencies, financial derivatives, commodities and infrastructure funds. The Minister noted that it initially focused on investing in the sub-Saharan hospitality sector through the establishment of a dedicated hotel fund. The hospitality sector is a common area for governments to encourage investment in developing countries as it holds substantial potential as a starting point for job and wealth creation. The Angolan government hopes that it will generate a local supply chain which positively impacts the raw economic growth of the region's local economies. Additionally, the fund will seek investments in infrastructure projects across sub-Saharan Africa to support sub-Saharan African economic development and try to benefit from the strong growth of the region as an investor.

The hospitality sector is a common area for governments to encourage investment in developing countries as it holds substantial potential as a starting point for job and wealth creation.

Comparing Angola's experience with its SWF to that of Nigeria, the Minister said that the Nigerian Sovereign Investment Authority Act was signed in May 2011 with the objective of managing the new Nigerian fund. The fund receives surplus income from Nigeria's hydrocarbon exports, investing the savings gained from the difference between budgeted and actual market prices for oil. In contrast to the Angolan fund, three sub-funds have been set up in Nigeria to receive finance for distinct purposes. The stabilization fund was set up to balance the national budget in times of petroleum revenues shortfalls. The future generation fund undertakes long-term investment in assets to provide savings for future generations. Lastly, the infrastructure fund invests in domestic infrastructure development.

Similar to both Angola and Nigeria, the Ghanaian SWF is a recent creation, having been established by the passing of the Petroleum Revenue Management Bill in April 2011. Ms Quartey described how, on discovering large petroleum deposits in July 2007, there was a consensus in Ghana on the need to learn from experiences with gold and cocoa revenues and avoid the pitfalls of resource management. An international forum was organized where oil-producing

countries were invited to make presentations on what has worked and what has not in their management of petroleum revenue. The forum was followed by a national consultation and a survey which covered all 10 administrative regions of Ghana to solicit the views of Ghanaians on how to manage future revenues. The survey areas included: revenue collection and allocation, how much to save and how much to spend of revenue, how to manage what is located for current spending, and transparency and accountability.

The respondents to the survey were almost unanimous in advocating that special funds be set up separate from the consolidated fund to receive petrol revenues to maximize the tracking and transparency of those revenues. In addition, Ms Quartey said that a majority of the respondents also proposed that at least 30 per cent of petroleum receipts of any year should be saved in a special account to be managed separately. She stated that a dedicated petroleum account has been established to receive petroleum funds, along with two accounts – the Ghana Stabilization Fund and the Ghana Heritage Fund – to receive the savings portions of the revenue. Combined, the value of the two savings funds currently stands at \$445 million.

The purpose of the Ghana Stabilization Fund is to cushion the impact on public expenditure capacity during periods of unanticipated petroleum revenue shortfalls, while the Ghana Heritage Fund will support development for future generations when petroleum reserves have been depleted. Ms Quartey emphasized that the results of the forum and survey were carefully evaluated to inform the properties of the fund, and find expression in many of the rules decided upon in its creation. One example of such is that withdrawals can only be made from the savings funds after 15 year intervals and under authorization from parliament. Recently, a third fund, called the Ghana Infrastructure Investment Fund, has been approved by parliament and is waiting presidential assent. The Minister argued that although Ghana has recently become a lower-middle-income country it does not have the infrastructure that accompanies that status. There is therefore an urgent need to grow that infrastructure which the Infrastructure Investment Fund will address. Ms Quartey said that this fund will help deal with Ghana's infrastructure deficit by focusing on the provision of funds for strategic infrastructure that will lead to job creation and economic growth. It will also facilitate the removal of self-financing projects from the government's debt stock and manage them as commercial projects, thereby freeing up public debt capacity.

The Minister concluded by asserting that the experiences that Africans have garnered from managing export revenues have informed a change in policy. The examples of Angola, Nigeria and Ghana indicate that governments have started to learn from past mistakes and now provide for future generations. In Ms Quartey's view, the creation of these legal frameworks and entities that safeguard inter-generational equity through prudent current investment and ring-fencing of inflows for future development shows that African countries are moving away from 'business as usual'.

As an Economic Analyst at the Natural Resource Governance Institute (NRGI), **Andrew Bauer** noted the organization's finding that there is a lack of information even in governments about what sovereign wealth funds specifically are, how they are governed and how they can go wrong. Mr Bauer reiterated Ms Quartey's definition of sovereign wealth funds as being government-owned, having a macroeconomic objective and having at least a portion of revenues invested in foreign assets. Conversely, he noted that entities such as central banks or state-owned companies do not fall under the definition. Consequently, there are currently 58 funds around the world that are financed by oil, gas and mineral revenues and can be defined as sovereign wealth funds.

Mr Bauer stated that the most commonly understood rationale for a country to set up a sovereign wealth fund is purely economic. This might be for reasons such as saving for future generations or avoiding the volatility issues and inflation associated with spending large amounts of revenue within a short time frame. However, there are also prominent non-economic motivations to set up funds. He said that the most common reason given to the NRGI by government officials wanting to set up an SWF is to ensure fund management autonomy from the whims of national governments. SWFs can achieve a more efficient execution of projects by ensuring that special types of revenue are aligned to their intended purpose, and an effective legislation process can ring-fence revenues to prevent corruption.

Although funds can be used to fight corruption, if not managed properly they can aggravate existing problems. Mr Bauer said that the least successful funds do not have a clear purpose at the outset. He stated that there are instances where funds have been less accountable and transparent even than the national budget process, which suggests that they were created to avoid public scrutiny and act as a vehicle for corrupt practices. This could have been the case in Libya under that country's previous regime, where the SWF held \$65 billion

but had very little transparency. During the recent global financial crisis, \$1.18 billion of a \$1.2 billion investment from this fund was lost through the payment of excessive fees and unscrupulous investments with friends of the Gaddafi government. In Kuwait in the 1980s, \$5 billion was lost due to a lack of diligence. Mr Bauer also cited the example of Russia, where poor accountability measures resulted in \$10 billion being withdrawn from a national welfare fund with no justification.

Wealth fund managers should be accountable to the legislature, independent supervisory bodies, the judiciary, civil society and the media.

The NRGF has identified several steps that governments should take in order to make sure that revenues are well spent. Mr Bauer reiterated that a clear objective must be set for the fund at the outset. The form of this objective must be according to a consensus between stakeholders and policy-makers regarding why the fund is being created. In addition, clear fiscal rules must be established. These rules govern when and how much money is deposited, as well as how often and under what circumstances money is withdrawn. Clear investment rules should also be formed. Investment rules might prohibit certain high-risk financial instruments or volatile currencies. Mr Bauer said he believes that particularly careful consideration should be given to the question of whether a sovereign wealth fund is allowed to invest in the domestic economy, based on the circumstances of the country itself.

It is essential that fund administrators implement a multi-layered and well-defined institutional structure. Mr Bauer highlighted Norway's fund structure as an illustration of good institutional management. He stated that in every stage of the management hierarchy in Norway's fund there are multiple layers of oversight, which has prevented malpractice. On top of a sound structure, he said that extensive disclosure and auditing should be legally required, with easy access to comprehensible legislation or quarterly reports that include governance rules, size of funds and specific assets. Finally, strong independent oversight must be established. Mr Bauer said that although internal controls are important, they must be combined with external pressure. Wealth fund managers should be accountable to the legislature, independent supervisory bodies, the judiciary, civil society and the media.

Malan Rietveld, Economics and Politics Researcher at the Vale Columbia Center of Columbia University, argued that one of the biggest challenges to African countries with sovereign wealth funds is ensuring a balance between different objectives. Although most countries would like to use their SWF to accomplish a range of goals, such as stabilizing volatile resource revenues, saving for the future or attracting foreign investors for developmental investments, over time the weight attached to any of these channels will shift substantially. Mr Rietveld said that operating a fund effectively in the long term depends on attaching the right amount of importance to its objectives that the context demands. He said that Harvard University is currently developing a quantitative framework which will indicate how best to manage these objectives under different scenarios and preferences.

While the creation of a fund is a relatively easy step, it garners a lot of media attention and generates a great deal of optimism. Mr Rietveld said that rising enthusiasm around SWFs in Africa is unambiguously a good thing; but there is a danger that it might overshadow the difficulties of running a fund long-term. He emphasized that the International Monetary Fund has made it clear that SWFs are not a panacea to developmental problems or even fiscal problems. Revenues may prove to be disappointing, due to an inefficient process or an overestimation in the amount of resources that are available, and the deposit rules must be sufficiently robust that countries can stick to them without destroying their economies. Having a robust fiscal framework in addition to a good policy framework is extremely important. In Mr Rietveld's view, there is a danger that African countries with SWFs may become complacent and expect fiscal policy to take care of itself. However, he said that preliminary evidence of counter-cyclical policy in African countries is a positive beginning.

Mr Rietveld made a case for accumulating financial assets through international savings. He said that although there is popular support for African countries having a stabilization fund, there is much less support for funds that undertake domestic investment. There can therefore be some ambiguity around what the reasons for saving actually are. Mr Rietveld said using the term 'savings' should be avoided, as revenues are really the outcome of a transformation of natural wealth into financial wealth. Financial wealth can be sustained far beyond the life-cycle of the resource and create a stream of investment income that is unrelated to the natural resources, and is much more stable and more easy to anticipate.

Mr Rietveld stated that, historically, the return on financial assets is quite compelling, particularly compared with attempts to invest in domestic assets, and this should always be taken into account when devoting revenues to development. Ultimately, however, having a balanced approach that diversifies assets, diversifies wealth and consequently diversifies revenue sources is more important than any single investment.

Q&A

Questions were asked on why countries such as Angola and Ghana have only recently created SWFs, despite having been exporting petroleum for decades. The speakers highlighted how the current peaceful and solvent context in which both Angola and Ghana find themselves is relatively recent, and that consequently the long-term planning to which SWFs are most suited has only recently become feasible.

On the issue of whether SWFs are especially susceptible to corruption, it was argued that broad and stringent oversight mechanisms must be implemented to ensure that this does not happen. In Ghana, for example, several autonomous oversight bodies independently drew attention to the fact that money needed to be removed from the stabilization fund, as its holding amount had exceeded the cap of \$250 million. Not only do these practices ensure that SWFs function effectively, but they also improve public faith in anti-corruption mechanisms.

When asked why spending should be channelled through SWFs rather than relevant government ministries, it was argued that the priorities and programmes supported by SWF funding do not overlap with government programmes, and this separation in funding is therefore appropriate. As long as there are strict oversight mechanisms with clear rules on investment criteria for SWFs, this remains a suitable arrangement.

The problem of capital scarcity for fledgling businesses in Africa was highlighted as being one of the most pressing challenges to development in sub-Saharan Africa, and it was emphasized that SWFs are almost unique in being able to provide capital. However, it was noted that if the fund does not abide by its own investment policies and capital is withdrawn at inappropriate times, the SWF will quickly exhaust its wealth. Funds such as the FSDEA are attempting to overcome this by implementing strict guidelines and creating special-purpose

investment vehicles with high levels of expertise in specific sectors. Overall though, there remains little consensus on this, as existing institutions have often been plagued by corruption and patronage.

When asked how governments can enforce SWF accountability, it was emphasized that rigorous oversight mechanisms are crucial, despite being expensive and time-consuming. In Ghana, parliament is responsible for producing the initial legislation that governs the behaviour of the fund. It is supported in this by civil society groups, to whom it is accountable. In Angola, extensive audits and financial reports are undertaken on a quarterly basis and any discrepancies are investigated by parliament.

The issue of human resource requirements for SWFs was considered. SWFs with long-term strategies tend to require higher levels of expertise in their management, and it is therefore common for funds to hire externally. This is of course dependent on the complexity of the investment strategy: a less complex strategy will require less expertise and a smaller management team. The FSDEA is training citizens in finance and risk management to allow more domestic hiring; but this is complicated by the wide range of investments that the fund undertakes.

The example of Angola was also put forward as a case where a stabilization fund was created at the recommendation of the IMF, but the SWF has been far more active. It was noted how untouched money from the stabilization fund was invested in the SWF on a long-term basis, to safeguard against it being used inappropriately in the future or being eroded by inflation. Furthermore, it was emphasized that there is very little overlap between the FSDEA and the Angolan national oil company, Sonangol, and that there has never been a case where assets have gone from one entity to the other.

Best Practices for Investment Management and Governance

Hon. Birima Mangara, Minister of Budget in Senegal, began by providing a brief history of the Senegalese Strategic Investment Fund (FONSIS). He said that the fund was set up by the president of Senegal in 2012 in accordance with the Santiago Principles. Its aim is to develop investment, working both on its own and through private investor partnerships. It is hoped that through investments it will promote lasting employment while maintaining sufficient reserves to benefit future generations.

Mr Mangara stated that the fund invests in diverse sectors in the domestic economy, including: infrastructure, industry, energy, tourism, mining, real estate, information technologies and health. The Senegalese government has made it a priority to attract world-leading experts in the fields of banking investments and equity to manage the fund, and economists with experience in the sectors that will receive investment. The Minister said that the fund's initial capital of \$2 billion was allocated from the state budget rather than resource revenues, in contrast to most SWFs in Africa. This distribution of funds is part of the wider plan 'Emerging Senegal'. The plan aims ultimately to free Senegal from poverty by promoting the conditions required for growth, in particular improving the education and healthcare sectors. The Minister said that 100 separate projects have been launched, while 17 major reforms are being considered to facilitate their implementation. The creation and management of FONSIS is therefore part of a much larger administrative and logistical challenge for Senegal.

The Minister said that FONSIS's policy action plan has not yet been finalized and that roundtable discussions are proceeding with both technical and financial partners to devise joint investments for the major projects. The fund is managed by a strategic orientation committee that is administered by a general director and has executive committees submitted to its authority.

The Director of Institutional Investor's Sovereign Wealth Center, **Dr Victoria Barbary**, described the difficulties that African countries have historically faced in managing sovereign wealth funds. She said that Chad's fund was repurposed in 2005 for military spending, while Mauritania's fund has not received any payments since 2008. Nigeria's sovereign investment agency has recently suffered a setback as it is currently being forced to defend its legality in court. Dr Barbary stated that the most valuable lesson African countries can learn from these examples is to clearly delineate what their fund is for, what is expected from it and what returns should be.

Dr Barbary explained that the most popular SWF model in Africa is one fund above separate investment portfolios, each of which has a distinct mandate. For example, in Nigeria's case there are portfolios for stabilization, savings and infrastructure. This is distinctly different from the Middle Eastern model, where there tends to be a proliferation of funds and each is independent. She described how most sovereign wealth funds begin with investing in low-risk bonds and over time increase risks, eventually investing in private equity. Following the financial crisis, funds generally brought their asset managers in-house; but they have started reversing this trend due to the high cost of building internal capacity. Funds are now partnering with asset managers, custodial bankers and investment bankers to create more transparent relationships and leveraging their expertise.

Although there are immediate, tangible needs for African populations in terms of infrastructure, education and healthcare, Dr Barbary said that she does not believe SWFs should finance domestic investment in projects that could be covered by the government budget unless that is their stated aim. This is because macroeconomic capacity for saving and stabilization is just as important as more tangible improvements to livelihoods. Not maintaining a fiscal balance can lead to difficulties such as those experienced by Ghana, where the national debt has presented a challenge to the management of the Ghana Petroleum Fund.

Dr Barbary emphasized that countries where strong institutions and public trust in politicians is lacking will face more challenges than developed nations.

Globally established and successful funds are found where there is a robust state structure and strong trust in fund administrators. In Dr Barbary's view, building a consensus concerning the management and goals for the fund is exceptionally important, as is preserving transparency between the fund and stakeholders. Dr Barbary emphasized that countries where strong institutions and public trust in politicians is lacking will face more challenges than developed nations. She advised that resource-rich countries leverage internal capacity with external expertise and experience, in addition to working closely with the International Monetary Fund and the Extractive Industries Transparency Initiative. This can offset the negative effects of weak institutional capacity and high corruption. This has been the case in Azerbaijan, whose sovereign wealth fund assets have increased to \$37.6 billion today from less than \$300 million in 1999.

Dr Barbary considered a lack of expertise to have contributed to the chronic mismanagement of Libya's sovereign wealth fund, where the investment authority is currently going through two major lawsuits. She advised that using an effective custodian, which may be either commercial or non-commercial, can be helpful in educating finance ministry and central bank staff in the specific areas required for good management. However, she also warned that holding money with a custodian rather than a central bank can sometimes result in a lack of transparency and accounts being subsumed into the general budget.

Jennifer Johnson-Calari, an adviser in sovereign wealth governance and management, began by noting that African countries have been greatly affected in the past by the 'resource curse'. However, she said that encouragement should be taken from a recent IMF study that found that while resource-rich developing countries tended to fare worse in several economic markers than similar countries without resources, this gap closed significantly between 2002 and 2012. In Ms Johnson-Calari's view, the impact of sovereign wealth funds on strengthening governance may be responsible for the change.

The speaker briefly discussed the nature of the Santiago Principles, a set of 24 guidelines that assign best practices for SWF operations. The Santiago Principles are not regulations, but rather a voluntary general code to inform domestic regulation and investment policies. Ms Johnson-Calari described the Principles as an aspirational document, signifying a commitment to bring operations in line with internationally agreed recommendations. She stated that Africa can derive a huge benefit from the collective experience of existing wealth funds. One of the most important lessons learned from the global experience is ensuring the separation of the government as the owner from the management of its investments. Emphasizing this boundary, the Principles dictate that SWFs should be accountable to governments but independent from them.

Ms Johnson-Calari noted that funds that invest domestically are particularly at risk of suffering from corruption, and the yields of direct domestic investments are poor due to the effects of 'Dutch disease'. Other problems with domestic investment arise from the concentration of risks. She explained that during commodity boom times, revenues flow into the fund and domestic investments tend to do well. During bust times the reverse holds true. Investing globally diversifies income and can lower the volatility of government revenues. For these reasons nearly all sovereign wealth funds restrict their investments to overseas shares.

Ms Johnson-Calari ended with a warning that in emerging market countries, building the asset management capacity necessary to invest overseas is extremely challenging. She explained that nationals with investment management skills are bid up in the international market place, and official sector institutions may not be able to compete even for local talent. Moreover, global portfolio management is data-intensive and requires expensive systems that typically need to be customized. African countries with SWFs will have to put a great deal of resources into ensuring they attain the right management capacity if they are to be successful.

Michael Maduell, President of the Sovereign Wealth Fund Institute, disagreed with Ms Johnson-Calari's analysis and argued that there are several positive examples of funds investing domestically. He identified the Abu Dhabi-based Mubadala Development Corps as having successfully attracted high-paying technology jobs into the United Arab Emirates. In addition, he argued that the Kuwait Investment Authority managed to rebuild the nation's infrastructure after 1991, while Ireland's national pension reserve fund was successfully transformed into a strategic development fund that focuses on encouraging private equity funds and third parties to invest in Ireland's economy.

Mr Maduell described how sovereign wealth funds have become more influential in the global economy. He said that in the span of a few years total SWF investments have increased to \$6.7 trillion from \$3.5 trillion. In 2013, the Sovereign Wealth Fund Institute recorded 100 billion more direct transactions than it had in 2007. In Mr Maduell's view, this shows that sovereign wealth funds are becoming bolder despite the financial crisis. He stated that willingness to make transactions transparent may be affected as a result.

Mr Maduell elaborated on possible reasons for governments and administrators being reluctant to make SWFs fully transparent. Many funds are competing with their neighbours for investment opportunities, and the open information flows enabled by being transparent would put them on an unequal footing. Furthermore, if a population feels it is not directly benefiting from a fund's wealth, then being open about the extent of its assets may cause civil unrest. Finally, becoming truly transparent is expensive and time-consuming and may undermine capital promotion efforts.

Q&A

The Q&A focused on investments made for strategic interests, membership of the International Forum of Sovereign Wealth Funds (IFSWF) and how SWFs' institutional capability can be improved in Africa.

It was highlighted that significant progress has been made in establishing audits, checks and balances and independence from government interference. This has been as a consequence of the general agreement that corruption, more than anything else, facilitated the demise of failed SWFs in Africa.

With regard to improving funds' financial returns, it was mentioned that the US Treasury is currently engaged in a capacity-building programme in which it partners with developing countries to help build their investment management capability. It is hoped that this will reduce the disadvantage African countries face in attracting the best talent to their SWFs. There was a consensus among the speakers that 'on the job' instruction is far more effective than formal education when training new managers. It was also agreed that African states should make better use of their asset managers in this respect.

There were some concerns about funds being used for strategic rather than economic purposes. It was argued that strategic investments that undermine another country's economy or defence are not in the interests of SWFs. As these institutions ultimately exist for financial gain, and strategic investments have an undesirable effect on the free flow of capital, such policies would be counterproductive. However, it was further noted that the only way to guarantee that a fund would only be used to create capital is to ensure executive separation from political interference.

A question was asked about why the IFSWF group represents so few funds despite being the leading global body on SWF management. Although the IFSWF only has 28 members, this group is comprised of the most established and best run funds. Some organizations which are informally referred to as SWFs do not fit the criteria set by the group and are thus excluded from becoming members.

The Social and Political Impacts of Sovereign Wealth Funds

Drawing on his experience in the banking sector, **Virgil Mendoza**, Head of Central Banks for Standard Bank, discussed some of the potential issues associated with setting up SWFs in Africa. He first described how SWFs are traditionally conceived of as stabilization funds or buffers for countries that are dependent on a single commodity. He described how this model may be very attractive, as it allows funds to be invested in assets that are non-related or negatively related to that on which the country is dependent. As such, it allows countries to survive situations of government revenue collapse caused by market fluctuations.

The speaker then went on to highlight the costs of setting up SWFs in Africa, when the need for immediate investment in infrastructure is so great. He argued that citizens should expect their politicians to manage budgets prudently, and that SWFs should therefore be unnecessary. Where they do exist, SWFs could even create moral hazards, with politicians viewing the funds as safety nets that allow mismanagement to proliferate. This may even breed contempt within the government. Instead, SWFs should be managed to benefit the economic growth of the country. Mr Mendoza highlighted the example of Alberta, Canada, where citizens are issued a dividend from the profits of the SWF in an effort to stimulate consumption and effectively distribute wealth.

To support this, Mr Mendoza argued that the right institutional framework is crucial to the success of new SWFs. He reflected on the Norwegian SWF's extremely high standards of accountability, transparency and independence, describing it as an exception to the global rule. He explained how situations such as the global financial crisis had significantly affected emerging countries, and how many of them had utilized their SWF assets instead of their foreign reserves in order to maintain the value of their currencies and alleviate liquidity problems in local markets. The speaker described this as inappropriate and unjustifiable, as SWFs are meant to be completely independent from their monetary authority. If reserves are not adequate to cope with the requirement of such extreme situations, Mr Mendoza argued that adequacy levels should be re-evaluated and reserves adjusted accordingly.

The main reason for his concern was that SWFs have no accountability to central banks, which are the guardians of financial stability and responsible for implementing monetary policy. Additionally, SWFs lack transparency: only a third of SWFs globally meet transparency standards set by the IFSWF; in Africa this is one in 10. He cited Venezuela as an example of poor institutional

standards allowing huge mismanagement, such that the central bank cannot undertake its normal activities. He concluded that there is potential in Africa for existing SWFs to be used to promote domestic economic growth in strategic sectors.

Continuing the theme of transparency and accountability, **Vidar Ovesen**, an independent consultant on oil and gas revenue management and a former Norwegian Deputy Minister of Finance, argued that strong governance structures are essential for SWFs. He focused on the example of Norway, describing how the country spent all its annual resource revenues for 25 years before it created its SWF. The fund then developed into its current state over the next 18 years. The speaker stressed the need for context-specific institutional frameworks which take into account the challenges, risks, absorptive capacity and infrastructure development of each economy. He also noted that countries in Africa can learn from international best practice in governance, accountability and transparency.

Mr Ovesen explained how political accountability and transparency are crucial for SWFs, as they help to prevent corruption, waste, bad governance and poor management, as well as allowing civil society to hold the government accountable. Most importantly, the speaker explained how citizens have a legitimate right to know how government revenues are managed. He provided the examples of South Sudan, where 98 per cent of government revenues derive from petroleum, and Timor-Leste, where 95 per cent derive from oil and gas. Increasing accountability builds public confidence and legitimacy of SWF management.

Mr Ovesen explained how political accountability and transparency are crucial for SWFs, as they help to prevent corruption, waste, bad governance and poor management, as well as allowing civil society to hold the government accountable.

To encourage this, he described four prerequisites. The first is adequate legal and institutional frameworks that cater for good governance, transparency and accountability. It is crucial to ensure that these are not only implemented, but also complied with – something that can often be underestimated. A second prerequisite is clear and publicly disclosed objectives and performance reports for investments and staff. These inform investment policy, organizational structure and risk appetite, as well as allowing civil society and other

stakeholders to hold the government accountable. Additionally, there must be a clear division of duties between the owner and operational manager of the SWF, with adequate checks and balances and independent investment management. Politicians must decide how much risk the fund should be subject to, as well as managing overall investment strategies; but they must leave day-to-day decisions to general management. This requires openness about the roles and duties of government to ensure that people can track who is making which decisions with respect to the management of the fund. Finally, it is crucial that there are rules for transfers and withdrawals from the fund, with the funds and the revenue stream being comprehensively integrated into the budget process.

Mr Ovesen then considered whether SWFs should invest domestically. He described how it is important to ensure that all spending goes through a budget process involving parliament to ensure public scrutiny. This is crucial from a macroeconomic perspective, particularly when the fund is very large. He acknowledged that this is a controversial viewpoint, but argued that it is based on Norway's SWF experience and has been applied successfully in Timor-Leste and Ghana.

The speaker concluded by returning to the example of Norway. He described how the Norwegian SWF discloses all of its investment in every company in which it invests. He acknowledged that this has an impact on resource allocation within the fund, but described similar successful schemes in Timor-Leste and Ghana. He emphasized that this is particularly important in countries where capacity is low and civil society lacks capacity to challenge public decisions. In Norway, an emphasis on broad-based consensus on all decisions relating to SWF management, with stakeholder consultations and publicly accessible results, has contributed to the sustainability of the investment strategy, particularly during the financial crisis.

Dr Håvard Halland, a World Bank economist, considered the issue of domestic investment by SWFs. He noted how it is currently only the Gulf states' and some African SWFs that are investing domestically. These funds tend to have a development objective and focus largely on infrastructure. He explained how funds that invest abroad, such as Norway's, tend to use the permanent income hypothesis. However, if domestic expenditures are treated as investments rather than consumption, then the permanent income hypothesis is challenged. Additionally, the infrastructure funding gap motivates this type of expenditure.

He described the conflict of interest that arises when the state is both the source of funds and the investment promoter. As there is only macro-absorptive capacity and institutional absorptive capacity to constrain spending, various risks arise including: pro-cyclical investments, which may exacerbate macro volatility; inflating asset bubbles; potential duplication of the national budget; bypassing parliamentary scrutiny of spending; and undermining the quality of public investment or wealth objectives of the SWF. He went on to explain how SWFs have zero cost of capital, as there is no direct accountability to any external body outside the government and the fund is not funded by tax revenue. This potentially raises the risk of diluted accountability, which is exacerbated in domestic investment where the pressures may be higher.

However, the alternatives are not risk-free: savings funds may be raided by the next government and budgetary spending may have little oversight too. Additionally, Dr Halland also acknowledged that by investing domestically the fund is able to utilize its local expertise, bringing in external specialists and maintaining a wealth focus which might not be achievable through a budget process. If the fund takes a minority position in an investment, it can benefit from the integrity and scrutiny of the other partners, as well as the capacity for due diligence and asset management. Investing in projects with below-market returns may allow the fund to attract private sector investors and external specialists to projects that might not otherwise be entirely bankable. Whichever way the fund invests, it must balance financial and economic returns (which may be extremely difficult to quantify).

Finally, the speaker discussed the trade-off between financial and economic returns. He described economic returns as having spill-over effects, which can be extremely difficult to measure and quantify. Fund management should not be assessed on purely financial returns: for example, the New Zealand SWF invests on purely commercial bases, but invests only in well-developed markets and largely focuses on risky greenfield investments that might not be bankable on purely commercial terms. Under these parameters, only a small range of infrastructure projects would be suitable for investment by SWFs. An acceptable financial return in addition to the economic return is necessary. To ensure this, Dr Halland concluded that it is necessary: to have a transparent process, to crowd in private partners, to limit the effect of political pressures through using minority partners, to ensure due diligence and to ensure the arrangement doesn't overly favour private investors in joint projects.

Focusing on the Gulf states, **Dr Sara Bazoobandi**, Associate Fellow of the Middle East and North Africa Programme, Chatham House, looked at how the Gulf Cooperation Council (GCC) has benefited from rising oil prices, which allowed GCC SWFs to establish themselves, diversify their investments and establish their own brand names. She explored the pattern of GCC investment over the past decade and discussed the integral linkages between the economic and political interests of GCC SWFs.

The speaker explained how several GCC countries, such as the United Arab Emirates and Saudi Arabia, established their SWFs straight after becoming independent. The Kuwaiti SWF was established by a group of British bankers before the country gained independence. Since then, increasing oil prices over the past 50 years have produced huge sums of money for SWFs in these wealthy countries with small populations. As such, SWFs in the Gulf have been able to act as: stabilizers for government income during internal and external pressures; intergenerational savings funds; facilities to establish the GCC states and markets as brand names globally; and investment arms to promote economic diversification and to support social and economic development projects.

Dr Bazoobandi detailed how the global economic environment has influenced the investment practices of Gulf SWFs, with an initial period of 'flashy investments' during the first decade of the 21st century when the GCC favoured investments aimed at establishing their brand and profit maximization. During the financial crisis, they stepped in to rescue Western financial institutions. This period was followed by a focus on transparency debates, which prompted a re-evaluation of some investment practices. Subsequently, GCC SWFs were affected by global uncertainty over the dollar, as oil prices had historically been pegged to the dollar and as such GCC SWFs had been largely invested in dollar funds. The financial crisis prompted debates over this strategy. When this was followed quickly by the Eurozone crisis, GCC SWFs were forced to refocus their investments on emerging markets and their currencies. From 2012 to 2013, GCC investments in Western Europe went from 19 per cent to 6 per cent of the GCC portfolio. Most recently, Dr Bazoobandi said the Arab Spring had highlighted issues of youth unemployment and accountability much closer to home, compelling SWFs to move investment to the Gulf region. During 2012, GCC SWF investment in home regions went from 53 per cent to 66 per cent.

The speaker concluded by discussing how difficult it can be to separate the economic and political interests of SWFs in the Gulf. She outlined how diversification and social and political instability are priorities for the GCC states, and how the Arab Spring demonstrated that these issues are only moving closer to home.

Q&A

A number of concerns were raised over the definitions of sovereign wealth fund that were being used throughout the presentations, with some mentioning that the definition was too vague to be of much use. These definitional questions have an impact on the role and expectations of SWFs and what are considered to be appropriate investment strategies. For example, they determine what the appropriate level of domestic investment is and whether certain investments should be pursued through SWFs at all.

In response to a question on assessing the returns on investments, it was agreed that while benchmarks must be individually defined and established for each case, it can be difficult to measure externalities that permit markdowns on these benchmark rates.

A question was asked on the possibility of countries with SWFs choosing not to maximize their rates of production of their respective natural resources so as to save them for future generations. The panel thought it unlikely that this would occur in the near future, as oil prices are likely only to decrease as alternative energy sources are institutionalized over the next few years. A comment was made that there has been considerable anxiety within the GCC over the possible effects of shale gas exploitation in the US, and the effect that this will have on GCC SWF income.

A point was made on whether full democracy is a necessary prerequisite for political accountability. The panel responded that SWFs reflect the social, political and economic identities of the societies and of the sovereigns that establish them. A Norwegian 'culture', for example, is completely different from the autocratic contexts of the GCC.

African Sovereign Wealth Funds in the International Financial System

Dr Larry Backer, Professor of Law and International Affairs at Pennsylvania State University, opened the session with a discussion of nine different strategies that African SWFs should consider to allow them to develop according to their specific needs and context, as well as taking advantage of the benefits of globalization. He first explained how African states are increasingly turning to SWFs as the next great instrument of financial policy. This move has been encouraged by the World Bank and the IMF, and reflects both African needs and a process of increased socialization of African finance within emerging global system norms. Historically, international financial institutions have managed Africa's SWF socialization through loan conditionalities, technical assistance, monitoring and reporting.

Dr Backer then described what he considers the two uses of SWFs: for macro-financial stabilization, development and wealth management; and in ex-colonies, for fiscal and institutional governance discipline. He argued that African SWFs are generally relatively small and inexperienced, and that each is acting individually but within a network of SWFs. The speaker described this as being reflective of pre-Second World War single-state-based development, which is oblivious to the interconnectivity that defines the current global economy. It is a relic of economic self-sufficiency through industrialization, which was promoted in the 1960s and 1970s, where planned economies and the New Economic Order were the dominant industrial paradigms. Dr Backer argued that African SWFs need to focus strategies away from old-fashioned and destructive state-based notions of financing governments to one that is able to leverage the structures of globalization to the benefit of the country or area.

He next outlined his nine suggested strategies for African SWFs to help them overcome what he described as these potentially destructive practices. He first proposed the establishment of an African SWF working group, with a focus on promoting regionalization over territorialization. This working group should create a secretariat to promote research and provide monitoring and technical assistance that is African-derived and African-focused, as well as generating a unique set of African Santiago Principles.

Second, international financial institutions (IFIs) should provide technical assistance on a regional basis. SWF strategies should be clustered by region within the continent, and should be grounded in their respective regional contexts. The speaker argued that the single-state approach currently promoted by IFIs is a 'divide and conquer' approach. This approach is not only irrelevant, but also fosters financial dependency.

Next, Dr Backer argued that greater transparency is crucial. This transparency must be both internal – to ensure engagement with national stakeholders and reduce links to elected officials – and external – to ensure adequate communication with investors inside and outside the jurisdiction.

Additionally, SWF operations should be detached from government discretionary decision-making. Engagement with official and political communities should be constrained, especially with respect to individual investment decisions. Discretionary power to deviate from specified formulae should be reduced, even for paid experts. Methods should be tailored to each country and a one-size-fits-all approach should never be used.

Fifth, SWF objectives should be refocused to make them coherent with the portfolios of the finance and development ministries in their respective countries. Specialization should be encouraged, in order to minimize waste and duplication with development banks and state-owned resource extractive enterprises.

Dr Backer urged a reconsideration of the stabilization and development model for SWFs, especially in resource-rich states and those with weak governance mechanisms.

There should be a focus on regional intra-SWF investment and development projects. Aggregating projects encourages discipline and reduces the risk of abuse. It also allows the leveraging of a larger capital base, and helps to focus cross-investment on a regional basis.

Furthermore, non-regional SWF deals should be promoted. The speaker cited the examples of Russia, Korea and China, which are all using this strategy. This technique provides another source of discipline and a means of leveraging investments for small funds.

Penultimately, Dr Backer urged a reconsideration of the stabilization and development model for SWFs, especially in resource-rich states and those with weak governance mechanisms. This model is tied to the outdated central planning model, which is irrelevant to market-oriented globalization models. This means developing the necessary infrastructure to allow the growth of indigenous markets from the bottom up. The speaker argued that sectoral

incentives do not work, and that market capacity must be grown through the development of relevant instruments.

Dr Backer concluded by advocating a change to IFI conditionality clauses to better target rewards for good performance. Reductions should be awarded for compliance with fiscal results, governance and the incorporation of technical assistance advice. IFIs should incorporate international business norms on human rights, including human rights due diligence, in their technical assistance to African SWFs.

Speaking from an accounting and finance perspective, **Dr Surendranath Jory** of the University of Sussex argued that Africa should set up more SWFs. He proposed that they make financial surpluses visible. By investing overseas, SWFs necessitate proper monitoring, performance evaluation and accountability, and may also partially resolve the widespread issue of underreporting by governments. SWFs control around three per cent of global assets under management and so, although not huge players compared with pension and mutual funds, are still significant actors.

The speaker went on to highlight the challenges around measuring fund performance as figures are often reported in a way that makes this challenging. Additionally, investment strategies are often aimed at long-term social welfare rather than short-term financial gains. Dr Jory also emphasized the issues associated with data availability on SWFs, as performance reporting may be politically motivated and focus on the more successful funds. He highlighted how during the financial crisis SWFs invested in real estate, joint ventures, hedge funds, banks, private equity groups, infrastructure projects and bonds. As such, they are not leveraged and so did not suffer excessively during the crisis, and are unlikely to pose a systemic risk to global financial systems.

He explained how 2013 saw US\$56 billion of foreign direct investment into Africa, and argued that this demonstrates that the opportunity to invest in the continent does exist and there are significant foreign investors in the region. He concluded that SWFs' involvement in Africa is significant, and that they can benefit from one another in the long term as well as contributing to international financial flows.

Dr Adam Dixon of the University of Bristol addressed the international implications of new African SWFs on the IFSWF and the Santiago Principles, both of which play a key role in defining international SWF norms. He

argued that any potential influence in geopolitics and international economic relations that African SWFs will develop is ultimately contingent on their form and function, for example their organization forms, capabilities as institutional investors and their political and economic purposes. He maintained that, overall, SWFs should be considered as benign pools of capital chasing risk-adjusted returns, and that their emergence should be viewed positively by international actors.

He addressed the effects of the Angolan and Nigerian SWFs recently joining the IFSWF. It is likely that more African SWFs will want to join the Forum as they develop. The speaker argued that the inclusion of African SWFs in the IFSWF will not only allow them to benefit from the knowledge-sharing that the Forum facilitates, but will also benefit the Forum itself by increasing its profile and subjecting it to greater scrutiny. On the other hand, though, the geopolitical tasks asked of the IFSWF and the Santiago Principles are diminishing, and are significantly less than they were in 2005. However, they do still have a significant role in fermenting international norms.

Dr Dixon also considered the calls for co-investment by SWFs and private partners, arguing that while collaboration may lend legitimacy to SWFs, scepticism remains on issues such as land-grabbing by foreign investors. He considered it unlikely that investment management capacity could be developed endogenously, but used the example of Nigeria to illustrate how SWFs can utilize the skills of a country's diaspora. Angola, on the other hand, is sending its professionals overseas to train. Dr Dixon concluded by arguing for stronger implementation of the Santiago Principles, emphasizing the importance of effective governance structures for domestic investment.

Q&A

The Q&A focused on regionalization and supporting endogenous infrastructure to support the growth of SWFs in Africa. It was agreed that the strategic importance of SWFs may hinder efforts towards regionalization within the continent. The separation of political, financial and development objectives for SWFs is crucial to overcoming this issue. Additionally, it was suggested that adhering rigidly to state boundaries may only be detrimental to African countries.

A concern was raised as to how to remove direct political interests in funds that are run by governments. It was posited that removing political interests may make the fund a *de facto* private sector enterprise. The panel answered that that the divisions between the public and private sphere have become fractured. The state has become porous and governance has become permeable. Historically, governments were responsible for managing pension funds and did so running a deficit. This example was given to demonstrate how public sector management can work in SWFs.

On the issue of how to create asset management capacity within Africa, caution was advised when advocating higher pay to attract better talent. Caution would avoid transferring the excessive and unsustainable compensation seen in the private financial sector to the public sector. However, questions still remain around long-term financial viability.

Questions were also asked on the problem of balancing benefit to future generations while still providing for current generations. It was emphasized that the role of SWFs should be to support development now, and that it is possible to balance long-term planning with immediate development objectives.

Conference Programme

Chatham House, London, 5 September 2014

09:00–09:30 **Keynote Address**

José Filomeno de Sousa dos Santos, Chairman of the Board of Directors, Fundo Soberano de Angola

09:30–11:00 **Session 1: Explaining the Emergence of SWFs in Africa**

Preserving Export Income for Future Generations in Ghana:
Hon. Mona Helen Quartey, Deputy Minister of Finance,
Republic of Ghana

Form and function: The Search for Context-Appropriate
Sovereign Wealth Funds in Africa: Malan Rietveld, Economics
and Politics Researcher, Vale Columbia Center, Columbia
University

Why Governments Establish SWFs and How to Make Them
Work Well: Andrew Bauer, Economic Analyst, Natural Resource
Governance Institute

Chair: Alex Vines OBE, Director, Area Studies and International
Law; and Head, Africa Programme, Chatham House

11:00–11:30 **Coffee**

11:30–13:00 **Session 2: Best Practices for Investment Management
and Governance**

Strengthening Governance and Building Investment
Management Capacity: Dr Victoria Barbary, Director,
Institutional Investor's Sovereign Wealth Center

African SWFs and the Santiago Principles: Jennifer Johnson-
Calari, Adviser, Sovereign Wealth Governance and Management

Measuring Transparency: Michael Maduell, President,
Sovereign Wealth Fund Institute

Developing Best Practice Principles: The Case of Norway:
Dr Ashby Monk, Senior Research Associate, University of Oxford

Chair: Jonathan Rosenthal, Africa Editor, The Economist

13:00–14:00 **Lunch**

14:00–15:30 **Session 3: The Social and Political Impacts of SWFs**

Stabilizer or Domestic Institutional Investor: What Role for SWFs in Africa? Virgil Mendoza, Head of Central Banks, Standard Bank

Political Accountability of SWFs: Vidar Ovesen, Independent Consultant on Oil and Gas Revenue Management; Deputy Minister of Finance, Government of Norway (2000–2001)

Is Domestic Investment for Long-Term Gains Achievable? Dr Håvard Halland, Economist, World Bank

Financing Development: Lessons from the Gulf: Dr Sara Bazoobandi, Associate Fellow, Middle East and North Africa Programme, Chatham House

Chair: Elizabeth Donnelly, Assistant Head and Research Fellow, Africa Programme, Chatham House

15:30–16:00 **Coffee**

16:00–17:30 **Session 4: African SWFs in the International Financial System**

International Monitoring and Oversight: Africa's Increasing Presence: Dr Larry Backer, Professor of Law and International Affairs, Pennsylvania State University

SWFs and International Financial Markets: Dr Surendranath Jory, Lecturer in Accounting and Finance, University of Sussex

Leveraging Influence: The International Political Implications of African SWFs: Dr Adam Dixon, Associate Professor, University of Bristol

Chair: Razia Khan, Managing Director, Head, Africa Macro, Global Research, Standard Chartered Bank

Biographies

Alex Vines OBE has been head of the Africa Programme at Chatham House since 2002 and in 2008 became Director for Regional Studies and International Security. In 2012 he was appointed Director for Area Studies and International Law. He chaired the UN Panel of Experts on Côte d'Ivoire from 2005 to 2007, and was a member of the UN Panel of Experts on Liberia from 2001 to 2003. He has been a UN Election Officer in Mozambique and Angola, and served as a Consultant for the UN Office on Drugs and Crime and for the Economic Community of West African States (ECOWAS). He worked at Human Rights Watch as a Senior Researcher on business and human rights. He is also a Senior Lecturer at Coventry University. He was awarded an OBE in 2008 in recognition of his work, including for founding and developing Chatham House's Africa Programme.

José Filomeno de Sousa dos Santos is the Chairman of the Board of Directors of the Fundo Soberano de Angola (FSDEA). He joined the FSDEA as a member of the board in 2012 and became Chairman in June 2013. Prior to this appointment, Mr Filomeno dos Santos worked across a number of industries including in trading, transport, insurance and finance. He holds a Master's degree in Information Management and Finance from Westminster University and has published a number of articles on project finance and economics.

Hon. Mona Helen Quartey is the Deputy Minister of Finance for the Republic of Ghana. She has a broad range of experience in treasury, risk management and corporate finance in both the corporate and government environments, having worked at a number of financial organizations including BVM Financial Advisory Services, Citibank NA, American Express, Ashanti Goldfields and Ecobank. Ms Quartey currently holds directorship positions in companies including Golden Star Resources, the Ghana Water Company and SIMNET Ghana. She was previously a non-Executive Director of Merchant Bank.

Malan Rietveld is an Economics and Politics Researcher at the Columbia Center on Sustainable Investment at Columbia University. He focuses on policies on investment in the extractive industries, including resource-related infrastructure, foreign direct investment and the management of resource revenues. Mr Malan previously worked at Investec Asset Management as part of the Emerging Market Debt Team. He also contributed to Investec's advisory work with central banks and sovereign wealth funds. Prior to this, Mr Malan worked at Central Banking Publications and the Official Monetary and Financial Institutions Forum. He has edited three books on sovereign wealth funds. He holds MSc degrees from the University of Leuven and the London School of Economics.

Andrew Bauer is an Economic Analyst with the Natural Resource Governance Institute (NRGI), where he works with government officials, parliamentarians and civil society groups on issues of oil, gas and mineral revenue management, intergovernmental transfers and local content. He is the Co-Director of the NRGI's Natural Resource Fund Project and has provided technical advice on sovereign wealth fund governance to a number of governments. Mr Bauer previously held positions with the Canadian Department of Finance, the Commission on Human Rights and Administrative Justice in Ghana, UNICEF, Transparency International and Debt Relief International.

Hon. Birima Mangara is the Minister Delegate at the Ministry of Economy, Finance and Planning, with responsibility for the budget of the Republic of Senegal. He was previously the Inspector-General and has served in a variety of governmental roles, including as Minister of Housing and Deputy Director of the President's Office. Mr Mangara is a Knight of the National Order of the Lion in Senegal.

Dr Victoria Barbary is the Director of Institutional Investor's Sovereign Wealth Center (IISWC). She is also a Non-Resident Fellow at the ESADE Business School's Center for Global Economy and Geopolitics. Previously, Dr Barbary was a Senior Researcher at the Sovereign Investment Lab at Bocconi University. Before joining IISWC, Dr Barbary was the Senior Analyst in the Office of the Chairman at Monitor Group, where she headed the Emerging Markets Research Team and produced material on a wide range of economic investment issues in the Middle East and North Africa, sub-Saharan Africa and Asia.

Jennifer Johnson-Calari is an adviser on sovereign wealth governance and management and serves on the Advisory Council of SovereignNET at the Fletcher School of Law and Diplomacy, Tufts University. Ms Johnson-Calari previously worked with the World Bank, where she managed investment portfolios for the World Bank Group and led the Bank's Asset Management and Advisory Programme (RAMP) in her role as Director of Sovereign Investment Partnerships. Prior to this, she served with the board of governors of the Federal Reserve System. Ms Johnson-Calari contributed to the drafting of the International Monetary Fund's Reserves Management Guidelines and the International Working Group of Sovereign Wealth Fund's 'Santiago Principles'. She has contributed to several books on the topic of portfolio and risk management and is a Guest Lecturer on issues relating to sovereign wealth management.

Michael Maduell is the President and co-founder of the Sovereign Wealth Fund Institute. He works in the Institute's consulting division, Park Alpha, and he also serves as Editor-in-Chief of the Institute's publication, the *Sovereign Wealth Quarterly*. Mr Maduell is a co-inventor of the Linaburg-Maduell Transparency Index which rates the transparency of sovereign wealth funds. He previously worked for Reuters and for the California Public Employees' Retirement System. Mr Maduell is an Affiliate Member of the Chartered Financial Analyst (CFA) Society of Sacramento and has a Masters degree in Investment Management and Financial Analysis from Saint Mary's College.

Jonathan Rosenthal is the Africa Editor at *The Economist*. He joined *The Economist* in 2005 as the British business correspondent, and has also served as a European business and finance correspondent in Berlin. Mr Rosenthal won the Feature of the Year award at the WorkWorld Media Awards in 2008, and in 2009 was named Reporter of the Year. He has also worked for Bloomberg News in London and Johannesburg, and was the Mining Editor of Business Report in South Africa. Mr Rosenthal makes frequent appearances on television and radio in several countries.

Virgil Mendoza is the Head of Central Bank Coverage at Standard Bank. He has worked with central banks for nearly 25 years, gaining an in-depth understanding of reserves' management practices globally, and holding a variety of sales, training and coverage roles at financial institutions including NatWest, the Industrial Bank of Japan, the Royal Bank of Scotland and Westdeutsche Landesbank. Mr Mendoza has sponsored research on reserve management topics and was instrumental in the launch of one of the industry's key publications on reserves management.

Vidar Ovesen is an independent consultant focusing on the revenue management of natural resources. He has worked as an adviser for the Norwegian Agency for Development Cooperation, Timor-Leste's Ministry of Finance and South Sudan's Ministry of Finance, Commerce, Investment and Economic Planning. In this work, Mr Ovesen conducted training and capacity-building for government officials and civil society representatives. He also advised governments on issues relating to petroleum revenue management and sovereign wealth funds. Mr Ovesen previously served as Norway's Deputy Minister of Finance from 2000 to 2001. In this role he oversaw the management of the Norwegian Petroleum Fund.

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