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The Emergence of Sovereign Wealth Funds in Africa:
An Instrument for Accelerating Economic Development

In the prevailing dynamics of globalization, a developing nation must strategically position itself to maximize the utility of its resources and mitigate inherent economic vulnerabilities. Sovereign Wealth Funds (SWFs) have emerged as a potent financial instrument, facilitating economic stabilization, diversification, and intergenerational wealth transfer. Simultaneously, they can catalyze infrastructural and human capital development, underpinning long-term economic growth.

The historical trajectory of SWFs reveals their origins in affluent economies, with their principal mandate to manage surplus wealth and diversify national revenue streams beyond primary commodities. However, the dynamics have been evolving, and the applicability of SWFs within developing nations in Africa is garnering significant interest. When rightly instituted and managed, these funds hold the potential to reshape the economic landscape of a developing country.

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The viability of SWFs in developing countries hinges upon a nation's ability to generate a surplus from its economic activities. Nations rich in commodities, such as oil and gas or minerals, have been notably successful in establishing SWFs.

These funds convert the wealth generated from finite, exhaustible resources into sustainable financial assets, mitigating the resource curse risk and promoting economic diversification. They also offer an effective mechanism to manage windfall revenues during boom periods, which can be utilized during economic downturns to provide fiscal stability. Furthermore, SWFs in developing nations can play a pivotal role in fostering national development agendas

By investing in infrastructure, education, and technology, SWFs can enhance productive capacity, stimulate job creation, and facilitate human capital development.

Historically, Sovereign Wealth Funds (SWFs) in Africa were a characteristic of resource-abundant nations such as Libya, Algeria, and Gabon. However, a trend has been observed recently where a burgeoning number of non-resource-rich African nations are developing SWFs. This shift signals a move towards advanced economic management strategies, where countries diversify their economies beyond resource dependence.

As of January 2022, the African Development Bank's valuation of more than 30 African Sovereign Wealth Funds (SWFs) stood at an estimated $100bn. Notably, about half of these funds were established by nations lacking substantial natural resource endowments, a development indicative of an emerging trend toward harnessing this financial instrument for economic growth. However, the calculation of these SWFs' Assets Under Management (AUM) is fraught with uncertainties. Factors such as unpredictable currency exchange rates and opaque fund management practices contribute to these uncertainties.

The structure of these funds often involves a myriad of sub-funds, adding another layer of complexity and amplifying these challenges, consequently obstructing the achievement of precise valuations. This predicament becomes more pronounced when considering the substantial disparity between the pre-COVID-19 and 2022 valuations.

Before the pandemic, PricewaterhouseCoopers (PWC) estimated the assets managed by African SWFs to be around $300bn, markedly higher than the 2022 figure. This discrepancy accentuates the inherent complexities in the valuation process, reducing it, at its best, to an educated estimate. Nevertheless, resource-limited African nations' increasing adoption of SWFs demonstrates a paradigm shift towards innovative financial tools in pursuing economic development, warranting further scholarly exploration.

Further, the sheer range in the estimated value of these primary funds and their corresponding sub-funds emphasizes their inherent importance and their potential investment opportunities. These SWFs offer diverse possibilities tied to an investor's risk tolerance, illuminating the latent potential for further value extraction from these investment vehicles. These findings denote a notable trend where non-resource-rich African countries recognize the benefits of creating and developing their SWFs. The variability and growth of these funds serve as indicators of their untapped potential and underscore their pivotal role in advancing economic management across Africa.
Despite the systematic complexities of developing emerging Sovereign Wealth Funds (SWFs), their considerable investment potential is increasingly recognized.

This recognition is epitomized by the African Sovereign Investors Forum (ASIF), an aggregation of SWFs financially and adeptly bolstered by the Gulf States. Specifically, the United Arab Emirates (UAE) and Kuwait have demonstrated strategic interest in directing and capitalizing the SWFs of several African countries: Angola, Djibouti, Egypt, Ethiopia, Gabon, Ghana, Morocco, Nigeria, and Rwanda.

In particular, the UAE's experience in managing nearly a trillion dollars of assets through its own SWF imparts invaluable insights. Their adeptness in converting raw commodities into tangible assets reveals an innate capacity for asset management and leverage. The UAE's acknowledgment of the dormant potential in establishing and developing these African SWFs, in turn, substantiates the investment opportunities inherent in such funds.

Though the ASIF is a relatively nascent coalition, its proactive engagement with these African nations in evolving their SWFs has already resulted in palpable benefits. Ethiopia's SWF, established only recently in 2022, has now amassed over $30 billion in AUM. This example underscores the transformative potential of strategic guidance and capital infusion by globally recognized SWFs into emerging African counterparts. The synergistic approach of these countries within the ASIF framework may indeed unlock unprecedented economic opportunities, fostering regional development and socioeconomic resilience.

As Africa persists in its developmental journey and industrialization process, adept fiscal management and innovative approaches by national leaders, central bankers, and finance ministers are becoming increasingly pivotal. These strategic roles have the potential to enable nations to accumulate wealth over time, even in the absence of abundant natural resources. Such wealth generation can be achieved through non-traditional methods, including financial instruments such as Sovereign Wealth Funds (SWFs).

SWFs can serve as crucial vehicles for nations to reinvest in their futures. They facilitate redirecting current wealth into future-oriented initiatives, fostering long-term economic growth and stability. These funds represent an advanced financial strategy that allows nations to strive towards becoming highly developed economies, thereby enhancing their global competitive positioning.

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Simultaneously, the use of SWFs encourages value addition within the domestic economy. By attracting and retaining a nation's most talented citizens, SWFs can contribute to cultivating an environment that fosters innovation, human capital development, and socioeconomic advancement. The capacity of SWFs to generate and safeguard wealth over time can help stem the brain drain phenomenon, thereby ensuring the continuity of the development cycle.

In essence, the strategic use of SWFs signifies a shift towards more sophisticated economic management strategies. This shift underscores the potential role of financial innovation in driving national prosperity, especially in resource-limited contexts. As non-traditional wealth generation instruments like SWFs become more prevalent, they offer a promising pathway toward sustainable development and economic diversification. As Africa continues to evolve and industrialize, the strategic implementation of financial instruments such as SWFs is emerging as a critical driver of national wealth accumulation, economic advancement, and societal progress. WB. PWC. WSJ

Contending with Global Economic Flux: The African Currency Crisis and the Challenge of Sustaining Domestic Stability for Policymakers

Emerging from the severe global contraction triggered by the Covid-19 pandemic in late 2019, economic recovery remained elusive until 2022. During this period, the International Monetary Fund and the World Bank projected a rebound to pre-pandemic levels of economic activity, suggesting an impending era of economic expansion. Unfortunately, before these economic gains could fully materialize, an unforeseen conflict in Ukraine ensued, instigating significant disruptions to the fragile global economy.

This upheaval induced a worldwide economic deceleration, leading some Western analysts to describe their economies as trapped in a 'slowcession'. This term encapsulates a condition of stagnant growth that teeters on the precipice of contraction but does not slide into outright economic shrinkage. However, in contrast to their Western counterparts, the African economies lack the resilience to navigate such tumultuous conditions unscathed. Indeed, African economies have borne the brunt of these global shocks, facing significant devaluations in their currencies and erosion of domestic purchasing power.

This phenomenon reveals the vulnerable nature of these economies in the face of unexpected crises and the difficulty they face in buffering against the reverberations of global economic disruptions.

In the West, particularly within the United States, Federal Reserve policymakers have resorted to stringent monetary tightening measures, leading to an unprecedented escalation in domestic interest rates. The primary objective of this strategy is to deflect the looming specter of recession. However, the economic circumstances in Africa provide a stark contrast. As a result of American monetary policy interventions, African currencies have experienced severe depreciation against the US Dollar, which exacerbates the inherent vulnerabilities of these economies.

The IMF posits that an average one-percentage point surge in the depreciation rate against the US dollar typically results in a 0.22 percentage point increase in inflation within the first year in sub-Saharan Africa.
Evidence indicates that these inflationary pressures persist, even when local currencies experience strength against the US dollar.

The devaluation of local currencies further intensifies the burden of public debt. About 40% of public debt in Sub-Saharan Africa is external, with over 60% of these liabilities denominated in US dollars. The advent of the pandemic, among other factors, has incited substantial exchange rate depreciations. Holding all other factors constant, this led to an approximate ten-percentage point elevation in public debt as a percentage of GDP by the close of 2022. Despite this, the influence of growth and inflation—which inherently diminish the real value of pre-existing debts—curtailed this ascent to roughly six percent of GDP during the equivalent period.

Numerous regional central banks have supplied foreign exchange to importers using their reserves to stave off currency instability. Nevertheless, the waning reserve buffers in many countries significantly curtail their ability to sustain such interventions in foreign exchange markets. Simultaneously, countries have adopted administrative approaches such as rationing foreign exchange or banning transactions in foreign currency.

Although these measures might yield short-term efficacy, they risk generating considerable economic distortions and potentially fostering corruption, complicating the already intricately delicate macroeconomic landscape.

Considering the persistence of external shocks, countries with flexible exchange rates have limited options beyond adjusting their exchange rates and implementing monetary tightening measures to combat inflation.
Countries with pegged exchange rates must align their monetary policies with their anchor country.

Regardless of the exchange rate regime, fiscal consolidation could significantly curb external imbalances and mitigate the debt increase resulting from currency depreciation.

This situation has led many African governments into a debt trap, forcing them to borrow at excessively high-interest rates. As a result, the burden of servicing public debt has sharply risen due to an increased dependence on such costly, market-driven funding.

A sustained decrease in aid budgets further accentuates this pressure. These funding shortages present a considerable challenge to a region already struggling with significant macroeconomic disparities, highlighting the urgency for practical economic policy adjustments. In addition, an assortment of primarily external factors further exacerbates the financial strain on African economies. These elements encompass the aforementioned soaring public borrowing costs, declining international demand for African exports, and inflation of essential commodities driven by the Ukraine conflict.

The repercussions of these issues extend beyond Africa, as approximately half of the world's nations are wrestling with double-digit inflation, which erodes household purchasing power and disproportionately impacts the most vulnerable populations. Consequently, the trajectory of economic recovery has been suddenly disrupted.

The sub-Saharan African region is anticipated to endure the most significant global decrease in growth, plummeting to 3.6 percent within the year. This downturn is happening against the backdrop of a broader global deceleration, with economic activity predicted to decelerate for the second consecutive year, underscoring the interconnectedness of world economies.

However, this overarching statistic conceals considerable discrepancies across the region, with different countries and sectors being affected to varying degrees. A need for more financial resources might compel governments to curtail their allocations to crucial developmental industries, including health, education, and infrastructure.
This reduction in investment could stymie the region's potential for growth.

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In essence, the tightening of funding amidst an already tense economic atmosphere could further exacerbate regional disparities, challenge the progress of countries within the region, and weaken the ability of these nations to recover and grow. This highlights the importance of comprehensive, tailored, and contextually aware economic strategies and financial assistance for bolstering resilience and promoting sustainable development in these economies. IMF. WB. African Business

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Sahelian Underdevelopment Follies

This Review entry offers a brief expose explaining why the United Arab Emirates' development trajectory has been hailed as a developmental success story, and the Sahelian countries (Burkina Faso, Central Africa Republic, Chad, Cameroon, Gambia, Guinea, Mauritania, Niger, Nigeria, and Senegal) are not. It explores this paradox by lamenting the role of conflict, military coups, and corruption. Building on the factors that beset the Sahelian development, the Review teases out the determinants of the United Arab Emirates lacking in the Sahelian countries' development experiences from the poorest Chad to Cameroon and the most populous and affluent, Nigeria

The World Bank data (2022) shows that the United Arab Emirates is recognized as an economic success story with a GDP Value of US$ 508 billion and a GDP per capita of US$ 53,757.

These figures can be compared with Cameroon's GDP value of US$ 44.34 billion and per capita GDP of US$ 1,588.5 per capita Chad's US$ 12.7 billion GDP and US$ 716 GDP per capita income for the same year.

Not even Nigeria, with its 218.543 million population, GDP value of US$ 477.38 billion, and per capita GDP of US$ 2,184, match the United Arab Emirates, with a population of over 10 million. (World Bank).

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The United Arab Emirates ranks 26 out of 190 countries on Human Development Index (2021-2022), which measures income distribution and poverty, life expectancy and inequality, and literacy and education. The Sahelian countries' ranking ranges from Cameroon, the best performer (151), Nigeria (163) and Chad (190), and the rest of the countries in between, making their populations amongst the most socioeconomically deprived in the World (Human Development Report 2021).

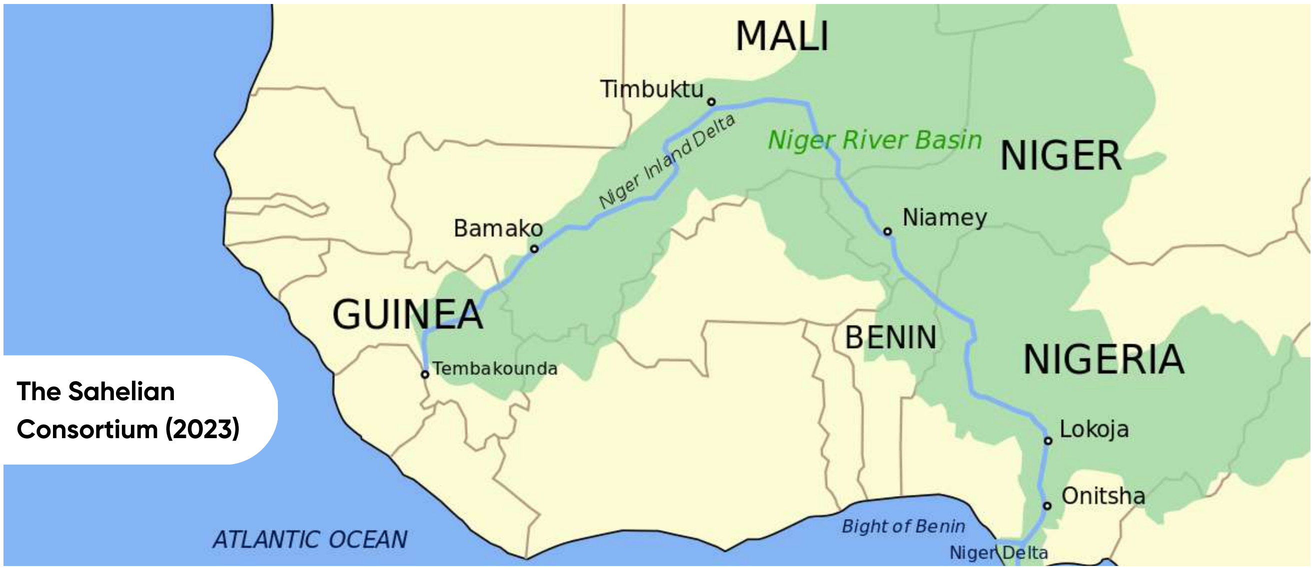
The Sahel Natural Resource Riches

The African Sahel is known for its expanses of dryland and semi-drylands, straddling the strip of land between the Sahara Desert on the north and the African Savannah to the South. It spans the area from the Atlantic Ocean and the Red Sea on the east. The African Sahel and the UAE have similar geographical and climatic characteristics, natural wealth composition (gas, oil, and minerals), and shared values enshrined in Islamic tradition and values. However, the two regions are a World apart in socioeconomic development, political stability, and living standards.

To focus on the Sahelian topography as a barren land is misleading. Oil, gas, and mineral resources are abundant in the Sahel and the United Arab Emirates. In one geopolitical and geoeconomic location, natural resources rent has produced what is tantamount to an economic miracle (UAE). In the Sahel, it caused financial ruin and extreme poverty. Like the UAE, the Sahel has unpredictable and highly unreliable precipitation and poor soils dominated by expanses of semi-arid lands threatened by the Sahara Desert to the north. By some reckoning, it is comparable, although not as dry, to the Empty Quarter (Empty-Quarter) of the United Arab Emirates.

However, the Sahel has higher annual rainfall, and more water courses, rivers, and lakes, which are the envy of the desert-dominated United Arab Emirates. Consider, for example, the Sahelian 11 rivers and lakes that traverse more than one country (Map 1. African rivers, lakes, and water courses): River Niger-Benue (Benin, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Guinea, Mali, Niger, and Nigeria), Volta (Benin, Burkina Faso, Côte d'Ivoire, Ghana, Mali, Togo, Senegal (Guinea, Mali, Mauritania, Senegal), Ogooue (Congo, Cameroon, Gabon, and Equatorial Guinea), Cavally (Côte d'Ivoire, Guinea, Liberia), Comoe (Burkina Faso, Côte d'Ivoire), Cross (Cameroon, and Nigeria), Gambia (Gambia, Guinea, Guinea-Bissau, Senegal, Oueme (Benin, Nigeria, and Togo), Cassandra (Côte d'Ivoire, Guinea), and Lake Chad (Central African Republic, Chad, Cameroon, Niger, and Nigeria).

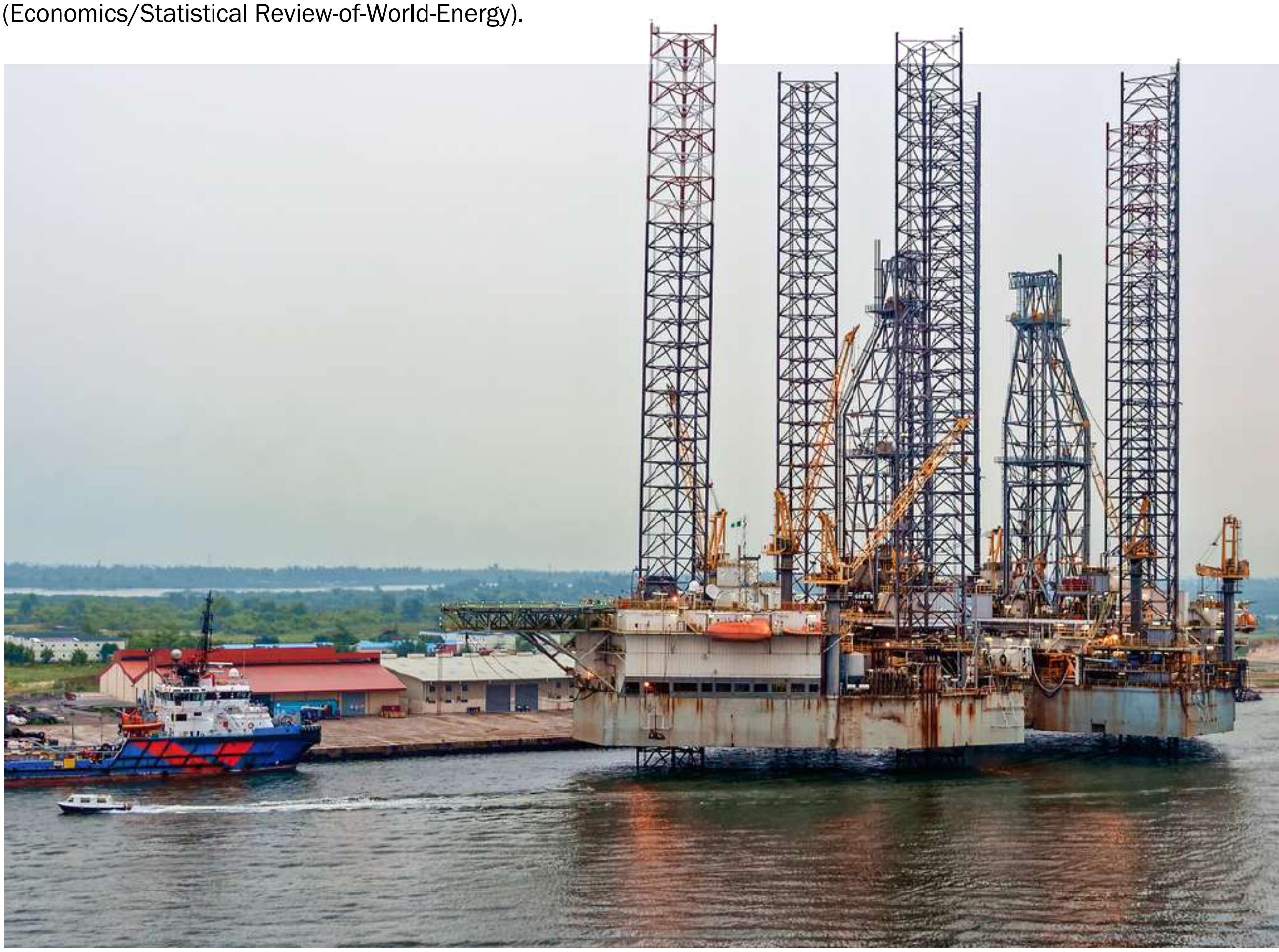
Map 1: African rivers, lakes, and water courses



The Sahelian Consortium (2023)

The UAE can rightly pride itself on having one of the World's most significant oil, gas, and other minerals reserves. But the Sahel is no less important, where, for example, Nigeria is the World's 12th largest producer of oil and the largest in Africa. It also holds the largest natural gas reserves on the continent. The oil and gas sector plays a significant economic role, contributing about 65% of government revenue and over 85% of total exports. Nigeria also has a largely underdeveloped mining sector, which makes up less than 1% of the country's GDP.

Burkina Faso is rich in mineral resources and produces gold, zinc, copper, manganese, phosphate, and limestone in substantial quantities. It also has diamonds, bauxite, uranium, nickel, and vanadium reserves. Niger is the World's fourth largest uranium producer (4,000tu/year) and has large uranium reserves. Niger's other minerals include gold mining and sizeable tin, coal, and phosphate deposits. The extractive industries of Mali are dominated by gold mining, while manganese, bauxite, nickel, tin, phosphate, and lithium are awaiting exploitation. Guinea has 50 percent of the World's bauxite reserves in addition to gold, aluminum, iron ore, graphite, nickel, limestone, uranium, and diamonds. Mauritania has vast phosphates, copper, gypsum, and iron ore reserves and is a significant gold and iron producer. Visit World-Mining-Data, for more details on the Sahelian mineral wealth (Economics/Statistical Review-of-World-Energy).



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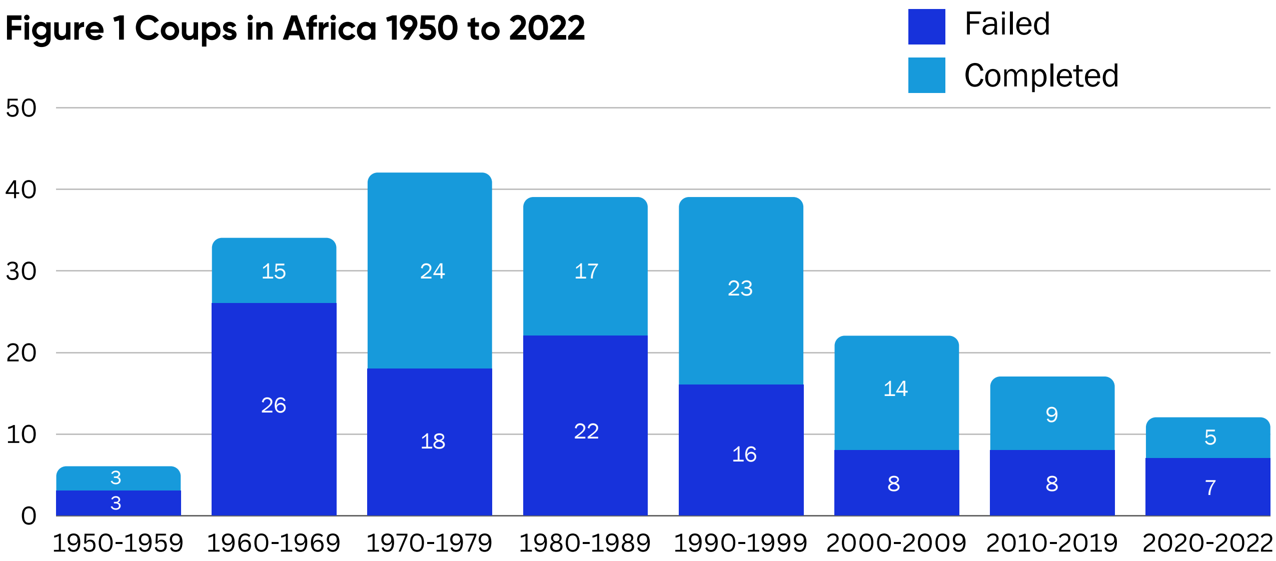
With all the vast and largely unexploited mineral resources available to the Sahelian states, it is inconceivable that they are poor and development aid-dependent while they have more natural resource wealth than the United Arab Emirates.

Conflicts, Military Coups, and Endemic Corruption

It is surmised that, even if the socio-economic development policies were right, conflict, militarization of society, and corruption would have eroded the fundamentals of the Sahelian economies, regardless of how prudent they were. Protracted violent conflicts are antitheses of development. They compel states to shift human and financial resources from development to the war effort. Conflicts kill, maim, and displace people. They destroy infrastructure, property, and public amenities (schools, health centers, clean water facilities) and halt the production of food and cash crops on which people live. In essence, conflicts put pressure on public finances due to the reduction of the tax base and the increase in military expenditure instead of developing the human capital and infrastructure on which present and future development rests.

Figure 1 Coups in Africa 1950 to 2022



Source: BBC with Research by the University of Central Florida and the University of Kentucky

Figure 1 shows military coups in Africa during 1960-2022. Sahelian countries have experienced 56, averaging about six military coups per country, making the Sahel the World region's most prone to military coups—no wonder the last three military coups between 2018 and 2022 were in the Sahel.

Table 1 : Corruption (2023), military coups (1960-2022), and conflict death in the Sahel (1989-2022)

Country	Corruption Index ranking out of 180 countries	Number of insurgencies and militant Islamist organizations (2023)	Conflict deaths
Burkina Faso	77	1	6743
Chad	167	3	11125
Cameroon	142	10	7696
Central Africa Republic	150	23	14948
Gambia	110	0	1010
Guinea	147		1148
Mali	137	22	13615
Mauritania	130	1	189
Niger	123	2	5307
Nigeria	150	18	66436
Senegal	62	1	2159
Total		**81**	**130376**

Source: Wars in the World (2023),IOM (2023) Transparency International (2022), Uppsala Conflict Data Program (2023)

Table 1 shows that the use of force and coercion is not the monopoly of the Sahelian states alone. The Sahel is littered with 81 liberation movements, insurgencies, and militant Islamist organizations of different ideological persuasions and objectives. These conflicts have created swathes of ungovernable spaces and heavens for terrorists and human, drugs, and arms trafficking across the Sahel and West Africa.
Insurgency contributed to the death of 130376 people between 1989 and 2022. Boko Haram militant Islamist group made Nigeria's conflict the deadliest in the Sahel, claiming 66 436 innocent lives .
The International Organization for Migration (IOM 2023) identified 2,375,661 Internally Displaced Persons (IDPs) in Nigeria because of Boko Haram attacks.

Table 1 also reveals that only two Sahelian countries are less corrupt than most (Burkina Faso and Senegal), with Chad, Central African Republic, being the most corrupt according to Transparency International. Corruption increases during military rule because the military flouts the rule of law, silences dissent, and curbs anti-corruption campaigners, thus siphoning public resources to private interests. It entrenches underdevelopment and deprivation

Conclusions

While acknowledging other factors explaining the Sahelian underdevelopment (neocolonialism, maldevelopment, etc.), this Review focuses on political instability, exemplified by military coups and recurrent conflict, and corruption as significant factors contributing to the Sahel underdevelopment. Ironically, the Sahel and the UAE have similar natural resource wealth composition (gas, oil, minerals) and topographic and climatic characteristics. However, the former suffers an unenviable state of affairs the latter has achieved tremendous economic development strides.
Political stability, responsive institutional development, open skilled and semi-skilled migrant labor, and visionary leadership have boosted the UAE's economic growth. The opposite is true for the Sahel.
Nonetheless, it is safe to conclude that the Sahel's real wealth lies in the ingenuity of its industrious people, who, against the odds, wither tremendous human-made and natural calamities. Their resilience is admirable, and their struggles for better living standards are most enduring and commendable.
It is hoped that this Review will trigger a positive aspirational response from knowing that their underdevelopment is not a result of the lack of natural resource wealth or capacities for development. It is attributable to surmountable factors; overcoming them is within their reach, and as the people of the United Arab Emirates have been able to make it, they, too, can.

Cabinda Enclave and Lunda -Shokwe:

Angola's Nagging 'wealth distribution'

A piece of news flash from Angola has dominated some international news and civil society activists' social media, related to tensions whose origin predated independence from Portugal in 1975 and the African conundrum of fair wealth distribution. It relates to the measures taken by the authorities vis-a-vis the Front for the Liberation of the Enclave of Cabinda (FLEC) separatist movement in oil-rich Cabinda and dissent in Lunda -Shokwe region.

The Past

Cabinda's claim to self-determination, spearheaded by FLEC established in 1963, stems from its past status of a Portuguese protectorate that later came under the administration of the territory from Angola in 1956. In the Lunda region, since 2012, the Revolutionary Front for the Integration and Sociological Independence of Lunda-Chokwe emerged in the diamond-rich Lunda province and UNITA hard-core electoral support.

Current Stay of Play

It might surprise some to point out that modern industrial diamond mining, as we know it today, began in 1912 when the gemstones were discovered in a stream in the Lunda region in the northeast. The diamond-rich eastern Lunda-Chokwe provinces' struggle for greater autonomy from the central government was largely peaceful. However, in late 2019 the self-styled movement attacked a prison to free its leader, who was arrested by the Angolan authorities. Nevertheless, the government's current measures against the Revolutionary Front for the Integration and Sociological Independence of the Lunda-Chokwe movement could be partly understood as an attempt by the authorities to diminish its electoral support to UNITA.

At the national level, it is worth observing that the MPLA, who had seized control of Luanda amidst the fighting in 1975, installed a socialist model of government. However, the collapse of the Berlin Wall, the triumph of neoliberalism during the late 1980s and early 1990s, and the orientation towards economic restructuring under the Structural Adjustment Programs (SAPs) were essential factors for Angola to open its economy, including the oil-producing sector. Since then, neoliberal economic policies have dominated, and President João Lourenço won the presidential elections of 2017 and 2022.

Cabinda's rebellion poses no serious challenge to the government of Angola or the oil industry. It aspires to get a fair share of the development factors, including the oil revenue for the enclave to develop. Likewise, the low-profile unrest in Lunda-Shokwe can be interpreted as deja-vu in similar social claims in marginalized resources rich regions in many African countries.

The Angolan economy is growing modestly thanks to abundant oil and diamond wealth; a large part of it is produced in Cabinda and Lunda. In 2023, the African Development Bank stated that Real GDP growth reached 3.0% in 2022, up from 1.1% in 2021. Income per capita growth remained negative (0.2%) 2022 due to high population growth (3%).

GDP growth was spurred by sustained high oil prices in 2022 because Russia invaded Ukraine; the average price per barrel for Angola's crude was $100.65, above the conservative $59.00 that the 2022 national budget was based on, generating estimated additional revenue of $17.18 billion. High oil revenue further widened the fiscal surplus to 3.0% of GDP in 2022 from 1.9% in 2021. However, moderated oil exports took the current account surplus down to 8.9% of GDP in 2022 from 11.2% in 2021, while the debt-to-GDP ratio declined further to 56.1% from 82.9% over the same period (Angola Economic Outlook).

It is plausible to argue that Angola can afford to allocate a moderate part of its oil and diamonds revenue to equalize those areas where the mainstay of its wealth is produced, knowing that unequal development is at the heart ofthe low-profile rebellion.
Support for these protest movements is waning; they cannot topple the government or change the 2024 municipal elections in their favor. The best course of action for the Angolan government is to live and let live.

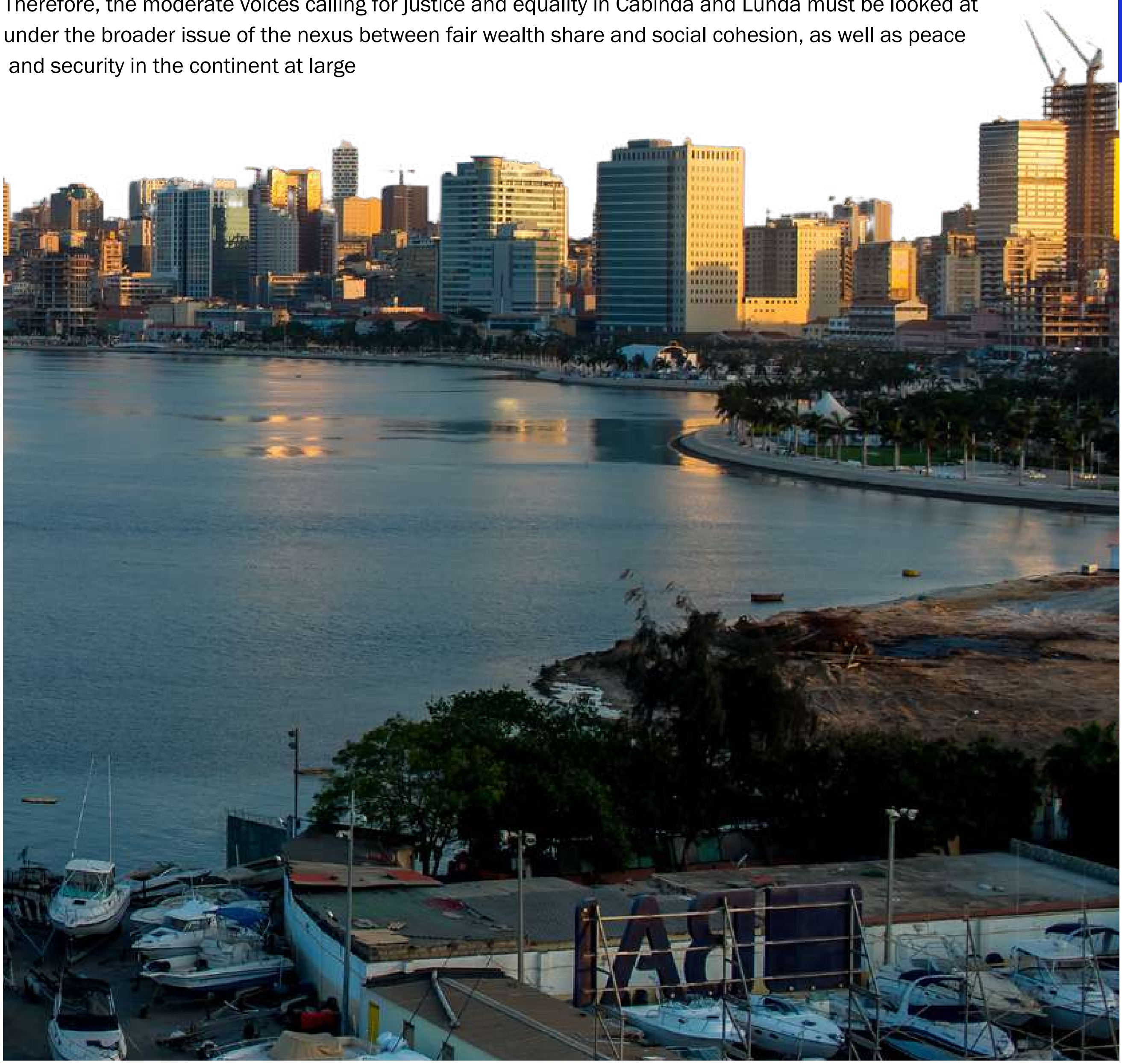
Conclusions

A glaring aspect of Angola's path dependence is policy continuity. Since the intensification of oil and diamond production during the late 1990s, the Angolan state and MPLA, the ruling party, have been perceived as tightening their grip on power.

In this context, the problems of lack of transparency and economic mismanagement have resulted in imbalances in wealth distribution between minority elites and the masses, particularly in the two mineral-rich regions. The Cabinda question, rooted in the colonial past, has been exacerbated by the government's attitude towards dissent, popular struggles for autonomy (Lunda), and self-determination (Cabinda).

It is inconceivable that these two social protests would threaten MPLA rule. Still, they may continue their low-intensity social conflict, hoping that some political and economic reforms may benefit them and the entire country.

Therefore, the moderate voices calling for justice and equality in Cabinda and Lunda must be looked at under the broader issue of the nexus between fair wealth share and social cohesion, as well as peace and security in the continent at large



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