## Third International Conference on Financing for Development
## 14-17 July 2015, Addis Ababa, Ethiopia

# High-Level Side Event on 'Leveraging pension funds for Africa's infrastructure development'

**Date:** **15 July 2015**
**Time:** **3.30-6.00pm**
**Venue:** **ECA Conference Centre, Africa Hall, Addis Ababa**

## Draft Concept Note

### 1. Introduction

The International Community will be meeting on 13-16 July 2015, in Addis Ababa, Ethiopia for the Third International Conference on Financing for Development to reaffirm commitments on financing for development made in Monterrey and Doha in 2002 and 2008, respectively. In the resolution on the draft modalities for the Conference adopted by the General Assembly in 2014, Member States have underscored the importance of exploiting synergies and taking maximum advantage of the complementarity between the Third International conference on financing for development and the post-2015 development agenda, which will culminate in the adoption of the Sustainable Development Goals (SDGs) at the UN Summit in September 2015. Thus the Third International Conference on Financing for Development is expected to adopt a comprehensive package of commitments for financing sustainable development.

In the context of Africa, one of the important sustainable development priorities for is infrastructure development. Through the adoption of Agenda 2063, African leaders underlined the vitally important role of infrastructure development in the realization of the African Union's vision of a peaceful, integrated and prosperous Africa. The Programme for Infrastructure Development (PIDA) will serve as the framework for the implementation of Agenda 2063 infrastructure priority. The objective of the Ten Year Action plans for the implementation of Agenda 2063 is to develop world class infrastructure that criss-crosses Africa. Over the next 10 years African countries will be working toward the implementation of the trans-African Highway Missing link, opening African skies to airlines, increasing electricity generation and distribution by 50% by 2020, having all power pools operational by 2020, and increasing broad band accessibility by 50% by 2020. The Dakar Agenda for Action adopted at the Dakar Financing Summit for Africa's Infrastructure in June 2014 sought to leverage public-private partnerships for the implementation of 16 regional infrastructure projects.

African countries have stepped up efforts to mobilise domestic resources for infrastructure development. For example, according to the NEPAD Agency, more than half of the $45 billion spent on infrastructure development in Africa in 2009 came mainly from African governments with the remainder from private sector (20 per cent), ODA from traditional development partners (7.9 %) and Non-OECD financiers (5.5 %). Efforts are also undertaken to strengthen the enabling environment for infrastructure investment, such as through unbundling vertically integrated supply chains in network infrastructure sectors and the setting up of specialised Public-Private Partnership Units. Numerous African countries have used the *Policy Framework for Investment* (PFI) through the NEPAD-OECD Africa Investment Initiative to inform such investment-related reforms.[1] Drawing on the application of the PFI to the infrastructure sectors of over 20 developing and emerging economies, a flagship OECD report[2] has moreover been taken as starting point by the G20 Development Working Group (DWG), for a project which brings together the OECD, the World Bank Group and other key international organisations in developing a set of policy indicators which developing countries – including in Africa – can use on a voluntary basis to identify, prioritise and track reforms on the enabling environment for infrastructure investment.

Despite these efforts, the funding gap for infrastructure development is enormous. Based on the World Bank estimates, roughly $50 billion will be needed per annum to close the funding gap. Poor infrastructure hobbles growth. It is estimated that Africa loses roughly 3 per cent of its GDP due to lack of energy. And unless African countries make progress in bridging the infrastructure gap, they are unlikely to meet the goals and objectives of Agenda

[1] The PFI has been used by over 25 developing countries and regional economic communities, including SADC and ASEAN, to improve investment climates. The PFI was updated in 2015 through a global Task Force and includes a specific chapter on infrastructure investment as part of the financing for development equation.

[2] The report on "Fostering Investment in Infrastructure: Lessons learned from OECD Investment Policy Reviews" is available at: http://www.oecd.org/investment/investment-policy/fostering-infrastructure-investment.htm

2063. Increased investment in infrastructure will likely lead to increased productivity with attendant benefits on competitiveness, diversification and employment creation.

The application of the PFI by African governments shows that investors are not fully seizing opportunities. This is either due to lack of information on investment opportunities, weaknesses or gaps in the enabling environment for investment in the sector as well as the overall negative investor sentiment toward Africa which may not be justified by fundamentals. For example, the World Bank estimates show that roughly $90 billion per annum will be required for investment in infrastructure over the next ten years. This calls for concerted efforts from African countries to mobilise financing from all sources, and to use available financing and policy instruments.

Given the financing challenge and the huge investment requirement for infrastructure development, African governments will need to explore how to harness their pension funds for infrastructure development. The domestic pension fund industry represents an important untapped source for financing infrastructure development. The growth of Africa's pension funds has been remarkable in the last decade. Total value of Africa's pension funds was estimated at $350 billion in 2013. This is projected to increase to $600 billion by 2020 and further to $7 trillion by 2050.[3]

One of the key driving forces behind the phenomenal growth of Africa's pension funds is demographics, and increasing urbanisation which has led to a larger middle-income population. However, the number of contributors and the per capita amount contributed is small. Coverage is also small by international standard, averaging 7.5 per cent for Africa. Given the long-term maturity of their liabilities, pension funds can provide reliable financing for long-term development projects that normally face difficulty attracting suitable investment.

Despite this huge potential source of capital for development, African pension funds are not adequately channelled toward financing infrastructure projects. Perhaps, the notable exception is South Africa where the Public Investment Corporation has been investing large sums of pension fund resources in infrastructure development. The willingness of African pension funds to invest in sectors such as infrastructure depends on their "understanding of

[3] The African countries for which data is available are Botswana, Ghana, Namibia, Nigeria, Rwanda, South Africa, Uganda, and Zimbabwe.

the risks involved, their assessment of how the asset class fits with their investment policy and strategy, as well as their ability to identify managers they are willing to back”[4]. Furthermore, existing regulations governing the pension fund industry may also affect incentives for pension fund to invest in infrastructures. Some African governments, for example, set minimum that should be invested in domestic market or in government debt. Others impose upper limits on investment in specific sector and or assets. This limits the choice of investment opportunities for pension funds.

As a complement to measures to leverage existing domestic resources, including from pension funds, African countries will need to continue regulatory reforms in order to improve investment climate so as to encourage private investment (domestic and foreign) into infrastructure. The infrastructure sector presents specific risks to private investors. Since private participation in infrastructure delivery is a relatively recent form of procurement in many countries, governments do not necessarily have the experience and capacity needed to effectively manage these risks. Beyond case-by-case project preparation and financing, concrete, implementation-oriented guidance that can help governments identify and manage reforms is needed to make the broader infrastructure investment environment more open to private participation. Well-targeted policy reforms can increase the quality and quantity of private investment in infrastructure, a significant complement to public investment.

Apart from regulatory issues, other problems that bedevil infrastructure development in many developing countries relates to poor investment effectiveness, including poor management and underperforming service provision. Inefficiencies such as overemployment, poor bill collection, system losses, and irregular maintenance practices by State Owned Enterprises in infrastructure markets, for example, cost about USD 12 billion annually in Africa – detracting public resources from amelioration of infrastructure networks[5]. Conversely, the potential efficiency and cost gains via private participation in infrastructure can contribute towards reducing the amount of subsidies required to support infrastructure service provision when full cost recovery pricing cannot be achieved.[6]

[4] Pension Funds and Private Equity: Unlocking Africa’s Potential, D. Ashiagbor, N. Satyamurthy, M. Casey et al, Commonwealth Secretariat, 2014, p.14.

[5] Trebilcock et al, 2011

[6] OECD (2015), “Fostering Investment in Infrastructure: Lessons learned from OECD Investment Policy Reviews”

African countries will have to put measures in place to unleash the potential and growth of pension funds and leverage these vast resources to finance infrastructure development. As underscored in the Marrakesh Consensus adopted at the ninth African Development Forum on 16 October 2014 at Marrakech, Morocco, there is a need for African countries to establish strong and efficient regulatory frameworks that would encourage growth through utilization of contractual savings, including pension and insurance funds for infrastructure development. This will be crucial for meeting the Sustainable Development Goals in Africa and the objectives of the African Union Agenda 2063. Against this backdrop, the high level meeting will be organised at the margins of the Third International Conference on Financing for Development slated for 13-16 July 2015. It is expected that the outcome of the meeting will feed into the Third International Conference on Financing for Development.

## 2. Objectives of the High-Level Side Event

The objectives of the side event are three-folds:

1. To highlight the development financing priorities of African countries in infrastructure;
2. To explore how African countries can best leverage financing, including from pension fund industries, for financing infrastructure development; and
3. To identify policies that can be pursued to promote private financing and participation in Africa's infrastructure development.

## 3. Expected outcome

The expected outcome of the meeting is to come up with clear policy recommendations that would contribute toward harnessing private resources for financing infrastructure development. The outcome would inform the Third Conference on Financing for Development in Addis Ababa of July 2015, and guide future work of OSAA and other stakeholders in supporting African countries in their pursuit of sustainable development, particularly infrastructure development.

**4. Format of the Meeting**

The High Level Side Event will take the form of a panel discussion, featuring a moderator and panel discussants, with contribution from attendees. Short presentations on issues under review would be made. The high level meeting will be moderated by Under-Secretary-General Maged Abdelaziz and structured into five segments:

- Opening segment
- Ministerial Segment
- High Level Policy Dialogue
- High Level Expert Dialogue
- Interactive Discussion

**The opening segment will feature welcoming statements from:**

1. Welcome and opening remarks by Mr. Maged Abdelaziz, USG and Special Adviser on Africa – Moderator
2. Statement by Mr. José Ángel Gurría, Secretary-General, OECD
3. Keynote Statement by H.E. Macky Sall, President of Senegal (Chair of the NEPAD Heads of State and Government Orientation Committee (HSGOC)

**The Ministerial Segment will feature keynote addresses by:**

- Statement by Minister of Finance of Ethiopia, Host country of the Conference
- Statement by Minister from an OECD country, TBC
- Statement by Minister from an Emerging Partner Country, TBC

**High Level Policy Dialogue:**

- Statement by Dr. Ibrahim Assane Mayaki, CEO of NEPAD Agency
- Statement by Erik Solheim, Chair, OECD Development Assistance Committee
- Statement by Global Compact Representative, TBC

**High Level Expert Dialogue:**

- Statement from Dr. Daniel Matjila, CEO, Public Investment Corporation, South Africa
- Statement from Ms. Chinelo Anohu-Amazu, Managing Director, PenCom, Nigeria

- Statement from an expert from an OECD country where pension funds are investing in infrastructure (Canada or Australia)
- Statement from Professor Ernest Aryeetey, Vice-Chancellor, University of Ghana and Non-resident senior fellow with the Africa Growth Initiative in the Global Economy and Development program of The Brookings Institution.
- Statement from Professor Elizabeth Asiedu, Professor of Economics at the University of Kansas[7].

**Interactive Discussion:**

The meeting will be open to all delegates attending the Third UN International Conference on Financing for Development; specifically Government representatives, leaders and members of the business community, civil society, academia and United Nations and other multilateral institutions. Additionally, staff from OSAA and relevant Africa's regional organisations will attend to provide substantive support.

**Contacts**

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3. Mike Pfister, Senior Policy Advisor, OECD
4. Lucy Shedden, Events Coordinator, OECD

**Background documents**

OECD Policy Framework for Investment (2015 edition):
http://www.oecd.org/investment/pfi.htm

OECD long-term investment:
http://www.oecd.org/finance/private-pensions/institutionalinvestorsandlong-terminvestment.htm

NEPAD-OECD Africa Investment Initiative:
http://www.oecd.org/daf/inv/investment-policy/africa.htm

[7] Potential alternative speaker for Professor Aryeetey.