AFRICAN SOVEREIGN WEALTH AND PENSION FUNDS LEADERS FORUM COVID-19 RESPONSE

A Partnership Call to Action to Build Resilient African Economies

The novel coronavirus (**COVID-19**) pandemic is first and foremost a health crisis. According to the United Nations Economic Commission for Africa (**UNECA**), anywhere between 300,000 and 3.3 million African people could lose their lives as a direct result of COVID-19, depending on the intervention measures taken to stop the spread.[1]

Yet the economic impacts of both the virus – and necessary public health measures taken to contain it – are similarly stark. Growth in Sub-Saharan Africa is forecast to fall sharply from 2.4% in 2019 to a range of -2.1% to -5.1% in 2020, marking the first recession in the region in 25 years[2] and representing output losses for 2020 of between US$37 and $79 billion.[3]

COVID-19 will squeeze fiscal space on the continent, with deficits estimated to widen by 3.5 to 4.9 per cent, increasing Africa's financing gap by an additional US$110 to $154 billion in 2020.[4]

In combating the economic impacts of COVID-19, we recognise that efforts must be informed by two urgent and mutually reinforcing components:

(i) immediate priority responses to protect African capital markets, micro-, small- and medium-sized enterprises (**MSMEs**), supply chains and the African Continental Free Trade Area (**AfCFTA**) from the economic fallout of COVID-19; and

(ii) multi-stakeholder partnerships across government and industry to foster industry shifts and a regulatory requirement fit for African economies and industries to stabilise, grow and thrive.

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[1] United Nations Economic Commission for Africa, *Covid-19 in Africa: Protecting Lives and Economies* (April 2020) v.
[2] World Bank Group, 'Covid-19 (Coronavirus) Drive Sub-Saharan Africa Toward First Recession in 25 Years' (9 April 2020).
[3] World Bank Group, 'For Sub-Saharan Africa, Coronavirus Crisis Call for Policies for Greater Resilience' (9 April 2020).
[4] Akinwumi Adesina, 'Why the COVID-19 pandemic is no time for fiscal distancing', *CNBC Africa* (3 April 2020).

Guided by these principles, we call on policymakers, institutional investors and development financial institutions (**DFIs**) to note the following recommendations:

1. ***Pursue ESG-aligned infrastructure co-investment partnerships***

Institutional investment in critical healthcare, energy and trade-related infrastructure has never been more important. Unfortunately, this falls at a time when African government spending on infrastructure will be significantly reduced by the economic damage wrought by COVID-19. To build and sustain investor confidence in African infrastructure as investable asset class, it is critical African governments take bold and proactive steps to support current infrastructure projects in the crisis.

a) *For DFIs: democratize access to risk management data*

New and innovative capital market products need not only to be experimented with, but proactively scaled continent-wide, to de-risk credit and allow African asset owners to allocate capital to African infrastructure as an investable asset class with greater confidence and insight.

The Global Emerging Markets Risk Database Consortium (**GEMS**), comprised of DFIs including the International Finance Corporation and the European Investment Bank, pools data on credit default and recovery rates from customers funded by the contributing DFIs.

This is a critical risk management evaluation tool. Unfortunately, it is unavailable to African institutional investors, impairing the ability of African institutional investors to increase our institutional investment allocations to African infrastructure as an investable asset class.

Now is the time for decisive action by DFIs to democratize access to critical risk management data to assist African governments to build resilience and unlock responsible domestic and global institutional co-investment.

b) *For African institutional investors: increase portfolio allocations*

COVID-19 has demonstrated the critical importance of the "5% Agenda" of the African Union Development Agency (**AUDA**), the economic development agency of the African Union.

The 5% Agenda represents a pact where African governments commit to work collaboratively on project design and better alignment of infrastructure investment policy regimes with the investment mandates of African assets owners. This includes by pursuing the new institutional investor public-partnership (**IIPP**) model (similar to those successfully pursued by pension funds and the governments of Australia and Canada).

In return, African institutional investors agreed to employ best endeavours to increase their allocation of African infrastructure investment to 5% of assets under management within 5 years and establish an ***African Institutional Infrastructure Co-Investment Platform initiative,*** for African sovereign investors and international pension and sovereign fund peers to collaboratively co-invest in each other's markets across the continent.

Launched to much fanfare in 2017, we recognize that progress towards the 5% allocation has been too slow. Now, more than ever, we need investment in African infrastructure, and we recognize that African co-investment is often required to incentivize foreign institutional investment in African infrastructure projects.

To this end, the African Sovereign Wealth and Pension Fund Leaders Forum and the AUDA Continental Business Network, calls on African institutional investors to rapidly form IIPPs with their governments and increase their allocations in African infrastructure projects, with a focus on trade-related industrial infrastructure, and the healthcare and agriculture sectors.

Investment is urgently needed in African healthcare and trade-related industrial infrastructure to build the essential regional supply chains to fight COVID-19 and future pandemics and support the implementation and infrastructure needs of the AfCFTA. With the democratization of data from DFIs and determination from African infrastructure institutional investors, together we can meet and exceed the 5% Agenda's expectations and invest in a resilient future.

2. ***Create the infrastructure necessary for African MSMEs, youth and women entrepreneurs to thrive in the new digital economy***

COVID-19 has exposed the significant degree to which African economies have underinvested in the digitalisation of a range of sectors, including healthcare, agriculture, customs, logistics and trade. In these times of social distancing, only those companies able to operate digitally can survive. Further, unless African policymakers and investors prioritize investment in digital trade-related infrastructure, the economic fallout from COVID-19 could be even worse than predicted.

Digital infrastructure is not only critical to recover from COVID-19, but also to be economically competitive and resilient in the face of future exogenous shocks, to build regional supply chains, and to achieve the aspirations of the AfCFTA.

We need massively to increase investment in digital trade initiatives such as the AfricaPLC industrial eTrade marketplace initiative and digital infrastructure, and African institutional investors commit to work collaboratively with governments and development partners in this regard.

3. ***Engage in policy partnerships with policymakers on framing the new regulatory environment and investment needs of the post-COVID-19 economy***

African institutional investors want nothing more than to invest in projects that will benefit the communities in which they operate. Yet this cannot be at the sacrifice of returns needed to satisfy beneficiary obligations, including paying the pensions of millions of Africans.

As evidenced by the 5% Agenda's IIPP model, there are many areas in which African institutional investors can invest and alleviate fiscal and budgetary pressure on States, thus enabling them to redirect resources to social challenges and priorities where private capital cannot participate.

We therefore call for asset owner partnerships with African central bank governors and ministers of finance and planning — to assist them plan for and anticipate long-term investment needs, risks and priorities — so that African economies can achieve resilience, stabilize, grow and thrive in the new post COVID-19 economy.

4. ***Leverage the expertise and insight of African institutional investors***

African institutional investors have important perspectives on how to build back better in the wake of this health and economic tragedy. We are expert in the long-term investing and planning, yet too often, in the service of our beneficiaries, lack the resources to generate and document the insights that could support public and private sector policy breakthroughs.

In this time of unprecedented economic disruption, we see opportunity for strategic knowledge, innovation and technical assistance partnerships between African asset owners, DFIs and investment consultants. Such partnerships would design risk mitigation products, and establish African infrastructure as an investable asset class, compliant with global ESG and UN Sustainable Development Goal standards. Doing so would translate Africa's UD$100 billion per annum infrastructure deficit into a competitive and accessible co-investment opportunity for the multi-trillion dollar pools of ESG-friendly global institutional assets seeking more competitive risk adjusted returns.

5. ***Consider directing funding for the economic recovery toward SWFs to invest in their local and regional economies***

Governments across the continent are providing billions of dollars in economic stimulus, for both short-term emergency needs and the longer-term reorientation of economies. Sovereign wealth funds (**SWFs**) are qualified strategic investors with unparalleled expertise in long-term investment considerations, including transaction design, due diligence and project selection. Governments should leverage this expertise by tasking SWFs with the deployment of funds in local projects.

6. ***Coordinate and correlate responses with global peer institutional investor and private sector industry bodies.***

The emergency response to COVID-19 has clearly demonstrated the importance of coordination at all levels. In this age of advanced globalization, our fates are intertwined. An outbreak in one country means an outbreak in all.

The same is true of capital markets. We must try to find a responsible way to not only coordinate how we respond to things but also correlate and understand how we can positively constrain negative impacts whilst responsibly managing and investing the assets of our members and future generations. That is why the African Sovereign Wealth and Pension Fund Leaders Forum is coordinating with an array of international partners, including the International Chamber of Commerce, International Federation of Sovereign Wealth Funds, One Planet, World Pensions Council, the Pacific Pensions Institute, the Association of African Central Banks, The Africa Investment Forum, the African Venture Capital Association, the African Securities Exchanges Association, CFA Global Asset Owners Council, Batseta and the Kenyan Pension Fund Investment Consortium.

African institutional investors stand ready to work collaboratively with policymakers to ensure we build back better and enable economies across the continent to stabilise, grow and thrive.