GAUGING APPETITE OF AFRICAN INSTITUTIONAL INVESTORS FOR NEW ASSET CLASSES

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

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IFC/AFDB/MFW4A JOINT RESEARCH STUDY [1]

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Foreword

Local institutional investors with longer-term liabilities profiles are well positioned to play an important role in channeling longer-term domestic savings to productive uses, which can help drive more sustainable macro-economic growth. In Africa, where the infrastructural finance gap remains huge, at an estimated at USD 130 – USD 170 billion a year, local pension funds, insurance companies and other institutional investors serve as a critical source for mobilizing domestic resources to bridge this gap. Notwithstanding the global financial crisis that occurred in 2007-08 and the recent Covid-19 pandemic, Africa's institutional investor base has continued to grow strongly and has steadily accumulated assets under management over the past few decades.

When these investors diversify their portfolios into vehicles that channel capital toward longer-term uses such as building and maintaining vital infrastructure, mitigating climate change, and providing more affordable housing, these financial institutions gain an enhanced means of managing risk including during economic downturns. And, as we see during times of crisis and economic shocks, a well-developed base of local institutional investors with longer-term investment horizons may play a role in bolstering the economy's resilience to sudden, destabilizing foreign capital flow reversals.

However, institutional investors are often held back from investing in infrastructure and other critical asset classes. This is partly because their mandates are not fully aligned with new structures that have emerged and they lack the familiarity and scale needed to evaluate and take on the associated risk. Financing the ambitious development agenda ahead calls for an enhanced role for the region's institutional investors.

The Making Finance Work for Africa (MFW4A) Partnership has long supported the growth of institutional investors in Africa. Under the Joint Capital Market Program (J-CAP), the International Finance Corporation (IFC) and the World Bank have been providing financing and advisory services to help develop local institutional investors and new instruments. Over the past several years, our organizations have been exploring strategies to improve domestic resource mobilization and opportunities to leverage pension assets for affordable housing, infrastructure, green and sustainable finance, and financing SMEs.

This report is a product of the joint research efforts of MFW4A, the IFC, and the African Development Bank (AfDB) to gauge the appetite of domestic institutional investors for new asset classes in seven sub-Saharan African markets. Our joint findings identify potential areas for local market interventions and supporting national reforms that could help further develop local institutional investors as longer-term asset managers. The study findings also highlight ways that DFIs can work with local market players, by providing transaction support and bringing together co-investors in vehicles that pool capital toward meeting longer-term development finance needs.

This study is particularly timely during the present period when countries are looking into ways to mobilize domestic resources to support recovery from the Covid-19 crisis and withstand subsequent shocks. The report offers key recommendations that would potentially strengthen the role of these investors in channelling longer-term finance to its most productive uses—in the near future as well as for the longer term. The report findings identify areas where policy could focus to drive innovation in further developing new asset classes. The multi-country findings are relevant for national capital market stakeholders, development finance institutions and other players in financial sectors as they move to devise new techniques to mobilize private finance for more sustained development.

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Abbreviations

ABS	Asset-backed securities
AfDB	African Development Bank
AUM	Assets under management
BRVM	Bourse Régionale des Valeurs Mobilières
CBN	Central Bank of Nigeria
CDCs	Caisses des dépôts et de consignations
CIPRES	Conférence interafricaine de la prévoyance sociale
CMA	Capital Markets Authority
CNPS	Caisse nationale de prévoyance sociale
DB	Defined benefit
DC	Defined contribution
DFI	Development financial institution
D-REIT	Development - real estate investment trust
EAC	East African Community
ESG	Environmental, social, and governance
ETF	Exchange traded fund
FSCA	Financial Sector Conduct Authority (South Africa)
GP	General partners
IFC	International Finance Corporation
IPRES	Institution de prévoyance retraite du Sénégal
I-REIT	Income - real estate investment trust
KEPFIC	Kenya Pension Funds Investment Consortium
LCY	Local currency
MBS	Mortgage-backed securities
NAMFISA	Namibia Financial Institutions Supervisory Authority
NPRA	National Pensions Regulatory Authority (Ghana)
OHADA	Organization for the Harmonization of Business Law in Africa
OMO	Open Market Operations
PenCom	National Pension Commission (Nigeria)
PE	Private equity
PE/VC	Private equity/venture capital
PFA	Pension fund administrator
PPP	Public private partnership
RBA	Retirement Benefits Authority (Kenya)
REIT	Real estate investment trust
SADC	Southern African Development Community
SME	Small to medium-sized enterprise
SPV	Special purpose vehicle
WAEMU	West African Economic and Monetary Union
VC	Venture capital

I. EXECUTIVE SUMMARY

Deep, liquid capital markets are fundamental to economic growth because they help channel the longer-term domestic savings of an economy to their most productive uses. An important step towards developing well-functioning capital markets is to develop the "buy side", including by encouraging greater participation of domestic institutional investors such as local pension funds and local insurers that have predominantly longer-term liability profiles. A well-functioning local institutional investor base may play a role in bolstering the economy. Moreover, the Covid-19 crisis has elevated the broader policy discussion on determining the best means of tapping into and mobilizing pools of domestic capital, where these exist, which will be important to a sustainable economic recovery. Further development and appropriate regulation of local institutional investors can potentially enable these financial institutions to evolve to become important sources of longer-term finance, including for infrastructure.[2]

Several dynamics — including notably increasing populations with growing middle classes and market reforms — have led to expanding pension systems across markets in the African region over the past decade and a half. Although one or a few large state-run schemes continue to dominate in several countries, pension reforms generally have allowed a larger role for privately managed fund administrators. The shift from defined-benefit to defined-contribution pension schemes has been gaining momentum, providing an overall competitive spur to fund management practices. Participation rates in pension fund systems remain low, however, largely due to low income levels and low savings rates, and, linked with this, the still-predominant role of the informal sector in economies.

This study examines how and to what extent institutional investors in seven Sub-Saharan African focus markets — Botswana, Ghana, Kenya, Namibia, Nigeria, South Africa, and the WAEMU[3] — have been allocating assets to alternative asset classes over the past several years. The study also examines these investors' actual and perceived impediments to further diversifying their portfolios.[4] The study's cross-market findings are intended to help national capital market stakeholders and DFIs in identifying potential areas for market interventions to help foster the development of new asset classes ("financial product diversification") and provide new ways to mobilize private finance for development. The study findings are also intended to help national policy makers and regulators identify the underpinning reforms that would help to further develop local institutional investors in their role as longer-term asset managers, while safeguarding their fiduciary role, and by implication, further develop local capital markets.[5] We selected the seven focus markets to provide geographic representation within the Sub-Saharan African region, as well as to ensure that the study covers markets of sufficient size, albeit with some variation in level of development. The selection of these focus markets also provides for representation of markets with differing emphases on defined-contribution versus defined-benefit pension schemes and varying levels of local capital market development (see Section II). At the same time, this study's findings are relevant for a much broader selection of pension market stakeholders globally — beyond those in the seven African focus markets.

The continued growth of pension systems' assets under management has helped stimulate new demand and interest in these markets and the introduction of newer kinds of structures and asset classes. In recent years, policy makers and pension industry supervisors across the region have begun earmarking certain alternative assets and providing more flexible and clearer investment guidelines. Policy makers and market stakeholders also hope to "raise the visibility" of particular asset categories, such as infrastructure, among pension funds and other asset managers with longer-term liability profiles. Policy makers in some of these markets have also set timebound targets as a means of further motivating pension industry allocation.

Pension fund investment in "alternative assets" still accounts for a very small share of assets, however — ranging from 0-2.7 percent of AUM for the five focus markets reporting end-2020 asset allocation data.[6] Yet, it is clear that national ceilings are not a disincentive, based on available data for the focus countries: investment in alternative assets has remained well below national limits. Pension funds' limited progress in diversifying into newer asset classes could be due to lack of capacity or familiarity with regards to evaluating associated risk. Moreover, in markets where regulatory or policy approaches to newer assets continue to emerge, asset managers may be awaiting further clarity.

One major constraint to further portfolio diversification and growth of the industry across the study focus markets is the lack of local "product" or investable assets that would be in line with the longer-term liability structures of pension funds. The share of pension fund assets held in more "traditional" asset classes, such as listed local corporate securities, is also still low for most of the focus markets.[7] Government securities continue to account for a relatively high share of portfolios in some of the focus markets, while investment in listed corporate bonds was just under 3 percent of total AUM at end-2019 for the six focus markets (excluding South Africa) combined (see Box I and Appendix III). For traditional local asset classes as well, regulatory ceilings pose no major impediment to further diversification by pension funds in the focus markets of this study.

Limited diversification by local pension funds away from government securities may reflect the impact of macroeconomic factors and the relatively underdeveloped nature of local capital markets. Sound and stable macroeconomic policies — including disciplined fiscal policies to avoid crowding out of private investment and private-sector lending — are essential to the proper functioning of private financial markets, more generally.[8] For example, relatively high risk-free yields on short-term government securities would provide a disincentive to pension funds to diversify into other assets that better match their longer-term liability profile. Where the capital market is small, with few listings and low liquidity levels, investors tend to be reluctant to participate. The resulting limited investor participation then becomes an obstacle to attracting new issuers, which can result in a "chicken and egg" dilemma, impeding further capital market development and investor portfolio diversification. This points to the importance of the sequencing of national policy reforms: the underlying macroeconomic and overall policy framework must first provide the right foundations for policies that could develop the local capital market, including the local buy side.

With these foundations in place, developing and introducing structures that would appeal to the investment goals of domestic investors as well as to the issuers in the specific market context is very important. Pension funds and asset managers participating in our structured discussions emphasized that project promoters should be active and present in enabling clear understanding of newer asset classes across the different market players — from the policy makers, to the trustees, to the fund managers, from the earliest stages of consideration. Proactive early engagement by local investment bankers with regulators, pension funds, and other market stakeholders would also better ensure that new structures would be of more interest and relevance to pension fund investment objectives.

Key findings

Acknowledging the lack of a common, consistent definition of "alternative assets", we considered the following as "alternative assets" for the purposes of this study and its data-driven analysis: securities, funds, and other investment vehicles that have designated proceeds for infrastructure financing; private equity and venture capital (PE/VC); real estate investment trusts (REITs); securities, funds, and other investment vehicles that have designated proceeds for financing affordable housing; securities, funds, and other investment vehicles that have designated proceeds for green and sustainable financing purposes; asset-backed securities (ABS); exchange-traded funds (ETFs) and related products; and other derivatives and foreign/offshore assets, as relevant for the market (see Section III).[9] Highlights of the study's findings by broad asset class groupings are as follows:

- **Infrastructure:** Still-large infrastructure gaps mean a greater potential role for private capital, particularly in the context of the Covid crisis, characterized by more severely limited fiscal space. Appropriate structures are currently lacking or could be improved, however. Longer-term asset managers within some focus markets have been proactive in seeking to explore potential opportunities to partner with DFI investors, government and/or other market players with the aim of devising products, frameworks, and mechanisms that would enable them to invest in infrastructure in a commercially viable and structured manner.

- **Real estate-based asset classes:** Niche underserved property segments closely linked to affordable housing have been identified as of interest to investors: affordable tertiary student housing in Kenya, land located close to mines where housing is scarce in Botswana, social housing in the Dakar suburbs and affordable housing designated for the national police in Côte d'Ivoire, and rural township shopping centres in South Africa. For newer asset classes such as REITs, more engagement with pension fund trustees in the process from the earliest stages of consideration is particularly important.

- **Thematic assets:** Most longer-term asset managers across the focus markets emphasized that the starting point for green and other thematic assets, as for any asset class of interest, must be the potential to generate adequate returns and reflect "fair pricing". Market players anticipate that interest in these instruments may grow and develop with further clarity on reporting procedures and standards and niche sub-asset classes as well as taxonomies.

- **ABS and ETFs:** Appropriate local product is very limited, if available at all. Well-regulated transparency including for related risk and valuation clarity are additional essential features for uptake and operation of these asset class markets generally, particularly for ABS. Development of ABS structures could be one welcome means of boosting the limited supply of local product so long as investors could be confident that the underlying assets were of adequate quality.

Main recommendations

While drawing on asset allocation data and structured discussions with local pension funds, other local institutional investors, their asset managers, and national supervisors for seven African focus markets, this study's recommendations are also relevant to these stakeholder groupings in other local capital markets at similar levels of development across regions (see Section V). The study's recommendations include the following:

- **National policy makers, regulators, and local pension industries:**
  - » Ensuring a regulatory and market context that is conducive to allowing and encouraging pension fund and other capital market stakeholders to take the initiative in engaging with regulators early in devising innovative products that would be better aligned with regulations.
  - » Providing regulatory clarity where needed and more education and awareness raising around the risk-reward trade-off, particularly in the green and sustainability space.
  - » Including pension funds in forums that are discussing evolving asset class taxonomies, which could help provide guidance towards developing these in a way that would result in products trustees actually want to see and participate in.
  - » Improving data collection and dissemination so as to better gauge and understand the relative market gaps in available longer-term finance and thereby help inform policy making.

- **Larger, more experienced local asset managers:**
  - » Providing hands-on guidance for smaller funds on due diligence for newer asset classes as well as sharing of their own asset management experiences.

- **Market players and DFIs:**
  - » Providing more transaction support with "live opportunities" that could enable longer-term asset managers to better understand the opportunities and risks associated with newer structures.
  - » Taking forward potential opportunities for DFI investors to work with pension industry and other market players, with the aim of devising vehicles that bring together co-investors, to pool and channel the capital of multiple investors towards meeting longer-term development finance needs. This may help address capacity constraints and mitigate some of the risk associated with an individual investor conducting the requisite due diligence.
  - » Participating with DFIs and other co-investors could enable smaller pension funds to take ticket sizes more appropriate for their size, particularly in the energy sector.

II. OVERVIEW AND STUDY AIMS

Several dynamics — expanding populations, increasing urbanization, rising per capita incomes, and growing middle classes — have led to the expansion of pension systems across the African region over the past two decades. Although one or a few large state-owned schemes continue to dominate in several of the region's countries, privately managed, employer-based pension schemes have been emerging and proliferating (see country market profiles, Appendix 1). This has been underpinned by pension system reforms in many African markets that have allowed a larger role for privately-managed fund administrators targeting growing middle classes. Consequently, the shift from defined-benefit (DB) to defined-contribution (DC) schemes has been gaining momentum across Africa, providing an overall positive competitive spur to fund management practices within national pension systems.[10] The shift has also been spurred by increased funding risks in the form of growth of liabilities outpacing assets as well as higher life expectancies, resulting in an inability to maintain fully-funded systems.

DeMarco and Stewart (2020) have analysed how DC systems tend to expose members more directly and immediately to market volatility, such as during the onset of the Covid-19 crisis. DB systems, in contrast, are more directly impacted by the financing challenges related to eroding assets and increasing liabilities in the context of generally low interest rates over the past several years. Government-funded DB schemes are also directly impacted by the severely limited fiscal space for some countries in the current economic context. The actual members of DB schemes typically do not experience an immediate impact to their contracted pensions from market volatility, however, as their sponsoring employers assume the risks where pension assets do not cover liabilities.[11] Although DB pension system assets may be subject to the same market forces as those in DC schemes, the reactions of the managers of those assets will vary, depending on their particular allocation strategy and how actively they manage schemes, which is typically predetermined by prescribed limits. With DB plans intended to be structured and managed for the longer term, financial targets tend to correspond with working life spans, at least in theory. DC plan members maintain direct access to how assets are allocated within their individual portfolios. This means that they may suffer further losses to their contractual savings where members opt to take a shorter-term perspective in the face of market volatility than they would have if taking a more patient, longer-term view to their investments.

Coinciding with the shift from DB to DC systems, pension systems across the region have been rapidly increasing assets under management over the period from the late 2000s until the Covid-19 crisis hit. While much of the rapid growth over the period is from a very low base, pension industries that were among the largest in the region in the late 2010s, such as in South Africa and Nigeria, have also grown rapidly. Total AUM for Nigeria's pension sector, the largest of the emerging pension sectors in Sub-Saharan Africa (excluding South Africa)[12] increased more than 9.5 times since end-2006, to an estimated USD 33.3 billion by end-2019, a few months ahead of the onset of the crisis (Table 1).

Table 1. Growth of pension fund sector assets under management, 2006–20[/1]

	Total pension fund AUM at year-end (USD billion-equivalent)				Total pension fund AUM relative to GDP (%)
	End-2006[/2]	End-2016	End-2019	End-2020[/3]	End-2019
South Africa	80.2	171.2	187.3	245.1	53.3
Nigeria	3.5	20.2	33.3	32.3	7.4
Kenya	1.8	8.9	12.8	12.8	13.4
Namibia	3.3	10.1	12.2	12.1	97.0
Botswana	5.4	7.1	8.8	9.7	47.8
WAEMU	—	2.4	5.3	6.8	3.5
Ghana	1.1	3.5	4.7	5.8	7.1

Sources: AUM estimates for 2016 and 2019 are based on data sourced from national pension fund regulator periodic reports. AUM estimates for 2006 for Ghana, Kenya, Namibia, Nigeria, and South Africa are sourced from Irving and Manroth (2009). AUM data estimate for 2010 for Botswana is sourced from NBFIRA, 2011 Annual Report. Nominal GDP estimate for 2019 for WAEMU is sourced from IMF Country Report No. 21/49; all other nominal GDP estimates for 2019 are sourced from the World Bank WDI database.
— : Not available.

Notes:
/1 South Africa's more developed pension fund sector is the region's largest ranked by AUM, estimated at USD 187.3 billion - equivalent as of end-2019.
/2 End-2010 for Botswana due to lack of publicly available AUM data prior to this reference date.
/3 End-Sept. 2020 for South Africa.

Total pension industry AUM for all of this study's focus markets continued to grow in local currency terms over the one-year period through end-2020, although AUM declined slightly in US dollar terms for Nigeria and Namibia. Total AUM growth over the first year of the Covid-19 pandemic decelerated in local-currency terms in Botswana, Kenya, and Namibia, compared with the 2018-19 period. This reflected factors including the pandemic's adverse effects on the broader economy and financial markets, particularly in the first half of 2020. Total industry AUM figures mask diverging outcomes among funds within a market by industry sector. AUM likely declined over 2020 or grew more slowly for pension funds serving workers in industry sectors especially hard hit by the crisis – leading to job losses and pension fund withdrawals and reduced contributions (see Appendix II., Covid-19 crisis impact on African pension fund portfolio management).

Despite the growth in total assets and emergence of privately-managed DC schemes, participation rates in pension fund systems in the region have remained relatively low. This is largely due to the still-predominant role of informal sector jobs in the region's private sectors. Policy priorities for African pension sectors in recent years have included developing schemes to attract pension savings for workers in the informal sector, which can comprise more than 95 percent of the economy in some markets, based on most recently available data.[13] In Ghana, for example, the National Pension Regulatory Authority recently launched a five-year strategic plan to increase pension fund coverage for informal sector workers from the current 3 percent to 40 percent by 2026.

Low financial literacy rates, as well as low, unstable income levels and still relatively low life expectancies keep savings rates low in the region and contribute to the low pension fund participation rates. Gross savings relative to GDP averaged 20 percent as of 2020 for developing economies in Sub-Saharan Africa, compared with an average 42 percent for developing economies in East Asia and Pacific.[14]

From a policy-response perspective overall, the Covid-19 crisis has underscored the need to give greater priority in future to increasing the level of longer-term domestic savings in Sub-Saharan African economies and providing for more extensive participation in pension and other systems for pooling and growing domestic capital. In this regard, leveraging the full potential of local pension funds and other local institutional investors — to go beyond traditional financing approaches to take a more direct role in supporting the economies — is an important path for the region to pursue.

While much work has been done on improving the investment climate in developing countries for institutional investors, less work has focused on the institutional investors themselves. This study examines how and to what extent, institutional investors in seven Sub-Saharan African focus markets — Botswana, Ghana, Kenya, Namibia, Nigeria, South Africa, and the WAEMU[15] — have been allocating assets to alternative asset classes over the past several years, and their actual and perceived impediments to further diversifying their portfolios. We selected these seven focus

markets to ensure the study's focus on markets of sufficient size (based on AUM) albeit with some variation in level of development, as well as for geographic representation within the Sub-Saharan African region. The selection of these focus markets also provides for representation of markets with differing emphases on DC versus DB pension schemes, varying levels of local capital market development, and different policies and practices vis-à-vis local investor offshore portfolio allocation.[16]

This study places particular focus on assessing institutional investors' shifts in appetite for relatively new investment instruments ("alternative asset classes"[17]) over the past several years and the factors driving these shifts within the focus markets. The study's analysis and findings draw on:

i. Country market profiles, which provide time series-data over five years (2016-20) on pension industry allocation to alternative asset classes, based on available market data for each focus market; and take stock of national regulatory changes governing asset allocation over the period (see Appendix I for the study's market profiles for the seven focus markets).

ii. Structured discussions that we held over the past year with senior managers of local pension funds, local life insurers, local asset managers for these institutional investors, and their supervisory bodies in the seven focus markets. These guided discussions examined how and why investment strategies have been evolving for the current pool of active pension funds and other local institutional investors with longer-term liabilities profiles in each market — with a focus on alternative asset classes.

The study's cross-market findings are intended to help national capital market stakeholders and DFIs in identifying potential areas for market interventions to help foster development of new asset classes ("financial product diversification") and provide new ways to mobilize private finance for development. The study findings also are intended to help national policy makers and regulators to identify underpinning reforms that would help further develop local institutional investors in their role as longer-term asset managers, while safeguarding their fiduciary role, and by implication further develop local capital markets.[18]

This paper is organized as follows: In the following Section, III, we gauge market and policy trends driving investment in alternative assets in the seven focus markets over the past several years, including shifts in share of industry AUM, regulator and/or policy plans that impact investor diversification, and contextual factors affecting portfolio allocation. In Section IV, we examine the evolving investor appetite for particular alternative assets and structures of interest and drivers of these investment strategies. Finally, Section V presents our main findings and draws policy implications informed by evidence from the study.

III. ALTERNATIVE ASSETS: MARKET AND POLICY TRENDS

Alternative asset classes are typically categorized as those investments falling outside of the "traditional" or standardized asset classes such as listed equities, "plain vanilla" bonds and short-term debt securities, and cash and relatively liquid assets. Practices in specifically defining alternative assets vary considerably across markets, however, including for this study's seven African focus markets. Some markets include foreign assets in a broad definition of "alternative asset classes". For example, among this study's focus markets, Ghana's pension industry regulator, the National Pensions Regulatory Authority (NPRA), specifically defines "alternative investments" for its pension industry as comprising "external (cross-border)" investment, as well as REITs/REIT funds and PE.[19] Other jurisdictions, such as in Botswana's market, have adopted a narrower definition, designating an "offshore alternative investment" sub-asset class, while considering other foreign sub-asset classes as standardized asset classes.

Acknowledging the lack of a common, consistent definition of "alternative assets" across markets, we consider the following as "alternative assets" for the purposes of our paper's discussion and data-driven analysis: private equity and venture capital (PE/VC); securities, funds, and other investment vehicles that have designated proceeds for infrastructure financing; exchange-traded funds (ETFs) and related products; real estate investment trusts (REITs); securities, funds, and other investment vehicles that have designated proceeds for financing affordable housing; securities, funds, and other investment vehicles that have designated proceeds for green financing purposes; asset-backed securities (ABS); and other derivatives and foreign/offshore assets, as relevant for the market.

Local pension fund investment in "alternative asset" classes accounts for a very small share of AUM, based on the available data. Allocation to local alternative assets ranged from 0–2.7 percent of AUM — for the five focus markets reporting end-2020 asset allocation data at the time of writing (Table 2). This is little changed from the estimated 0–2.3 percent of AUM as of end-2019 for the focus markets.[20]

One likely reason that the data show such a small share for alternatives is that disaggregated reporting of multiple "alternative asset class" categories among the focus countries remains limited to Kenya, Nigeria, and South Africa. PenCom, Nigeria's pension industry supervisory authority, has been including in its monthly industry reports an increasing range of disaggregated alternative asset categories over the past several years. PenCom monthly reports have been disaggregating pension industry asset allocation based on particularly niche sub-asset classes: infrastructure funds, sovereign green bonds, and sovereign sukuk categories in publicly reported data since 2017, and corporate green bonds since 2019 (see also below).

Although disaggregated reporting of pension fund allocation to alternative assets is not yet widespread across the focus markets, it has been increasing over the past several years. In 2019-20, there were 11 alternative asset class categories reported across the seven focus countries, compared with only five such categories as of end-2016 (Table 2).[21] Over the past several years, supervisory authorities in Ghana and Botswana moved to introduce broader bucket "alternative investment" categories for reporting purposes. In the case of Ghana, the "alternative investment" allocation is defined by the national regulator, NPRA, as including REITs/REIT funds, PE, and external (cross-border) investment. For its part, Botswana's regulatory authority introduced an "offshore alternative investments" category in 2017 for reporting purposes. Kenya, Nigeria, and South Africa have been providing disaggregated data for pension industry allocation to PE/VC. Kenya and Nigeria also have been providing disaggregated data for pension industry allocation to REITs.

Botswana leads among the focus countries with just under 8 percent of AUM in alternatives at end-2020, based on the share of alternative assets in AUM by country. Notably, however the vast majority of this is allocated to alternative investments designated as offshore, with just under 1 percent designated as held in locally-domiciled alternative assets (in this case, ETFs).

Nigeria has the next highest share of its total pension industry AUM in locally-domiciled alternative assets, at 2.7 percent as of end-2020. Just over one-third of Nigeria's total pension industry allocation to alternatives was held in government-issued sukuk as of end-2020. Given that the proceeds from government sukuk issues since 2017 have been earmarked for financing infrastructure (road construction), just over half of Nigeria's pension industry total allocation to alternatives as of end-2020 was invested in infrastructure (1.4 percent of AUM). This takes into account the amount held by the pension industry in corporate infrastructure bonds and infrastructure funds, as well as sukuk (Chart 1).

Table 2. Pension sector allocation to alternative versus standard asset classes (USD million) [1]

	Botswana	Ghana	Kenya	Namibia	Nigeria	South Africa	WAEMU
Allocation to "alternative asset classes" [2]	771.7	1.2	35.7	0	878.3	1,192.9	0
Of which:							
Gov. issued sukuk					245.5		
Gov. issued green bonds					36.3		
Corp. green bonds					69.8		
Corp. infrastructure bonds					41.9		
PE/VC			15.3		87.2	542.6	
REITs			2.6		223.2		
Infrastructure funds					174.4		
"Alternative investments" [3]		1.2					
Hedge funds/derivatives						649.3	
ETFs	92.8						
"Offshore alternative investments"	678.9						
Allocation to "standard asset classes"	8,976.2	5,792.0	12,796.3	12,112.1	31,227.6	186,144.8	6,749.7
Share of alternative assets in total AUM (%)	8.0%	0.02%	0.1%	0	2.7%	0.6%	0
TOTAL AUM (USD million)	9,748.0	5,793.2	12,814.2	12,112.1	32,299.6	187,336.7	6,749.7

Sources: Pension fund regulators including their annual and other periodic reports.

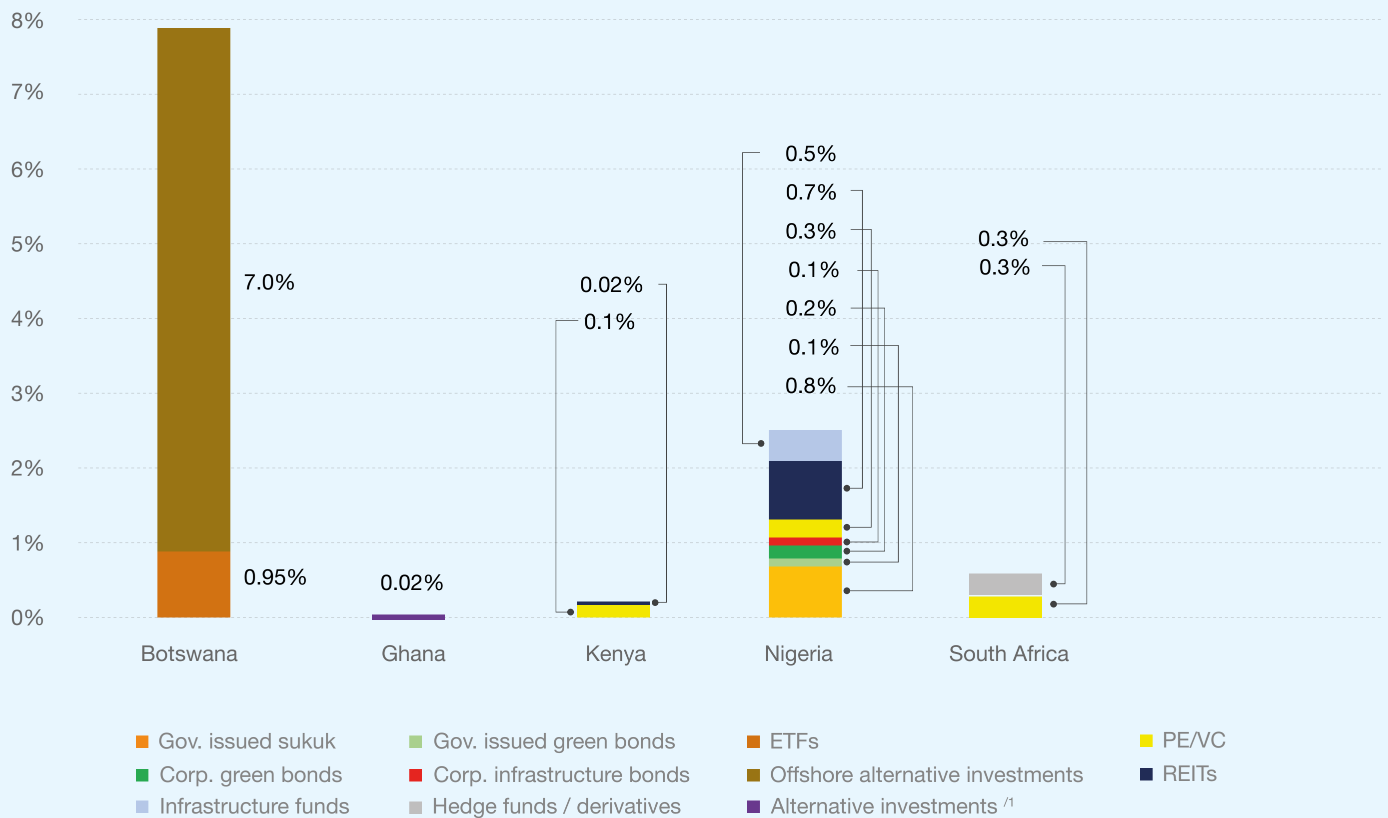
Notes:

[1] End-2020 data for Botswana, Ghana, Kenya, Namibia, Nigeria and WAEMU; end-2019 data for South Africa. In USD million, unless otherwise noted; converted from local currency amounts based on year-end exchange rates.

[2] As reported in national pension fund regulators' periodic reports.

[3] "Alternative investments", as defined by Ghana's NPRA, comprise REITs/REIT funds, PE, and external (cross-border) investment.

Chart 1. Allocation to alternative asset classes is a very small share of total AUM (As of end-2020)



Sources: Pension fund regulators including their annual and other periodic reports.

Note:
/1 "Alternative investments", as defined by Ghana's NPRA, comprise REITs/REIT funds, PE, and external (cross-border) investment.

Namibia and WAEMU have none of their pension industry assets allocated to alternative assets per se, based on publicly reported data. In the case of Namibia, however, a broader bucket "unlisted investment" asset category is reported in pension industry supervisory reports.[22] Pension industry investment in this asset category was estimated at 1 percent of AUM as of end 2020, according to the most recent supervisory report. Botswana also has a broad "unlisted equity" asset class category, with local pension industry investment estimated at 2.2 percent as of end-2020, according to the most recent supervisory report. Both of these broader asset categories likely include PE/VC for each market. Moreover, at least one local pension fund in both Botswana and Namibia has invested in PE/VC and/or mezzanine finance-type vehicles, based on our structured discussions with pension funds and other industry stakeholders in these markets.[23] A recent study conducted by Namibia's pension industry regulator, the Namibia Financial Institutions Supervisory Authority (NAMFISA), on the impact of unlisted investments in Namibia indicated appetite among larger pension funds for PE (see also below).

Pension funds and other asset managers have also reported taking up REITs as well as PE/VC in markets where supervisory authorities have not yet been tracking the specific amounts allocated to these asset categories in their publicly reported data. Our consultations with asset managers across the focus countries have revealed that these stakeholders have been actively consulting with regulators on introducing alternative asset classes and clarifying the corresponding regulatory approaches. While there has been an overall trend of more disaggregated reporting over the past several years, it is likely that actual allocation to alternative assets is higher than that which has been reported — even in the most recent data released by regulators in the focus countries. The trend towards more disaggregated reporting by asset and sub-asset class is likely to gain momentum in future — in tandem with the trend of policy makers and pension industry supervisors earmarking certain alternative assets and providing more flexible and clearer investment guidelines.

Policy makers and regulators continued raising visibility of certain asset categories

In a number of the focus markets, regulator plans already under way to encourage diversification into alternative asset classes continued unchanged or accelerated, after the crisis hit. In designating certain asset classes as "alternative assets", regulators in Ghana, Kenya, Namibia, and Nigeria have sought to set overall portfolio threshold limits allowing for more flexibility in allocating to these instruments. They also hope to "raise the visibility" of particular asset categories, such as infrastructure, among pension funds and other asset managers with longer-term liability profiles. In Kenya, for example, government policy has been encouraging pension schemes to invest in infrastructure, with the supervisory authority specifically designating "infrastructure" as an asset class with a 10 percent of AUM ceiling. Publicly reported data have not yet captured the share of Kenyan pension industry AUM allocated to this designated asset class, however.

Policy makers in some of these markets also have set timebound targets as a means of further motivating more pension industry investment in particular asset classes. In Nigeria, for example, there is an ambitious policy goal for the pension industry to hold at least 40 percent of AUM in alternative assets with a particular focus on infrastructure including energy and transport. These developments, together with growing assets under management, helped stimulate some new demand and interest in these markets.

In 2019, NAMFISA launched an exercise to evaluate how best to introduce new permissible assets that local pension funds in Namibia could take up and to gauge limits by asset class within the SADC subregion. This work continued to progress after the crisis hit — with infrastructure and derivatives under review as designated "asset classes" in Namibia. According to market stakeholders, the Covid-19 crisis itself has not prompted a change or shift in existing plans on these issues, however.

In Kenya, in recent years, there has also been ongoing clarification on the regulatory treatment of alternative assets. This has included the broadening of allowable investment categories by the industry regulator to align with the policy goal of attracting more longer-term financing of public infrastructure projects under the "Big Four" agenda.[24] As part of a government-wide approach to stimulating the post-Covid-19 economic recovery, Kenya's pension industry regulator, the Retirement Benefits Authority (RBA), introduced infrastructure debt and affordable housing as distinct asset categories with flexible yet specific ceilings. Among several crisis relief proposals by Kenya's pension fund industry to the regulator was that the government facilitate the ability of funds to invest more in infrastructure, given that the public sector would face competing priorities for its financing, particularly in healthcare. As a result, local pension schemes can invest up to 10 percent of their assets in infrastructure as a distinct asset class. According to one group of market players, the earmarking of infrastructure as a distinct asset class has improved clarity on how this kind of investment will be treated from a regulatory standpoint, enhancing investor willingness to participate.

There is an ambitious strategic policy goal for Nigeria's pension industry to aim to have at least 40 percent of AUM in alternative assets with a particular focus on infrastructure including energy and transport. Investment regulations permit PFAs to invest in infrastructure up to generous limits through various vehicles including bonds and funds (see Appendix I). The industry regulator, the National Pension Commission (PenCom), has been contemplating additional ways to motivate market players to diversify into more alternative asset classes — particularly in infrastructure.

One of the fund managers in Botswana participating in our study described how interest in diversifying into alternative assets had been under way for several years — since the fund's asset base had reached a certain level.[25] The fund has been satisfied with its allocation to offshore alternative products, such as PE, given the range of available international fund managers and service providers, such as "funds of funds". Although the appetite for local alternative asset classes such as PE and infrastructure is also strong, local product remains limited (see below). The lack of suitable local product, particularly that which would enable take-up of in-country infrastructure assets, has constrained their ability to fill these allocations.

In the few years before the Covid-19 crisis hit, South Africa's investment community and pension industry regulator had begun discussing the merits of earmarking infrastructure and impact investment-related assets as distinct asset class categories. Policy makers have been pressing for this, in particular, as one means of encouraging the pension industry to be more visibly seen as investing in infrastructure. The pension industry, for its part, was keen to explore ways to align with government policy aims. Both the regulator and market players were keen to stop short of a situation that would mandate prescribed assets, however. South Africa's regulator already tracks PE/VC and hedge funds/derivatives as separate asset class categories in data monitoring.

Under the 2016 NPRA Guidelines in Ghana, a maximum of 15 percent of total AUM may be invested in "alternative assets", as defined by the NPRA, which include PE and REITs/REIT funds.[26] The ceiling on share of AUM invested in any one of these alternative asset subclasses in Ghana is 10 percent (see also the Ghana market profile, Appendix I). The NPRA Board commissioned a consultative working group comprised of pension industry market players and regulator representatives to review the Investment Guidelines for Pension Funds. One of the main aims was to "ensure the review was directed towards driving growth in the economy through the prudent application of funds towards landmark projects".[27]

The crisis and related changes may be spurring some diversification

The crisis — and related regulatory/policy changes and macroeconomic contextual changes — have prompted funds in some of the larger African markets to take a closer look at further diversification into particular alternative assets. Local product, particularly alternative asset classes, remains limited, however, with the exception of South Africa's market. For example, managers of a large South African pension fund participating in our study discussions indicated that they continued to invest in private markets — including PE — where they have been deepening their portfolio commitment. The fund is also expanding exposure to international markets (public and private equity), increasing their emphasis on impact investing, and rolling out real asset mandates focusing on infrastructure as well as direct property. A potential vehicle of hypothetical interest since the crisis onset would be an instrument that channels Covid-19 "relief funds" as debt finance to hard-hit small- to medium-sized enterprises (SMEs).

Conditions may now be more conducive for take-up of new kinds of asset classes in Nigeria — prompted by a combination of macroeconomic and regulatory reform factors. Nigeria's pension industry has sizeable AUM, estimated at USD 33 billion at end-2019 (the second largest in Sub-Saharan Africa after South Africa), and AUM has continued to grow in naira terms (although not as rapidly) during the Covid-19 crisis. Yields on fixed-income securities had already been on a post-recession downswing and continued to fall steeply in 2020, with further policy rate cuts in response to the pandemic impact. With debt securities no longer attractive, pension funds have been shifting their portfolios away from these asset classes but face the challenge of limited product. At end-2019, around 70 percent of total AUM was in government securities; by August 2020, this had fallen to around two-thirds. At the same time, policy makers have set an ambitious strategic goal for the pension industry to aim to have at least 40 percent of AUM in alternative assets with a particular focus on infrastructure. Perhaps more importantly, this has coincided with a regulatory shift further motivating many funds to look beyond the usual short-term debt securities asset classes.[28] According to Stanbic IBTC Pension Managers (Nigeria), the combination of Open Market Operations (OMO) regulatory changes and low yield context (which had preceded the Covid-19 crisis) has led to recent signs of increasing PFA appetite for PE and alternative asset classes, generally. However, the domestic PE industry itself remains very small and more work needs to be done to develop the market space (see below).

In other markets, the crisis impact on portfolio diversification is mixed

The macroeconomic context continues to pose a barrier to diversification into listed corporate securities as well as certain alternative assets — including in markets where policy and regulations have become more conducive. For example, in markets where the risk-free yields on government securities are relatively high, pension funds and other local investors have tended to hold a large share of AUM in these securities, including short-term bills (Box 1). This reflects investor views that the additional risk does not compensate in the form of expected returns.

According to some market players in Kenya, the Covid-19 crisis accelerated somewhat of a shift into infrastructure investment, in particular, coinciding with the regulator introducing infrastructure debt as a distinct asset category as part of post-Covid economic recovery measures. The relative attractiveness of certain infrastructure assets reportedly was also enhanced by the poor performance of traditional asset classes in the earlier stage of the Covid-19 crisis. However, Kenya's macroeconomic context continues to pose a barrier to significant diversification. With increasing debt sustainability concerns as the government has needed to borrow more with reduced fiscal revenues during the crisis, the "risk-free" yields on government securities have been increasing. This renders infrastructure debt instruments and other fixed-income instrument alternatives less appealing.

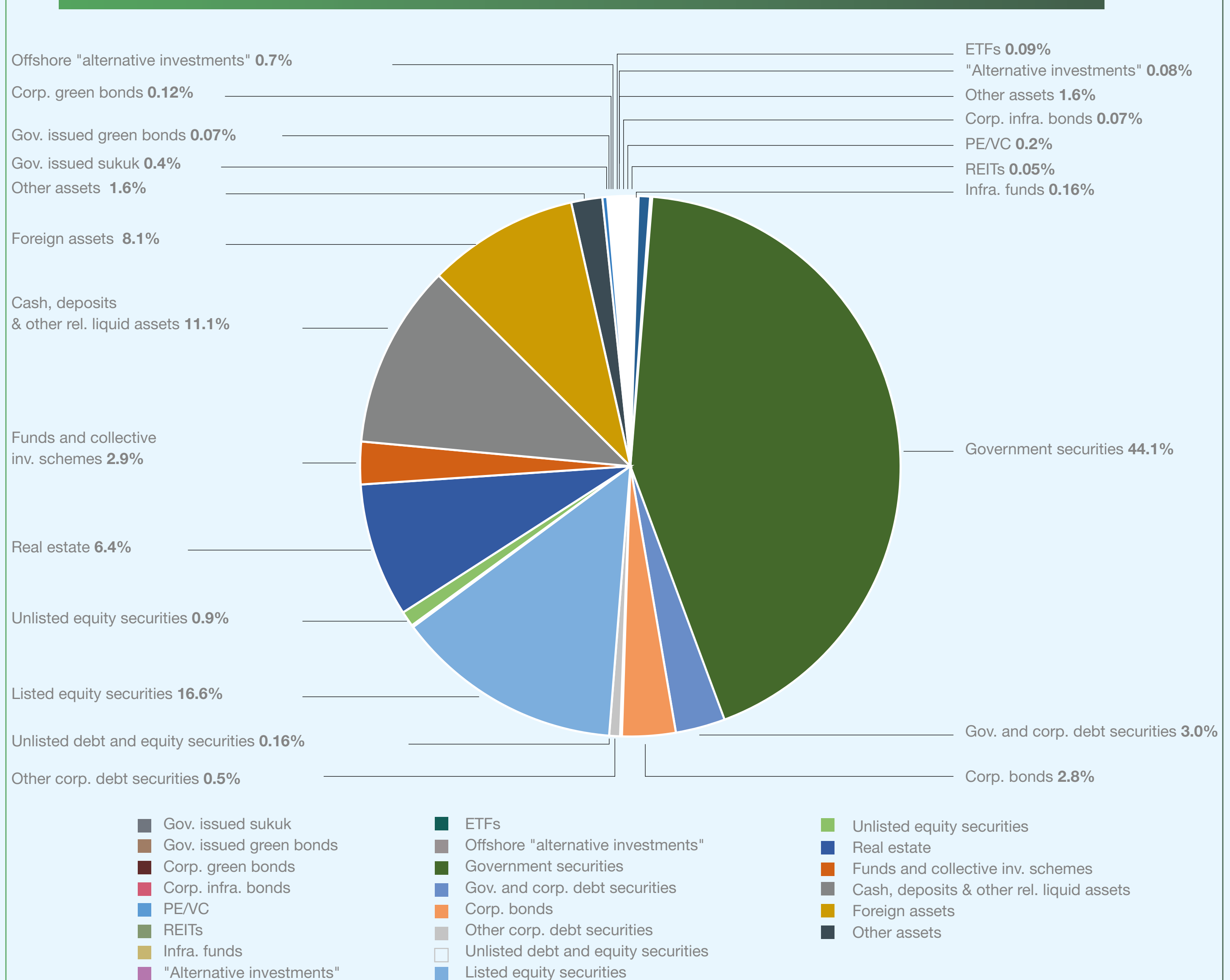
Despite the easing of monetary policy in response to the crisis, relatively high risk-free yields on government securities in Ghana also have impeded the ability of local investors there to take a longer-term view and diversify into other assets. Asset owners, in particular, are reportedly reluctant to diversify their portfolios, holding the view that expected returns in this context do not compensate for the additional risk. Nevertheless, one local pension fund player participating in our study has invested in PE via two General Partners (GP) and is actively looking for further opportunities to diversify into alternative assets. However, the fund managers noted that further diversification is constrained by restrictions on investing in foreign-domiciled assets, given the lack of local product. Some market players participating in our study that had been considering alternative assets before the crisis may continue pursuing certain opportunities, although with some possible adjustments in terms of industry sector exposure. At least one fund that had been at the point of investing in a PE fund, at the onset of the crisis, delayed this to further evaluate the PE fund strategy and portfolio companies more closely.

One can assume that, for purposes of gauging fiscal and overall macroeconomic policy, as well as local bond market development, national authorities are tracking the maturity terms of securities held by investors — as well as the take-up of debt securities issued by government versus private firms. However, the extent to which specific national supervisory authorities actually monitor local pension funds' allocation based on more narrowly defined asset categories is not clear. More disaggregated reporting in regulators' periodically released public documents on asset allocation could help make clearer whether and to what degree pension funds are taking up asset classes that better match their longer-term liability profiles, while potentially maximizing returns and diversifying risk while safeguarding members' savings.

Box 1: Government securities are around half total AUM for the markets, excluding South Africa

Investment in government securities accounted for nearly half of total AUM for the focus markets excluding South Africa at end-2019, up slightly from end-2016 (Box Charts 1.1 and 1.2).[29] Because not all countries' pension regulators disaggregate data for investment in government versus corporate debt securities, the share of total AUM allocated to government securities is actually somewhat larger. A further 3 percent of the total was allocated to a combined "government and corporate debt securities" asset category by two of the six markets (Botswana and WAEMU).

Box Chart 1.1. Total AUM for focus markets excluding South Africa: allocation by asset class, end-2019 [/1]

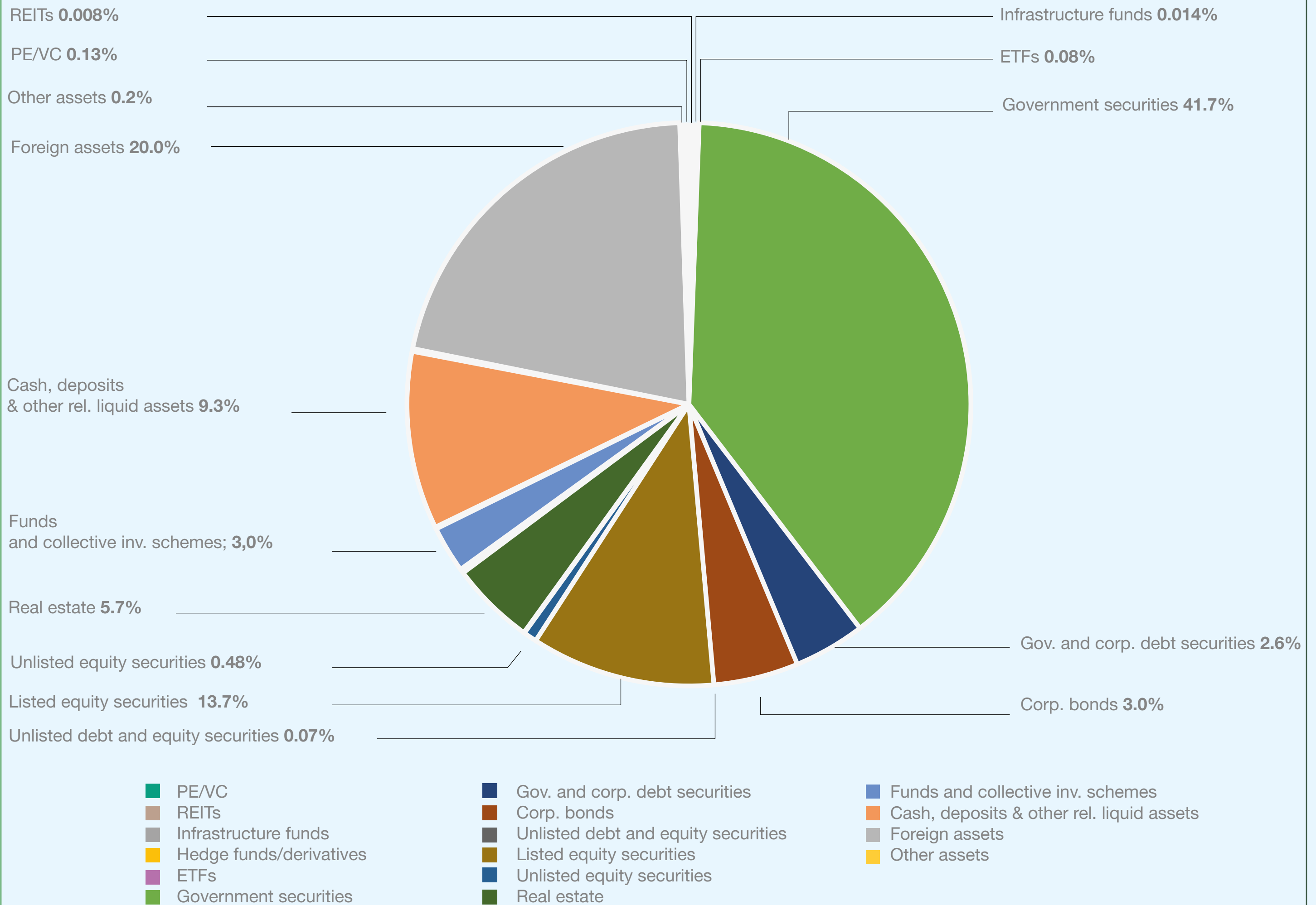


Sources: Pension fund regulators including their annual and other periodic reports.

Note:

[/1] Chart aggregates allocation by asset class as of end-2019 for Botswana, Ghana, Kenya, Namibia, Nigeria, and WAEMU.

Box Chart 1.2. Total AUM for focus markets excluding South Africa: allocation by asset class, end-2016 [/1]



Sources: Pension fund regulators including their annual and other periodic reports.

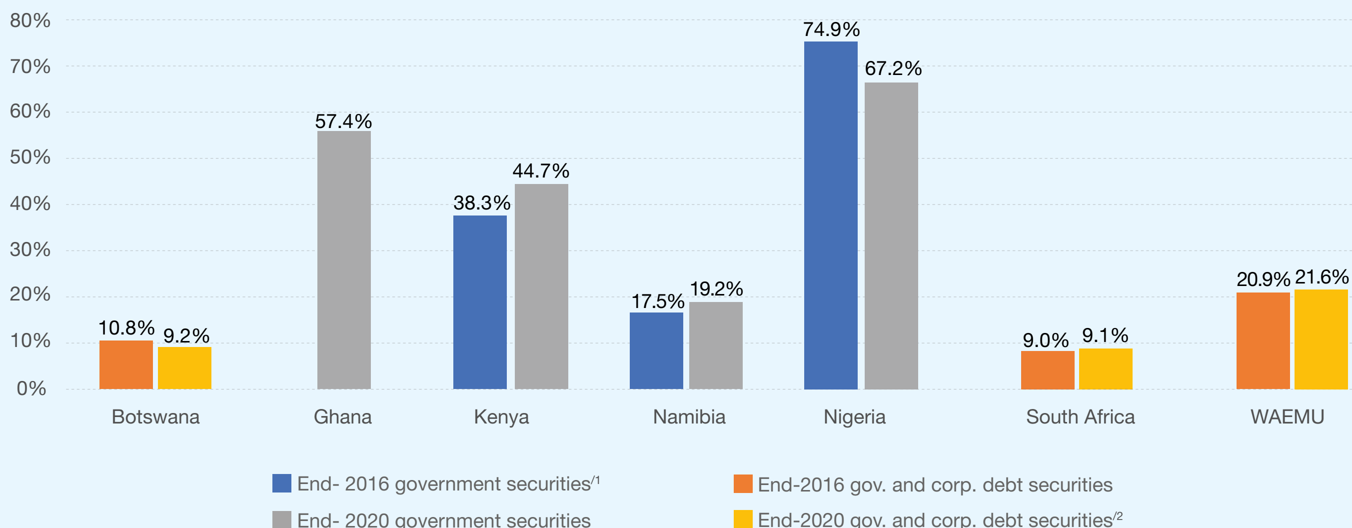
Note:

[/1] Chart aggregates allocation by asset class as of end-2016 for Botswana, Kenya, Namibia, Nigeria, and WAEMU. End-2016 data for Ghana are not publicly available.

Even South Africa, with its relatively more developed pension industry, continues to aggregate government and corporate bonds into one broad category for periodic public reporting purposes. It is also difficult to comprehensively assess across the focus markets the share held by pension systems in short-term versus medium- to longer-term government securities because this data breakdown is disseminated publicly in periodic reporting only by Nigeria's pension fund regulator. In the case of Nigeria, 25 percent of local pension fund holdings in government securities were reported in short-term securities. Three of the seven focus markets (Ghana, Kenya, and Namibia) report on holdings in government securities across all tenors; Namibia's pension regulator further disaggregates to report on the share held by pension funds in bonds issued by state-owned enterprises, local authorities, and regional councils versus sovereign issues.

Box Chart 1.3 shows a still high share of assets held in government securities for Ghana, Kenya and Nigeria, based on the most recently available year-end data. Aggregated government and corporate debt securities data reporting for pension industries in Botswana, South Africa, and WAEMU render it difficult to determine more precisely the share held in government securities.

Box Chart 1.3. Still-high share of pension AUM in government securities for some markets



Sources: Pension fund regulators including their annual and other periodic reports.

Note:

/1 End-2016 allocation data for Ghana's pension industry are not publicly available.

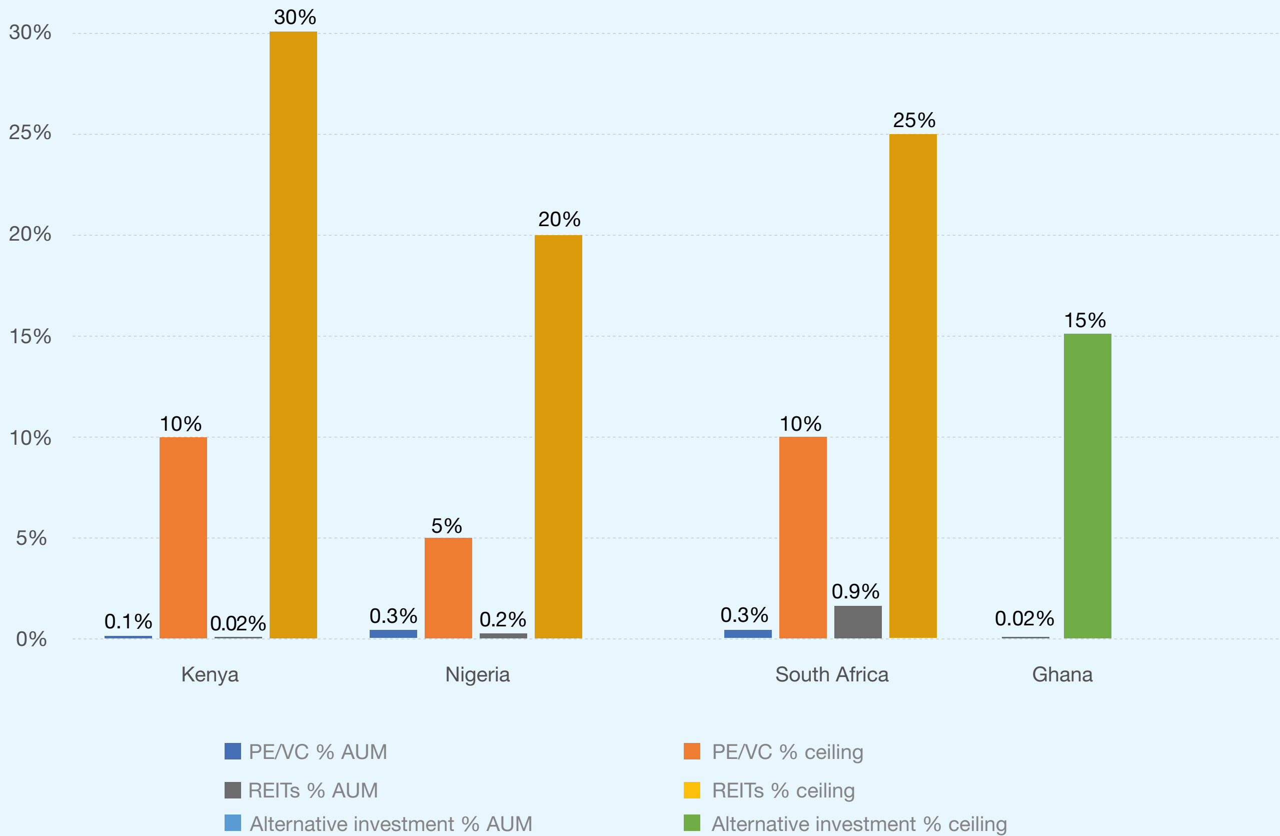
/2 End-2019 data for South Africa.

Investment in alternative assets is well below national limits

National regulatory ceilings are not a deterrent to more investment by pension industries in local alternative assets in the study focus markets, based on available data. Chart 2 plots investment amounts as share of AUM for those focus countries where pension fund systems hold some assets in PE/VC and REITs and provide data on allocation to one or more of these asset classes: Kenya, Nigeria, and South Africa. Although Ghana's regulator does not disaggregate by specific asset category in the same manner in the data that it releases publicly, the chart plots the differential between that market's take-up of, and the regulator's ceiling imposed on the broader bucket "alternative investments", which comprise REITs/REIT funds, PE, and cross-border investment.[30]

The large difference between actual allocation by national pension systems and respective national regulatory ceilings for each of these individual or grouped asset classes is striking. Even in the case of South Africa, which has some 30 operating REITs and the largest, most developed REITs market in the region, there is a very large differential of 24 percentage points between actual investment and the permitted limit. In fact, because the chart plots share of AUM for total immovable assets (instead of REITs, specifically) for South Africa, reflecting how the data are compiled and disseminated in that market, it is clear that the share of total AUM in REITs for that market is a still smaller ratio than 0.9 percent, based on most recent year-end data shown in Chart 2.

Chart 2. Alternative assets are still a very small share of AUM — and well below ceilings (% of AUM as of end-2020)



Sources: Pension fund regulators including their annual and other periodic reports.

Note: For South Africa, chart plots % of AUM for "immovable assets" (instead of REITs); the REITs ceiling of 25% applies to pension fund investment in collective investment schemes in property listed on an exchange. In Ghana, a maximum of 15% of total AUM may be invested in "alternative investments", as defined by the NPRA, which comprise REITs/REIT funds, PE, and external (cross-border) investment; the ceiling on share of AUM invested in any one alternative asset subclass is 10%.

Although Chart 2 does not include disaggregated data for Namibia's pension industry, supervisory reports include a broader bucket "unlisted investment" asset category — which includes PE/VC and is estimated at 1 percent of AUM as of end 2020, up slightly from 0.8 percent at end-2019. However, Namibia's current Pension Funds Act (soon to be replaced by the Financial Institutions and Markets Bill) sets a 1.75 percent minimum (and 3.5 percent maximum) for pension fund assets in local unlisted investments, including local PE. Looking ahead, market regulator NAMFISA intends to increase the 3.5 percent maximum to 5 percent, following findings from its recent study[31] on the impact of unlisted investments in Namibia, which indicated appetite among larger pension funds for PE, as well as derivatives and structured products.

Capacity challenges to evaluating alternative asset classes prevail

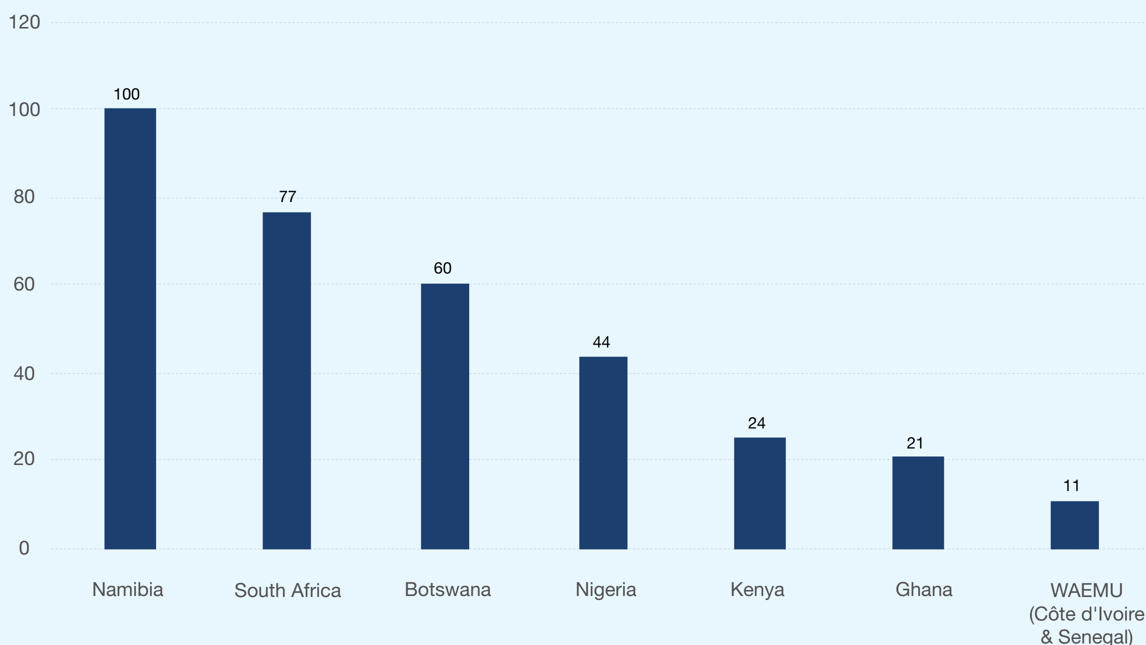
Pensions funds' limited progress so far in diversifying into newer asset classes likely reflects a lack of product, combined with lack of capacity or familiarity with evaluating the associated risks and opportunities, based on our structured discussions with pension market players. The extent to which capacity constraints manifest vary by market. In those markets where regulatory or policy approaches to newer assets continue to emerge, for example, asset managers may be awaiting further clarity.

According to the ABSA Africa Financial Markets Index 2021, Namibia's market scores highest for local investor capacity among the African region markets (Chart 3 below).[32] This is attributed to Namibia's pension industry having the largest total pension assets per capita; South Africa and Botswana also rank highly based on this indicator. WAEMU member markets covered by the index rank relatively low on capacity of local investors, reflecting a relatively weaker potential for these countries' pension industries to "drive local capital market activity".[33]

Capacity constraints also vary within each market. Smaller pension funds, in particular, indicated during our discussions that they would benefit from more guidance on due diligence as well as sharing of experiences of other asset managers with PE and other newer asset classes. Many asset managers continue to take the approach of balancing their portfolios across more traditional asset classes, which provides little incentive to diversify into newer asset classes. This is the case particularly where asset managers lack expertise and would require paying fees to other managers with the specific expertise.

Capacity constraints to evaluating risk associated with newer types of asset classes such as PE remain across the focus markets – including within South Africa's market. According to one of the larger South African pension funds, many of the local funds still have limited appetite for alternatives such as PE because they don't fully understand the asset class and are averse to the perceived illiquidity risks with limited returns in early stages. Investment managers of another large South Africa pension fund indicated that, although they have been investing in local PE and (non-PE) offshore asset classes for some time, they are hesitant to consider offshore PE because they feel less well placed to evaluate it.

Chart 3. ABSA AFMI Index Pillar 4 Score: Capacity of local investors[/1]



Source: ABSA and OMFIF, ABSA Africa Financial Markets Index 2021, October 2021.

Note:

[/1] Pillar 4 of the ABSA Index "evaluates local investor capacity based on the size of the pension fund market (AUM) and its potential to drive market activity".

More standardized, disaggregated asset class categorization in the data collection and reporting across countries could help to make clearer the extent to which funds with longer-term liability profiles have been diversifying their portfolios and enable the tracking of portfolio shifts over time. This, in turn, could facilitate policy making for further developing local capital markets as well as assessing the capacity needs of local institutional investors in evaluating newer asset classes and their potential role in portfolios.

In Ghana and Nigeria, pension fund managers indicated during our structured discussions that they face capacity limitations in doing the requisite evaluation of opportunities and risks around PE, infrastructure, and other alternative assets. Market stakeholders in Nigeria further noted that there are capacity limitations in terms of the market being able to design and launch new kinds of instruments as well as in terms of market players fully understanding how these instruments work.

Pension fund managers in Botswana indicated that they are attracted by the return profile and diversification benefits of PE and alternatives generally. However, they reported lacking the capacity to manage the associated risk in line with international best practices. According to market players, smaller funds in Botswana would benefit from more guidance on due diligence as well as the sharing of experiences of other asset managers with newer asset classes.

In Kenya, although the Association of East Africa PE Venture Capital operates capacity-building initiatives across the industry seek to scale up asset managers in assessing PE/VC opportunities, local asset managers indicated that the pension industry would benefit from more education, particularly that which is geared to trustees (see subsection on private equity below).

In Namibia as well, the relatively underdeveloped nature of the PE asset class may have limited clarity around valuation and the ability of local investors to assess deals properly. Industrywide, pension fund trustees depend heavily on their advisors due to constrained capacity for evaluating newer kinds of asset classes. According to a local asset manager for institutional investors with longer-term liabilities profiles, regulatory changes motivating the take-up of local PE and other alternatives may have resulted in asset managers opting for a higher-risk profile than portfolios otherwise may have allowed.

A "fund of funds" approach may be one way to mitigate some of the risk of diversifying into newer asset classes and address capacity limitations for evaluating risk. Where intra-regional and other geographic diversification is also an aim, a fund of funds approach may work well, particularly for smaller pension funds. However, some pension funds in Botswana and Nigeria pointed out that any potential benefits from a "fund of funds" must be weighed against the "extra layer" of fees involved.

In the WAEMU region, declines in returns on the regional stock market,[34] as well as its overall shallowness, combined with the lack of alternative instruments generating adequate returns, have led to an accumulation of capital held in fixed-income securities — mainly Treasury bills and bonds and term deposits with financial institutions. Lack of available product in WAEMU's still underdeveloped capital market is therefore a significant and interrelated factor, along with local investors' risk aversion and capacity constraints, in limiting portfolio diversification by pension funds and other asset managers. A "Fonds d'investissement africain" (African investment fund) is being set up by Conférence Interafricaine de Prévoyance Sociale (CIPRES) with funding from all CIPRES retirement fund member institutions. It is within this instrument that asset allocation will be regulated.

IV. EVOLVING INVESTOR APPETITE BY ASSET CLASS: FOCUS ON ALTERNATIVES

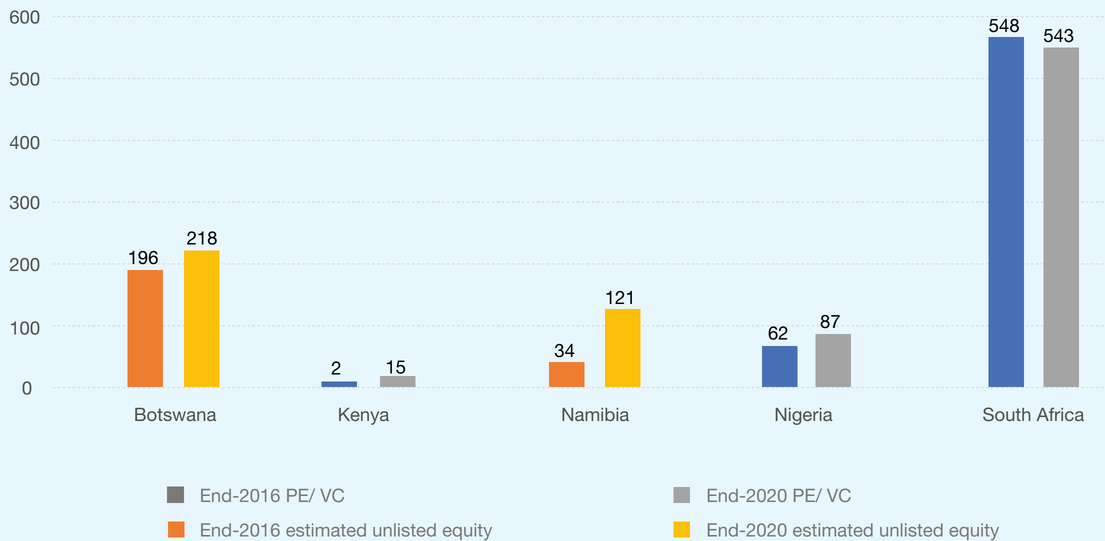
A. Private equity

Even where PE attracts larger funds, local markets remain small

PE has attracted strong interest from the larger funds in some markets, but domestic markets are very small overall. Small local PE markets are typically associated with limited PE exit opportunities, which further impedes investor interest. According to discussions with market stakeholders across the focus countries, local securities exchanges do not see enough new listings, partly because of the lack of PE needed to incubate firms and partly because there are not enough PE exits on exchanges.

Available data for the six focus markets tracking pension industry allocation to PE or related asset class categories over the period 2016-20[35] show that the total amount allocated has increased. For South Africa, by far the largest PE market among the focus markets, the amount invested by the pension industry was slightly lower but relatively stable, measured in US dollar terms. When gauged in local currency terms over the period 2016-19, the total amount invested by South Africa's pension industry in PE increased from ZAR 7.5 billion to ZAR 7.6 billion.

Chart 4. Pension allocation to PE/VC has been increasing, although most markets remain small (USD million)



Sources: Pension fund regulators including their annual and other periodic reports.

Note: For South Africa, the chart plots end-2019 rather than end-2020 data. For Botswana, the chart plots unlisted equity as reported by the national regulator. For Namibia, the estimate is based on unlisted debt and equity, as reported by the national regulator.

Botswana's large pension funds were reportedly taking a strong interest in PE as an asset class in the period ahead of the Covid-19 crisis, based on our structured discussions with pension industry stakeholders. Botswana's largest pension fund, the Botswana Public Officers Pensions Fund (BPOPF), has provided seed capital to a few wholly locally owned start-up private equity managers under a BWP 1.5 billion incubation initiative launched in 2016 to aim to provide more private capital that would enable select smaller firms to reach their next-stage growth levels. However, local institutional investors participating in our study indicated that they have been chasing a relatively small number of asset classes locally — for listed corporate securities as well as PE and other alternatives, generally. With a stock exchange that had equity listings by 32 firms as of end-2020, the domestic capital market currently is limited in meeting the product needs of the local buy-side.

In Ghana, product remains very limited with very few asset managers having the requisite expertise in PE, according to market players. At the same time, local pension funds remain reluctant to take up PE ahead of sufficient evidence of successful PE exits. Ghana's stock exchange reportedly struggles to attract firms to list due to costs of advisory (legal and financial) and other listing fees as well as the length of time required to list. Moreover, pension funds are restricted to assets domiciled locally, further restricting available product.

Few pension funds within WAEMU have real appetite for PE, in practice. Some pension market players cite the sub-optimal legal structure of the better-established LPs and limited track records of newer funds. Others consider the risk-return trade-off too high for PE to be considered an attractive asset class. The Caisses des dépôts et de consignations (CDCs) — the quasi-sovereign funds that are intended to gradually take over from pension funds in the management of longer-term public resources within WAEMU — are considerably more interested than the WAEMU subregion's pension funds are in increasing investment in PE. Product is currently lacking, however.

More transaction support is needed

Across this study's focus markets, pension industry players, particularly smaller funds, overall find risk evaluation for PE challenging and costly, seeking more transaction support and guidance/education on due diligence. In some markets, such as in Namibia, capacity limitations imply that pension fund trustees depend heavily on their advisors, according to market stakeholders. Smaller funds in Botswana that currently find the requisite analysis challenging indicated their appetite could increase with more investor education including guidance on what to look for in due diligence and information on lessons learned by other investors. One local fund in Botswana that has been looking at PE closely over the past several years has concerns that existing funds may not be managed well. Market players indicated interest in partnering with DFIs on certain PE investments and assistance with risk evaluation/due diligence.

According to market players in Ghana, constraints to tapping into PE as an asset class include the need for more transparency to build investor confidence as well as developing investor capacity to analyze and define risk characteristics of PE investments. Existing information asymmetries must be addressed through greater transparency in obtaining and accessing data. While there is potential for developing PE as an asset class, the market needs to evolve and increase in sophistication. Local investors in Ghana also remain wary of private capital with the collapse of several banks in the recent past.

In Nigeria as well, there is some hesitation to invest in PE due to lack of capacity to analyze opportunities and risks, according to market players. According to a recent survey of Nigerian PFAs conducted jointly by AVCA and PenOp, just over two-thirds of participants indicated that participation of a DFI in a PE transaction would be an important factor in evaluating opportunities in this asset class.[36] PFAs also have been proceeding cautiously in project selection within a still very small domestic PE industry. Sixty percent of participating PFAs the AVCA and PenOp survey cited a limited number of established GPs and perceptions of weak exit climate/unpredictable exit windows as the largest challenges to Nigerian PFAs investing in PE.[37] One market player participating in the structured discussions for our own study proposed a permanent capital vehicle that raises money on a deal-by-deal basis as an interim solution to the lack of supply.

Within WAEMU, pension funds' limited capacity to carry out the requisite due diligence also curbs appetite for PE, which is considered to be very specialized. Moreover, very few firms in the WAEMU region are able to produce the required comprehensive and reliable financial disclosure that would attract PE investment. The financial implications of the small ticket size of PE fund investments are considered an additional deterrent. Pension funds must frequently seek recourse to sector professionals for assistance in evaluating sector-specific risks, further dampening interest in this asset class. The presence of DFIs around the table, to help with risk evaluation, could potentially provide some comfort.

In Kenya, the Association of East Africa PE Venture Capital has undertaken capacity building initiatives across the industry in terms of scaling up asset managers in assessing PE opportunities. There is still more work needed, however, according to pension industry players — especially in terms of educating trustees who tend to be very conservative and will avoid what they perceive to be higher risk than traditional assets. Similar to findings in Botswana, Nigeria, and WAEMU, moving forward, DFI-type initiatives with guarantees in PE engagements could help improve the risk profile in the eyes of trustees and other stakeholders. Support in reviewing an actual opportunity from the earliest stages would be the most valuable form of PE transaction support and would facilitate pension fund investment, according to some market participants.

PE ceilings are not a barrier, but other regulatory aspects may be

While regulators' ceilings are not an impediment to investor take-up of local PE opportunities (see Chart 5 below), several asset managers across focus markets view aspects of regulatory approaches as somewhat of a barrier. According to an asset manager for pension funds in Namibia, for example, the regulatory threshold is not the main impediment to investing in PE but, rather, the fact that asset managers of pension fund portfolios may only participate via a listed structure such as a special purpose vehicle (SPV). According to another asset manager in Namibia, current regulations do not fit the PE market's relatively nascent level of development: the cost of regulatory compliance is onerous to the point that unlisted asset managers struggle to reach hurdle rates. While regulatory changes have influenced the kinds of investments that asset managers have been doing in newer asset classes such as PE in Namibia, the underdeveloped and illiquid nature of the domestic PE market has limited clarity around valuation and the ability of investors to assess deals.

While signaling appetite for adding local PE to portfolios, a pension fund in Botswana described PE as being limited by regulations that treat listed equities across the board as a less risky asset class than unlisted equity. While taking a somewhat more cautious portfolio approach to PE than listed equities and acknowledging PE's associated risks, another fund participating in study discussions echoed this point — noting that PE valuations typically do not fluctuate as much or as frequently as listed equities.

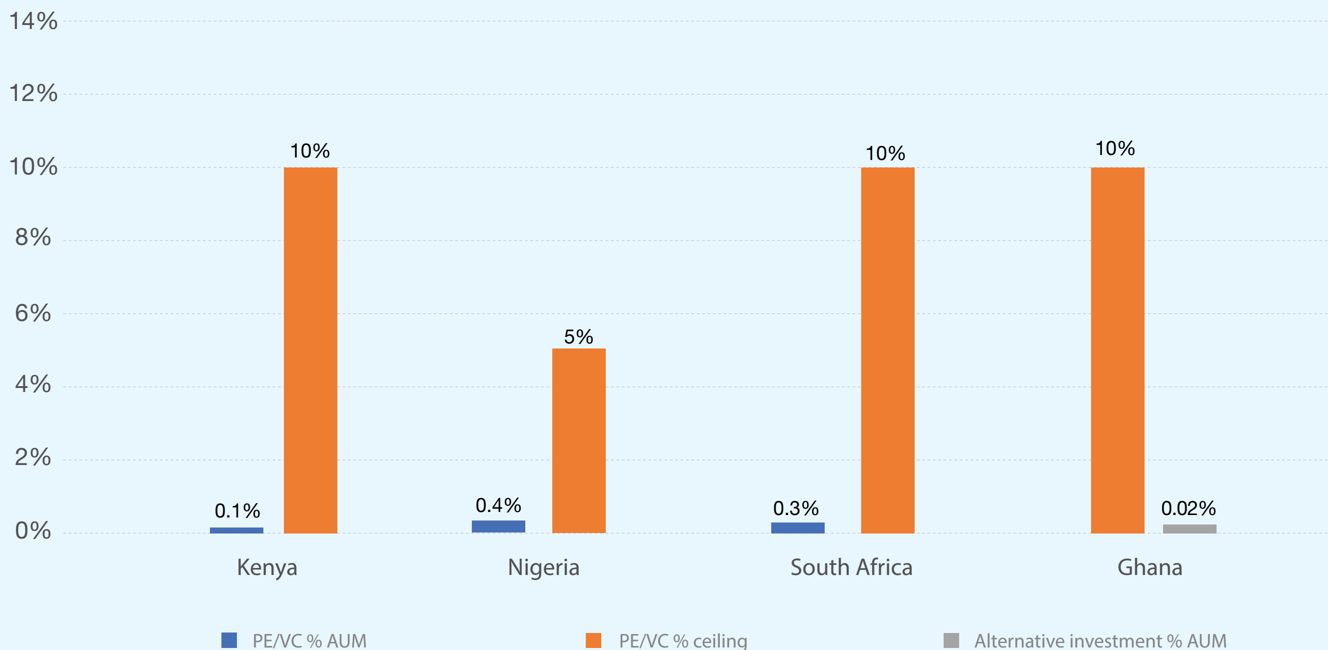
According to a large pension market player in Ghana, listed securities do not necessarily confer more "control" to investors than PE does, in terms of managing the investment — particularly since listed equities in Ghana tend to be illiquid and can lack transparency despite being public listings. According to the fund managers, in the case of PE, asset managers in Ghana generally have more control over the quality of the company, the quality of governance, and the quality of information than they would for publicly listed equity. Regulatory ceilings clearly pose no barrier in adding local PE to portfolios in Ghana. Pension fund investment in domestic PE in Ghana falls under a total 15 percent regulatory threshold for total allocation to alternative investments as established under 2016 NPRA Guidelines — with a 10 percent limit for total allocation to PE/VC. Although asset allocation data for PE/VC per se are not available in Ghana's pension industry regulator reports, data are available for industry allocation in recent years to "alternative investments", which the NPRA defines for Ghana's pension market as including PE/VC, as well as REITs/REIT funds, and external (cross-border) investment. As shown in Chart 5, Ghana's pension industry allocation to total alternative investments as of end-2020 fell well below the 10 percent of AUM ceiling set specifically for allocation to PE.

Similarly, in Nigeria, the regulatory ceiling is not currently considered an impediment by the pension fund industry in being able to take up local PE opportunities, in practice, particularly given domestic PE market constraints. However, the fact that pension industries in both Ghana and Nigeria face regulatory barriers in being able to participate directly in PE funds or other opportunities domiciled outside the country, is viewed as a more impactful restriction.

In Kenya too, pension industry allocation to "domestic" PE/VC is nowhere near the 10 percent of the AUM ceiling set by the regulator (Chart 5). Moreover, in the case of Kenya, PE opportunities based in other East African Community countries are treated as "domestic" for regulatory purposes. Although PE markets are nascent overall within the EAC, this does broaden the playing field somewhat. The RBA has directly addressed PE and other alternative asset classes from a regulatory standpoint in Kenya over the past several years, removing uncertainty about how these investments would be treated and boosting their attractiveness, according to market participants. Regulatory changes that give Kenya's Capital Markets Authority (CMA) a role in regulating from the product side, together with the oversight of the pension industry provided by the RBA, are expected to address some of the remaining wariness associated with investing in the PE market's relatively "unregulated space", according to market participants. Kenya's CMA has recently drafted disclosure requirements for issuers of PE/VC products in an effort to boost transparency of the information disclosed to investors.

In WAEMU, regulatory ceilings apparently are not an impediment to the take-up of PE: some CDCs are subject to a self-imposed 15 percent limit on assets invested over the next five years in equity, including PE.[38] However, the better-established PE funds have a legal structure that is as risky/unfavourable — with the transfer of resources from the pension fund to an LP that is usually domiciled in an external jurisdiction.[39] At the same time, the newly established funds with the right legal structure (registered in a country within the subregion) have little to no track record.

Chart 5. Pension allocation to PE/VC has remained far below national ceilings



Sources: Pension fund regulators including their annual and other periodic reports.

Note: For South Africa, the chart plots end-2019 rather than end-2020 data. For Botswana, the chart plots unlisted equity as reported by the national regulator. For Namibia, the estimate is based on unlisted debt and equity, as reported by the national regulator.

Larger investors seek to diversify PE exposure across a range of industries and sub-asset classes

Larger players that have the scope to diversify, especially in larger markets, are looking at increasing exposure to PE across different sectors, particularly across renewable energy and other infrastructure, but also manufacturing and technology. In South Africa, managers of one of the industry's largest pension fund players explained that their strategy for PE going forward is to seek to diversify portfolio exposure to a range of infrastructure assets domestically — digital, water, ports, and airports — while exploring opportunities specifically in renewable energy within the region and beyond.

According to managers of one of Nigeria's largest PFAs, interest in PE-related vehicles in Nigeria has grown significantly and they expect this to continue, at least in the short term (see Section III). Although local product remains limited, the range of PE funds by sector has expanded to meet growing interest — with specialized PE funds emerging with a focus on manufacturing and others on real estate, for example. According to a recent survey of Nigerian PFAs conducted jointly by AVCA and PenOp, 87 percent of participants indicated that infrastructure would be a particularly attractive sector for PE investment in Africa over the next three to five years.[40] Just over two-thirds of this survey's participating PFAs flagged healthcare as a particularly attractive sector for PE investment in Africa over this period. A manager of one large PFA in Nigeria participating in our structured discussions indicated interest in more local currency PE vehicles managed by people with previous track records investing in smaller deals, including those providing financing to SMEs.

Opportunities in the PE space in Ghana are increasing for local funds that are able to perform the due diligence, particularly in sectors such as housing, manufacturing, and technology/fintech, which may provide a balance of growth potential and risk mitigation suited for local pension fund portfolios, according to the CEO of Oasis Capital.[41] Speaking at a 2021 pension strategy conference in Ghana, he flagged manufacturing, in particular, as a sector that could add value and help diversify the economy, reducing the economy's vulnerability to large local currency depreciations.

Within WAEMU, in contrast, the social mandate of the CDCs should enable them to consider increasing their participation in PE funds that target not only strategic companies with a strong impact on local economies, but also viable SMEs that have little or no access to bank financing. This strategy would be consistent with the development mandate of these public entities, which would play the role of "investor of last resort" for the WAEMU member states.

Hybrid vehicles providing features of PE and debt appeal

With investment in a mezzanine finance fund, returns are contractual, providing a "smooth income stream" that has more limited upside potential than PE but mitigates some of the risk, explained a DC pension fund manager in Botswana. This form of investment vehicle can also have the benefit to the market, more broadly, of incubating certain local firms for eventual local listing on the stock market.

In Ghana, because local asset managers understand fixed-income assets well, mezzanine finance vehicles with some upside PE potential also would also be appealing, according to market stakeholders. According to managers of a large private pension scheme in Ghana, hybrid vehicles that invest in a mix of instruments such as debt, PE/preference shares, and convertibles have advantages over straight equity. However, equity structures would still have a role in a balanced portfolio. One challenge related to PE is that a large majority of companies in Ghana are SMEs, which have limitations in terms of corporate governance and other aspects, they noted. For this reason, the capacity to carry out the requisite due diligence and ensure that pension funds invest in the "right kind" of PE funds are very important.

Most investment activities within the PE space in Namibia are actually in mezzanine finance-type vehicles, according to pension industry stakeholders. According to market regulations, investment in PE and other unlisted assets by pension funds in Namibia is required to take place through an SPV structure as a means of addressing previous governance concerns around unlisted equity and mitigating risk.[42]

Managers of a pension fund in Botswana have opted to allocate a relatively small amount of assets to a pan-African mezzanine finance fund, which they described as having experienced asset managers who invest in enterprises with good track records. According to these pension fund managers, this hybrid investment vehicle has provided them with a way to achieve some initial, yet limited, equity exposure and better understanding of PE as an asset class. By providing access to features of debt and equity as well as geographic diversification, this investment vehicle provides some risk mitigation.

Access to certain foreign asset classes — such as PE via an experienced international PE fund manager — may provide useful diversification opportunities. For example, managers of a pension fund in Botswana identified an international PE fund manager as their main means of diversifying into offshore PE opportunities. This has provided the PE allocation they were seeking for their portfolio relatively quickly, because they were able to select from among many experienced international players already operating in PE markets at a more developed level.

According to pension market players in Ghana, a key attraction of the Oasis Capital PE fund domiciled in Ghana is that it invests cross-border (in Côte d'Ivoire as well as in Ghana) and raises capital in US dollars, which is appealing given the volatility of the local currency. Oasis is the only such fund in Ghana engaging in cross-border PE investment. Under NPRA regulations, a PE fund must have an office domicile in Ghana in order for pension funds to invest.

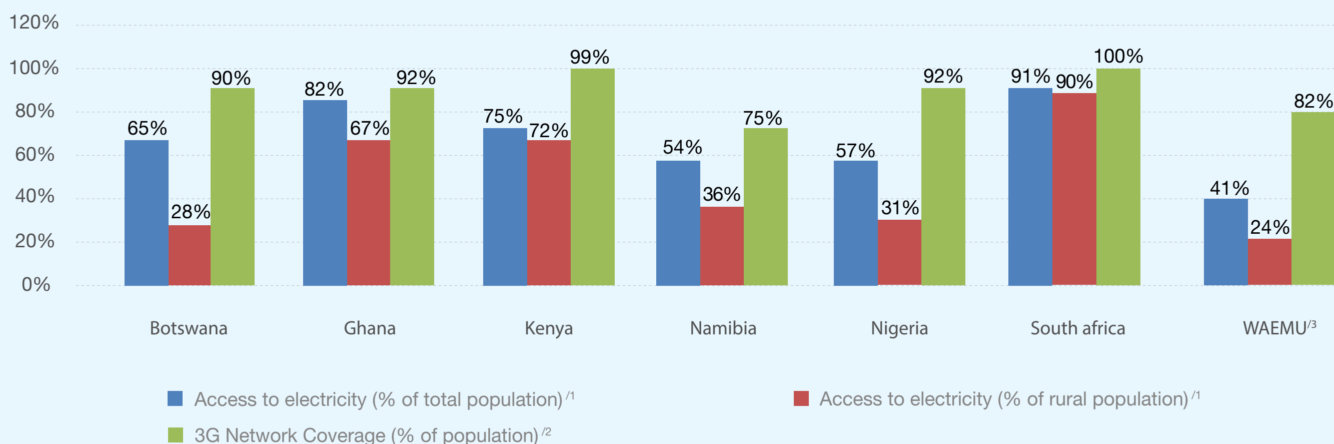
B. Infrastructure

Large infrastructure gaps mean a larger potential role for private capital

Limited fiscal space in the context of the Covid-19 crisis may mean a larger potential role for local institutional investors and other sources of private capital in financing infrastructure. Large infrastructure gaps persist across the African region. Access of rural populations to energy infrastructure, in particular, has remained relatively low in most of the focus countries, based on the most recent available data (Chart 6).

Where the infrastructure gap remains large, there may also be opportunities to partner with DFI and other co-investors. Longer-term asset managers within some of the focus markets have been proactive in seeking to explore potential opportunities to partner with DFI investors, government and/or other market players. The aim is to devise products, frameworks and mechanisms that would enable them to invest in infrastructure in a commercially viable and structured manner.

Chart 6. Access to energy and IT infrastructure in focus markets



Source: World Bank, Infrastructure Global Indicators Dashboard (https://datacatalog.worldbank.org/int/infrastructure-data/search/dataset/0038527/Infrastructure-Global-Indicators-Dashboard).

Notes:

/1 As of 2018

/2 As of 2020. 3G telecommunication networks support services provide a data transfer rate of at least 144 kbit/second.

/3 Averages have been calculated for WAEMU based on data values for the WAEMU member states: Benin, Burkina Faso, Guinea Bissau, Côte d'Ivoire, Mali, Niger, Senegal, and Togo.

For example, managers of a smaller pension fund in Botswana indicated in our study discussions that they would probably not have the risk appetite to take on these projects alone, but would consider participating with co-investors such as DFI(s). The fund noted that even one of Botswana's largest pension funds would potentially be able to allocate approximately USD 300–500 million in total AUM to infrastructure, which would probably fund only one or two infrastructure projects. The fund managers called for DFIs to join with local institutional investors to enable them to take ticket sizes appropriate for their relatively smaller size, particularly in the energy sector. The also noted that infrastructure investments can provide portfolio diversification and are attractive to local pension funds where they provide a long-term, stable level of return.

During the first half of 2021, however, pension fund managers in Botswana reported being crowded out by foreign capital as the government continued to target foreign sources of capital for public infrastructure projects. However, the more limited fiscal space since the onset of the crisis, combined with a still-large infrastructure gap implies that local private capital can be expected to take on increased importance in funding the infrastructure gap in Botswana with more opportunity for local pension funds. As a sign of this shift, when one local pension fund made public that its portfolio strategy for 2020-22 would have an investment focus on infrastructure, many local promoters approached the fund with infrastructure projects, including some very large projects. In Namibia as well, pension market stakeholders see the potential for private capital to play a larger role in debt financing of infrastructure projects, including through the bond market.

In Nigeria, in study discussions, pension fund industry stakeholders also indicated an eagerness to work with development organizations to develop frameworks and vehicles that would enable local pension funds to invest in infrastructure in a "commercially-viable and structured manner". At the same time, they underscored that the pension funds take their fiduciary role seriously. Some market stakeholders expressed disappointment with large government infrastructure transactions that have tended to have a poor history of project execution.

One asset manager participating in study discussions in Kenya further noted that the government has recently been proactive in legislating the public-private-partnership (PPP) agenda, which is important for PPP infrastructure projects. While a legal framework for PPPs is important, this asset manager also underscored the need for risk mitigation measures that would render infrastructure projects such as road construction commercially viable and therefore attractive to investors.

In Kenya, pension funds have been partnering with one another to form a consortium (KEPFIC), which pools their assets and other resources with partner co-investors to invest collectively in infrastructure projects and other longer-term investment opportunities. This approach thereby mitigates some of the risk of investing alone. With pension schemes permitted to invest up to 10 percent of their assets in infrastructure as a distinct asset class, this has greatly improved regulatory clarity, according to pension market players in Kenya. At the same time, the increased demands on government funds for healthcare and other public needs during the pandemic have opened up space for a larger role for the private sector in financing areas of the economy such as infrastructure.

WAEMU's CDCs, in particular, have expressed their willingness to support WAEMU governments in financing infrastructure including through PPPs. At least one CDC, which favours risk-sharing in its investment approach, has created specialized teams/divisions within its organization to evaluate and supervise infrastructure projects financed through PPPs.

The majority of pension funds in WAEMU currently finance infrastructure through government bond issues. However, a minority would also be open to investing directly in infrastructure projects, but only under certain conditions. These would cover transaction returns, guarantees on the returns and clear exit strategy, as well as the sponsor. A few pension funds in WAEMU have been keen to participate with co-investors involved in public services management and the provision of water and electricity services, and have expressed strong interest in coinvesting with DFIs if such opportunities arise. In addition to investing in infrastructure through government securities, a limited number of pension funds and other local investors in WAEMU continue to focus on co-investing in infrastructure with established and well-structured funds. One example involves co-investments in the construction of a thermal power plant in the Abidjan region with a pan-African industrial platform involved in public services management, and drinking water and electricity production.

Relative returns of debt-financed infrastructure assets can be hard to justify

At the same time, in markets where risk-free returns on sovereign debt issues have been driven higher by increased government borrowing during the crisis, this has reduced the relative attractiveness of including longer-term infrastructure debt financing in portfolios from a returns standpoint. According to managers of a Kenyan pension fund, for example, returns on debt-financed infrastructure investments had been relatively low ahead of the crisis, and increased government borrowing in Kenya has unfortunately further reduced these relative returns. As explained by another major pension market stakeholder in Kenya, trustees are inclined to question the merits of investing in a power plant that provides, for example (hypothetically), a 10 percent return, when the same or similar returns from sovereign-issued risk-free securities are feasible.

Echoing this point, pension fund managers in Botswana emphasized that the infrastructure space is no different from other asset class choices in the sense that, where there is potential for earning returns, investments will follow through. Pension industry stakeholders participating in our study also noted that infrastructure investments are typically made via debt instruments, which can bring the advantage, relative to equity, of minimizing risk exposure — and pension funds have a fiduciary duty to safeguard contractual savings while aiming to maximize returns. At the same time, they pointed out, each infrastructure opportunity should be evaluated on its own merits.

Managers of a large pension fund in South Africa emphasized in our study discussions that, while private market assets such as digital infrastructure and renewable energy have appeal in the infrastructure space, returns should be "at least in the mid-teens" for them to justify take-up. To this end, they are careful to select asset managers "with a track record".

Namibia's market has seen significant government investment in infrastructure since 2011, although this public-sector investment has since slowed, according to pension market stakeholders. The vast majority of bond issues on the local capital market are by the government, with relatively few corporate bond issues, particularly over the past year. One local asset manager explained that their holdings of government securities issues at short and longer terms have increased — driven by the "relative returns potential at any point in time".

Energy and private market assets favoured over transport overall

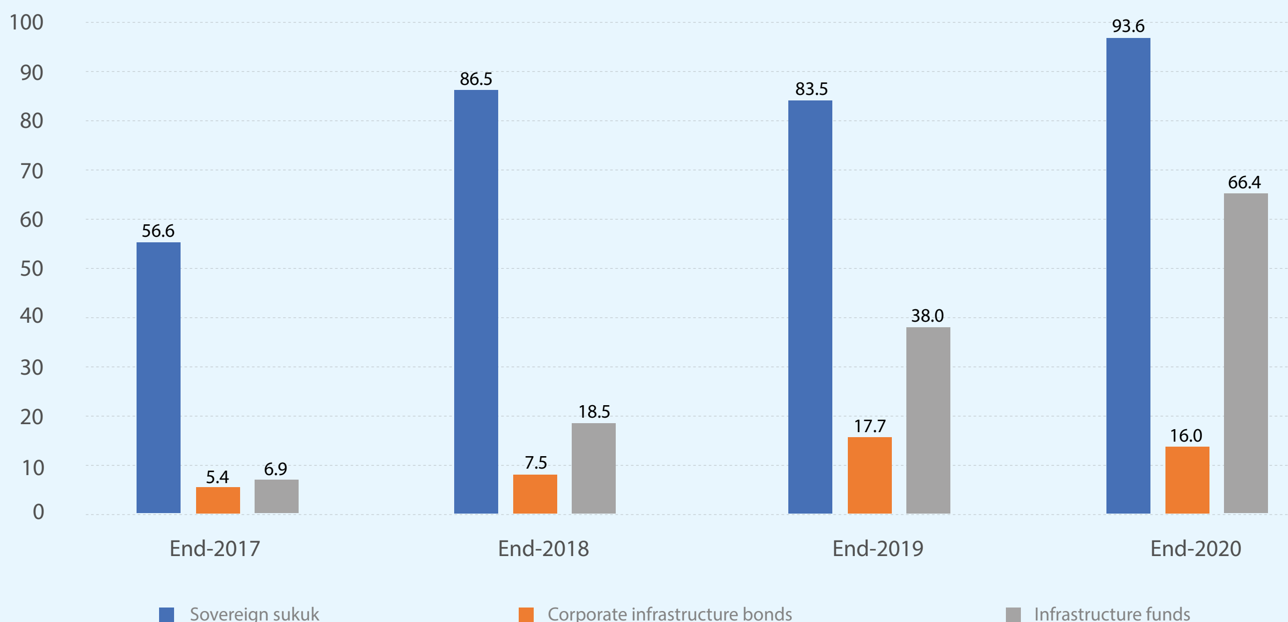
Market players in Ghana, Kenya, Nigeria, and South Africa indicated that they favour energy and private market infrastructure assets over transport projects — due to relatively easier deal assessment, better understanding of the transaction "economics", and the more limited public-sector role. As pointed out by a market player in Kenya, deal assessment is facilitated by energy sector transactions typically having a more direct financial link, with the customer paying an energy bill to the local utility, which then has agreements with generators. In contrast, water and roads projects would need to fall back on guarantees from, for example, GuarantCo and the DFI community. Even where it is feasible to gain understanding of how a road project will work, "elements such as tolls are highly unpopular". Another Kenyan asset manager indicated that they are relatively more comfortable with energy projects than road projects because of their experience in investing in that sector both in the listed equity and PE spaces.

In Nigeria, local pension industry stakeholders participating in our study discussions indicated that they prefer the power sector over transport because the largely privatized power sector would generally be better suited to private investment. There is an ambitious policy goal for the pension industry in Nigeria to hold at least 40 percent of AUM in alternative assets, with a particular focus on infrastructure, including energy and transport. According to managers of a large pension fund, however, infrastructure is one of the most challenging asset classes for domestic investors including because the government continues to play a large role in owning and managing infrastructure assets and investors tend to be unwilling to participate in the same vehicle with the government. With the recent advent of InfraCo, managers of one Nigerian pension fund indicated they might consider investing in road infrastructure if the government grants concessions for some roads and invites the private sector to tender for some projects.

Notably, the direct earmarking of the proceeds for road construction as a "tangible outcome" in recent sovereign-issued sukuk issues has raised the attractiveness to asset managers of these particular issues in financing road construction. Considering that the proceeds from Nigerian government sukuk issues since 2017 have been earmarked for financing road construction, just over half of Nigeria's pension industry total allocation to alternatives as of end-2020 was invested in infrastructure (1.4 percent of AUM). This also includes pension industry investment in corporate infrastructure bonds and infrastructure funds. As discussed in Section II, among the focus markets of this study, thus far, Nigeria's pension industry regulator is the first and only one to publicly track pension industry investment in infrastructure in the market data, including by designating three sub-asset classes since 2017. The total amount invested in the period 2017-20 more than doubled in local currency terms across the three sub-asset classes, from NGN 68.8 billion to NGN 176.0 billion (Chart 7). Pension industry investment in the sovereign sukuk issue and infrastructure funds increased particularly significantly in this period.

As part of a government-wide approach to stimulating post-Covid-19 economic recovery, Kenya's pension industry regulator has specifically designated "infrastructure" as an asset class by setting a 10 percent ceiling for AUM. Although pension industry investment in infrastructure by asset class is not yet publicly reported in Kenya, pension industry stakeholders indicated during our discussions that designating "infrastructure" as an asset class in this manner has improved clarity on how this kind of investment will be treated. In Namibia, infrastructure is currently under review by the pension industry regulator as a designated "asset class".

Chart 7. Nigerian pension fund investment in designated infrastructure assets (in NGN billion)



Source: National Pension Commission (PenCom) annual and other periodic reports.

Favouring private assets overall, a pension industry player in Ghana participating in our study indicated that they would be interested in longer-term debt financing projects, including in infrastructure construction — so long as the project being financed does not have "too much political influence in project management". They pointed to the Accra to Tema motorway and other major road construction projects as examples of a lack of political commitment to successfully execute PPP projects using local capital in Ghana — with official sector priorities on attracting FDI and the accompanying foreign exchange inflows, as opposed to mobilizing longer-term local capital for these kinds of projects.

A large South African pension fund is considering adding private debt to its portfolio in the infrastructure space, particularly in terms of increasing portfolio allocation to private markets such as digital infrastructure assets including mobile network towers, as well as renewable energy transactions. Most recently, in October 2021, African Infrastructure Investment Managers (AIIM), a large infrastructure-focused PE fund manager based in South Africa, completed a capital increase of nearly USD 370 million-equivalent for an SADC infrastructure fund, the IDEAS Managed Fund (IDEAS). Although IDEAS has allocated as much as three-quarters of capital to opportunities in the renewable energy space, this fundraising is intended to help finance an active pipeline of assets in digital infrastructure and transport sectors, as well as power. AIIM secured commitments from 19 South African institutional investors including pension funds — with as much as two-thirds of the capital reportedly committed by new investors. According to an African Private Equity and Venture Capital Association announcement, the infrastructure fund "capitalized on recent interest in alternative assets and expected amendments to Regulation 28 anticipated to support an increased allocation to infrastructure assets from the South African pension industry".[43]

Equity or hybrid structures can be attractive for investing in infrastructure

Preferred structures for investing in infrastructure can take the form of equity as well as debt — those that have potential for risk-adjusted returns. While infrastructure financing needs are significant across the region, appropriate structures are currently lacking, or could be improved in some markets and sectors. Managers of a pension fund in Botswana explained how they seek to evaluate each infrastructure opportunity (whether via debt or equity instruments) on its own merits, with a preference for the kinds of returns that equity financing instruments can potentially bring. While the fund would consider partnering with other investors on infrastructure and considering different structures, each allocation must align with its aims to generate returns while safeguarding contractual savings.

Infrastructure was the top preferred sector focus for PE investment in Africa over the next three to five years, cited by 90 percent of Nigerian PFAs participating in a recent AVCA-PenOp.[44] In Kenya, as well, one asset manager for pension funds participating in our own study noted a preference for a PE-type structure investing in infrastructure via equity. In this case, this was typically as a next step after gaining exposure through debt and some level of government guarantee and credit enhancements. Regarding PPPs, this asset manager is keen to build capacity in terms of understanding how to assess projects and negotiate the direct equity positions which, as longer-term assets, would best match with their liabilities.

PPP investments in WAEMU remain extremely complex, mainly due to the lack of an enabling regulatory framework and limited local expertise in this domain. According to managers of a CDC in WAEMU participating in the study discussions, financing infrastructure through PPPs would be more consistent with the CDC's mandate and more competitive if the cost of the associated studies and the implementation time frame were drastically reduced. Moreover, these constraints have prevented the implementation of certain projects initially scheduled in the development plan of some member states. If the challenges related to the associated studies could be addressed and local project appraisal expertise made available, PPPs could be highly attractive to institutional investors.

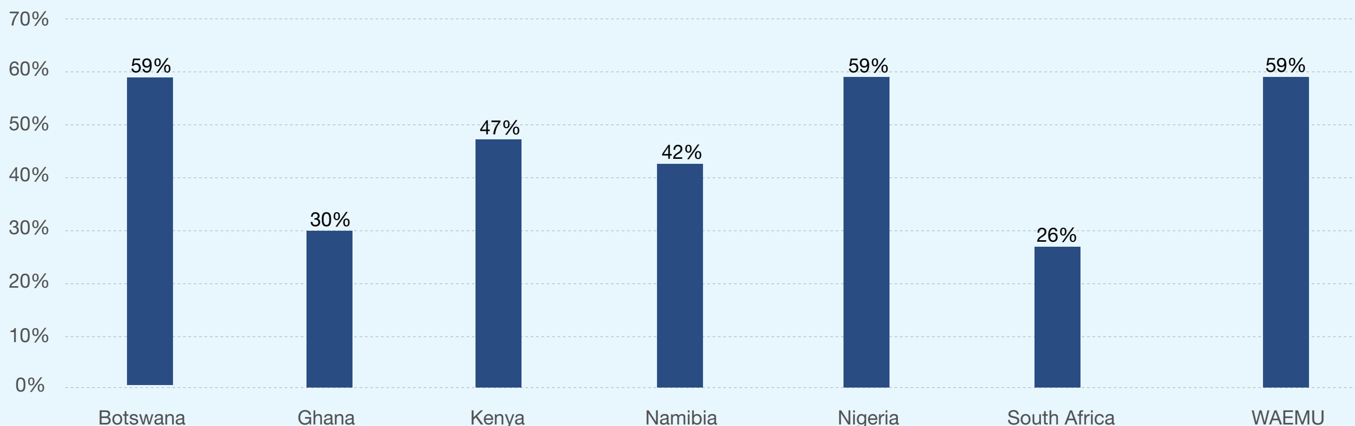
Investors in Ghana are attracted by the prospect of investing in real sector projects with visible benefits such as infrastructure — and infrastructure needs continue to be large. One local asset manager noted a preference for a hybrid, mezzanine finance-type vehicle combining features of equity and debt that sets aside some of the receivables for infrastructure as well as fixed-income assets. According to this asset manager, however, while an occasional SPV is set up, the corporate structures tailored to meet specific financing needs of infrastructure projects currently really "don't exist" in Ghana's market. Single large-sized issues and bullet maturities favoured by investors are not ideal for financing an infrastructure project, which often require significant financing in increments over several years. According to another asset manager for pension funds in Ghana who participated in the study discussions, infrastructure investment via a fund or even via direct investment as a co-investment alongside another FI would hypothetically be of interest. This form of co-investment is currently not permitted from a regulatory standpoint, however.

A Namibian asset manager for local institutional investors participating in our study noted that there would need to be a listed structure for equity investment in infrastructure as they cannot invest directly. For infrastructure-related bonds, there would need to be strong disclosure and corporate governance. According to another asset manager in Namibia who provides portfolio management services to institutional investors, the ideal structure depends on the situation. Overall, a structure with a listed element provides more flexibility than one that has a five- to ten-year "lock-up period", however.

C. Real estate and affordable housing

Affordable housing features prominently as a declared policy priority across this study's focus markets. The share of urban populations living in slums ranges from 26-59 percent in these markets, based on the most recently available data.[45] Nearly 60 percent of the urban population were living in slums in three of the focus markets (Chart 8).

Chart 8. Percent of urban population living in slums



Sources: UN Habitat for a Better Urban Future; urban population for WAEMU member countries sourced from World Bank staff estimates based on the United Nations Population Division's World Urbanization Prospects.

Actual structures for financing affordable housing generally are either scarce or have not been designed to appeal to investors in most of the study focus countries, however. Liquidity is an issue for potential investment opportunities in affordable housing, noted managers of a South African pension fund. A structure that allows access to a portion of capital when it is needed would be more desirable. Nevertheless, pension industry players in South Africa have entered the affordable housing space, through a "fund of funds".

In Ghana, affordable housing has been discussed as a government priority for some time, but policy makers and regulators have not yet translated this into investible instruments for pension funds, according to pension market players. To this end, active discussions among policy makers and market players were ongoing in Ghana in the year ahead of the Covid-19 crisis, according to one local pension fund. These discussions covered ideas for products that would invest in social housing, while also focusing on the question of whether proposed instruments would really meet the needs of social housing. Local pension industry players have been looking for ways to ensure that these instruments meet the dual goal of investing in meaningful projects that would generate returns for pension fund members in the longer-term, as well as ensuring that longer-term savings are prudentially managed, given the volatile nature of real estate market values.

Another local pension industry player in Ghana participating in study discussions indicated that they have been thinking about how to support affordable housing, but that they do not currently hold many assets deriving their value from real estate in their portfolio. The government, in an attempt to support affordable housing, is providing concessional funds. But where banks provide mortgage loans at a concessional rate of 12

percent, the returns are way below the cost of funds in the country, rendering it unattractive to local pension funds.

Pension market stakeholders in Kenya reported that they are pleased to see affordable housing initiatives, but that the return aspect, as with all asset classes, is important. It is difficult to engage with trustees in areas such as affordable housing because their focus is on the potential returns, which are typically lower than market-rate housing. There can be a lack of clarity in Kenya regarding the actual affordable housing investments being made and the expected returns, according to pension industry study participants. One market player in Kenya noted that the government is offering tax exemptions and is considering providing land, where available, and external infrastructure such as bulk power and water for large scale projects, which would make affordable housing more viable from an investment standpoint.

Because the government of Botswana has addressed affordable housing needs by introducing a parastatal, asset classes that would mobilize investment from local institutional investors and channel it into affordable housing have not been given as much priority as in other countries in the region, according to local pension industry stakeholders. There could be a role for mobilizing more capital from local institutional investors for financing affordable housing if promoters were to develop properly structured products.

There are few instruments that effectively target the affordable housing segment, according to discussions with managers of a pension fund in Nigeria. The main player in Nigeria's market providing "affordable housing" is the Family Homes Fund, which is a PPP set up by a sovereign wealth fund and backed by the Ministry of Finance. However, in practice, one would need to earn at least a civil servant's income to be able to afford the Family Homes Fund's USD 20,000 benchmark for an "affordable home". At the same time, building a home for that amount is not feasible, in practice.

There is a renewed and growing interest in real estate investment by insurance companies and pension funds in the WAEMU zone. Investments remain mainly concentrated in professional buildings and higher-end, income-generating residential housing, however, according to pension industry stakeholders participating in our study. Although it is widely acknowledged that member state support is needed to satisfy part of the large demand for social housing, this support is still insufficient or even non-existent. Moreover, pension funds hold the last land reserves in some countries (for example, Senegal) and land is a crucial element that impedes the plans of some local institutional investors in the sector (for example, Togo). Innovation is needed in designing structures that would satisfy the population's high demand for housing and also generate returns for local institutional investors, according to local institutional investors within WAEMU.

Niche, underserved property segments of interest

Niche underserved property segments closely linked to affordable housing have been identified as being of interest to local investors across several of the focus markets of this study: affordable tertiary student housing in Kenya; land located close to mines where housing is scarce in Botswana; social housing in the Dakar suburbs; affordable housing designated for the national police in Côte d'Ivoire; and rural township shopping centres in South Africa.

In South Africa, at least one pension fund has invested in affordable housing via impact funds, and this space will continue to be of interest, according to its portfolio managers. Of particular interest — and in an adjoining space to affordable housing — are rural and township shopping centres. According to the fund managers, there is an impact opportunity to cater to unmet demand that has been neglected by upmarket supermarkets and other retail outlets. While the Covid-19 crisis has shown that commercial retail space such as shopping malls generally can be risky portfolio assets, retail space assets with 45–50 percent exposure to food retailers, pharmacies and other essential shops can help mitigate this risk. The fund reportedly is also considering adding social infrastructure assets such as real estate for education and healthcare services.

Some institutional investors in WAEMU have initiated investments in social housing for specific professional categories and in particular neighbourhoods. For example, a pension fund in Senegal has invested in housing for the national police and social housing in Dakar suburbs that supports the government policy of meeting the demand for more affordable housing. While the returns are not comparable to those of other assets, these investments do generate positive returns that provide some portfolio diversification.

A pension fund in Botswana is looking more closely at potential investments in affordable housing with a focus on members. To this end, the fund has identified land in a town close to several mines, where housing is scarce. An asset manager working with pension funds in Kenya has investments in land that are strategically positioned in terms of economic activity. It is considering partnering with government and other private institutions to develop these particular tracts of land, including for affordable housing investment purposes. This institution is also looking into partnering with a financial services company that specializes in mortgage lending to target affordable housing. In Kenya, Acorn Holdings, a vertically integrated real estate business, designed and launched a REIT to invest in affordable student housing as a niche, relatively underserved segment (see below).

Real estate investment trusts (REITs)

Limited product, declining property values, and illiquidity impede REITs

Real estate investment trusts (REITs) are few in number — if available at all — across the focus markets, with the exception of South Africa (Table 3). Where they do exist, the cost and risk-reward trade-off tend to be viewed as high, and the structures and associated policies lack clarity and/or are not optimal, according to local pension industry stakeholders participating in our study discussions. Demand has tapered off further since the Covid-19 crisis hit — with a few major exceptions. Based on available disaggregated data on asset allocation for Kenya and Nigeria, local pension fund industry investment in REITs over the past several years has followed an overall path of decline in terms of total holdings (in local currency terms).

Table 3. REITs in African focus markets

	Regulatory framework introduced	Number of Registered REITs	Estimated size of REIT sector (USD million)	REIT subsectors
Botswana*	—	—	—	—
Ghana**	2018	0	—	—
Kenya	2013	4	35.5***	Commercial and residential
Namibia	—	—	—	—
Nigeria	2007	4	131	Commercial and residential
South Africa	2013	33	31,420	Commercial and residential
WAEMU	—	—	0	—

Sources: CAHF and RebelGroup (2017), "Residential REITS and their Potential to Increase Investment in and Access to Affordable Housing In Africa"; CAHF/Altair (2020), as sourced in Bertoldi and Viruly, "Role of Residential Real Estate Investment Trusts (REITs) in Sub-Saharan Africa", January 22, 2021 CAHF-RebelGroup presentation. Updates for Kenya (number and subsectors) based on information published by Acorn Holdings (https://acornholdingsafrica.com/integrated-real-estate/) and structured discussions with pension industry stakeholders for this study.

Notes:
* Botswana's regulatory framework provides for Variable Loan Rate Stock (VRLS) companies, which have some similarities with REITs.
**Regulations were drafted in 2018 but had not yet been passed as of mid 2021. HFC Bank (Republic Bank) launched a REIT-like vehicle in Ghana's market in 1995, which is structured more so as a mutual fund.
***Estimated size of Kenya's REIT sector precedes introduction in 2021 of two new residential REIT products by Acorn Holdings.

However, there have been significant portfolio shifts into and out of the available vehicles over the period in each of the study focus markets that track this asset class in periodic asset allocation data (Charts 9A and 9B). In Nigeria, notably in the last quarter of 2020, the amount held by the local pension industry in REITs increased from NGN 12.2 billion to NGN 85.0 billion, coinciding with large declines in investment in short-term government securities (-NGN 152.4 billion) and local money market securities (-NGN 321.5 billion) over the quarter. Yields on fixed-income securities had already been on a post-recession downswing and continued to fall steeply in 2020, with further policy rate cuts in response to the pandemic impact. With debt securities no longer as attractive, pension funds have been shifting their portfolios away from these asset classes (see also Section III).[46] However, a larger shift out of REITs occurred in early 2021, coinciding with a large shift into direct investment in real estate properties.

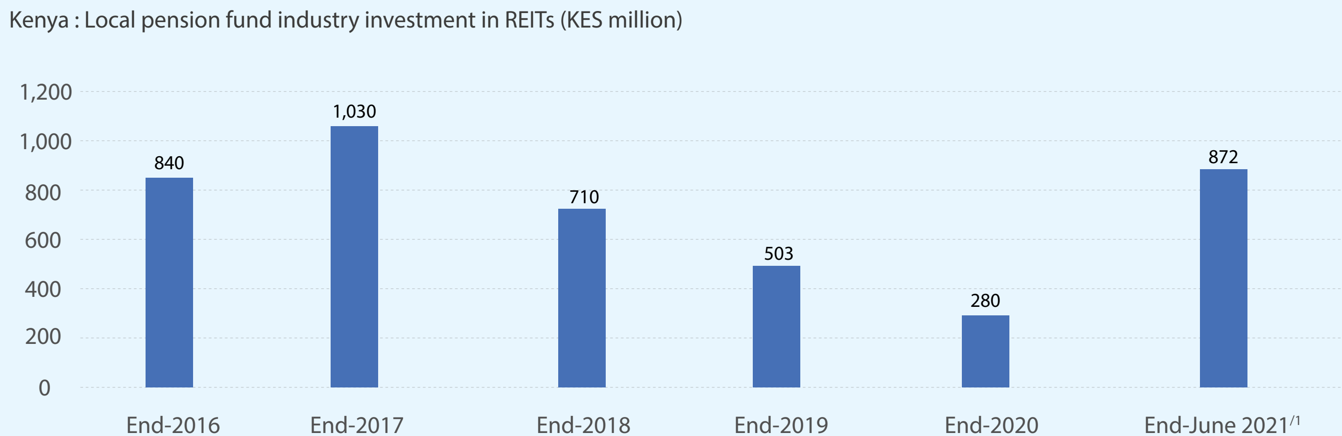
A major obstacle to further developing REITs as an asset class in Nigeria is the short supply of the instrument, according to pension industry stakeholders in Nigeria. Although pension funds are permitted to invest in REITs, the private sector has been unable to develop products that attract investors, according to industry stakeholders. One major pension fund emphasized in study discussions that they would be more comfortable investing in a REIT structure once it has begun generating cash flow, rather than new, unproven structures. Related party concerns are also a deterrent to take-up in Nigeria, according to managers of a local pension fund: more regulatory clarity is needed to prevent developers of

the underlying asset from owning a large minority or even a small majority of the vehicle itself.

In Kenya and Nigeria, regulations governing taxation of investment in REITs were recently reformed to eliminate multiple taxation of the returns. In Kenya, a VAT exemption on asset transfer into REITs was reinstated in July 2021.[47] However, market players in both markets participating in our study discussions believe it is too soon to determine whether tax reforms alone will go far enough to increase pension fund interest into the medium term.

One reason why there have been only a few REITs in Kenya, until very recently, according to market stakeholders, is that the costs of establishing these vehicles are considered high. Consequently, REITs have tended to be uncompetitive and pension funds in Kenya have tended to shy away from participating. According to an investment manager for pension fund portfolios in Kenya, more liquid structures would increase the vehicle's attractiveness. Two REIT products launched in 2021 in Kenya by Acorn Holdings, which invests in student housing, have thus far attracted strong interest from asset managers and the pension fund community, however. In this case, the fund has been structured and promoted well, with clarity on how to participate — having been designed with both an I-REIT and a D-REIT, according to pension industry stakeholders. The pension industry regulator's recent approval of some pension schemes to invest in the unlisted I-REIT and D-REIT amounted to KES 730 million in pension industry investment in these vehicles in the first half of 2021, accounting for 0.05 percent of total industry AUM, according to data recently published by the Kenya RBA.[48] This also reportedly accounted for approximately one-third of the capital raised by Acorn Holdings' REIT. Investment in the new REITs reversed the overall trend of decline since 2017 in total local pension fund investment in all available REIT products. However, pension industry portfolio investment in the existing REITS in Kenya continued its trend of decline in the same period, according to RBA data, from KES 280 million to KES 142 million.

Chart 9A. Pension fund investment in REITs fluctuated significantly over the past several years in Kenya



Source: Kenya RBA periodic reports.

Note:
/1 Total amount for end-June 2021 aggregates KES142m categorized by RBA as investment in the "REITs" asset class plus KES 730m invested in Acorn Holdings' new unlisted REIT products, categorized as "any other assets".

Chart 9B. Pension fund investment in REITs fluctuated significantly over the past several years in Nigeria

Source: Nigeria PenCom periodic reports.

South Africa has the largest REIT market in the region, with more than 30 REITs. However, South Africa's REIT market has been negatively affected over the past several years by sharp declines in property values as the economy slowed in 2018 and, more recently, by the Covid-19 crisis. In addition to the poorly performing property markets, asset managers have been reluctant to invest in REITs over the past several years due to the illiquidity of the instruments, according to pension industry stakeholders.

Pension funds in Ghana are allowed to invest in real estate, but in practice, currently do so only through mortgage-backed securities (MBS), PE, or debt financing vehicles. HFC Bank (Republic Bank) launched a REIT-like vehicle in Ghana's market in 1995 that is structured more as a mutual fund. Although legislation enabling local REITs in Ghana was drafted in 2018, it had not yet been passed as of mid-2021. In the year ahead of the onset of the Covid-19 crisis in Ghana, there was increasing demand for (and short supply of) class-A commercial property space as well as hotel and other hospitality industry real estate. According to a local pension industry player, these market developments in Ghana had begun piquing the interest of local pension funds and other investors in assets (such as MBS) deriving their value from real estate. This sentiment changed rapidly with the Covid-19 crisis, however, as many commercial properties remain unoccupied.

Pension industry regulations have also not yet specifically provided for REITS in Botswana, Namibia, and WAEMU's markets. However, the supervisory bodies in these markets do provide for real estate as an asset class. Local asset managers for institutional investors participating in our discussions noted the need for further regulatory clarity, including on the tax regime — particularly on property transfer taxation, as well as from the capital markets regulator. In Botswana, in recent years the stock exchange has recommended the introduction of REITs as an asset class.[49] In WAEMU, upcoming regulatory changes are expected to encourage the development of real estate-backed financial products such as REITs. Although the drafting of the regulatory texts is under way, the date of implementation is still uncertain.

Diversified large REIT portfolios and crisis-resilient niche sub-assets appeal

In terms of underlying assets, there seems to be an overall preference for REITs that have sufficient scale to take a diversified approach rather than those that target specific subsectors. In addition to a good understanding of the assets and strategy and the need for good asset manager track records, pension industry stakeholders in Nigeria indicated during study discussions that they would like to see REIT structures that are well diversified across tenants and assets — and with the scale to deliver over time. A Kenyan fund manager similarly explained in discussions for this study, that it is more comfortable investing in a REIT with diversified exposure within both commercial and residential real estate, as well as geographic location, to avoid the risk of overexposure to any one subsector.

However, niche sub-asset classes that have been more resilient to the impact of the Covid-19 crisis and have been well structured and well promoted have attracted asset managers. Managers of a large pension fund in South Africa described how they have been seeking exposure to asset classes and sectors that are more crisis-resilient, such as storage. This fund noted, however that even in South Africa's market, there are few storage REITs. A REIT recently launched in Kenya by Acorn Holdings, which invests in student housing as a niche, relatively underserved segment, has attracted interest from asset managers and the pension fund community (see above).

For newer asset classes such as REITs, more engagement with trustees in the process from the earliest stages of consideration is important. Industry stakeholder across markets emphasized that project promoters should be active and present in ensuring and enabling an understanding of newer asset classes across the range of market players — from the policy makers, to the trustees, to the fund managers. In South Africa's relatively well-developed market, REITs are an example of an asset class where there is significant "lack of specialist understanding" on the part of pension funds themselves, according to managers of a large local pension fund.

Pension stakeholders in Kenya shared their views in study discussions that the low uptake of REITs (at least until the Acorn Holdings' unlisted structures) has mainly been due to insufficient time across the value chain to make decisions, projects reaching trustees that are "fully baked" and yet not suitable or poorly explained. Poor investment selection and underlying investment level often due to a lack of information are additional factors. They described how there can be a tendency for information to be lost along the value chain: although the project promoters typically come to a full project that is clearly defined and understood, as the project moves to the fund manager, who is supposed to present it to the trustees, this sometimes occurs less directly, at the level of the administrators. As a result, by the time projects involving newer, more complex asset classes such as REITs are presented to trustees, too much time and knowledge has been lost along the value chain.

D. Green asset classes and ESG considerations

Limited green assets but growing interest in available niche sub-assets

Attractive green asset classes — particularly bonds — are still new and in short supply, if they are available at all, on local markets. As of end-2019, there had been several sovereign and corporate green bond issues across four of the focus markets: Kenya, Namibia, Nigeria, and South Africa (Table 4).

Local institutional investors and their asset managers participating in our study anticipate that interest in green assets may grow and develop with further clarity on taxonomies, reporting procedures, and standards. Interest is also thought to be likely to grow with the emergence of niche sub-asset classes — and as pension funds and other local institutional investors with longer-term investment horizons themselves grow and develop further.

Table 4. Green bond issues in African focus markets (as of Sep. 2021)

Issuer domicile country	Issuer	Issuer sector	Type	Value in LCY million	Issuance currency	Equiv. amount in USD million	Tenor (yrs.)	Year of issue	Use of Proceeds
Kenya	Acorn Holdings	Real estate development	1 corp. green bond	4,300	LCY	40.9	5	2019	Green certified buildings
Namibia	Bank Windhoek	Banking	1 corp. green private placement	66	LCY	4.6	3	2018	Energy, buildings and land use, transport, water, waste
Namibia	Bank Windhoek	Banking	1 corp. sustainability private placement	277	LCY	19	5	2021	
Nigeria	Sovereign gov.	Sov. gov.	1 sov. gov. green bond	10,960	LCY	26	5	2017	Energy
Nigeria	Access Bank	Banking	1 corp. green bond	15,000	LCY	36	5	2019	
Nigeria	North South Power	Power	1 corp. infrastructure bond	8,500	LCY	21	15	2019	Energy
Nigeria	Sovereign gov.	Sov. gov.	1 sov. gov. green bond	15,000	LCY	41.4	7	2019	Conservation, energy, transport
South Africa	City of Johannesburg	Municipal gov. bond issue	1 muni. gov green bond	1,460	LCY	137.8	10	2014	Energy, transport
South Africa	City of Cape Town	Municipal gov. bond issue	1 muni. gov green bond	1,000	LCY	73.8	10	2017	Conservation, urban infrastructure
South Africa	Growthpoint	Real estate development	1 corp. green bond	1,100	LCY	97.3	10	2018	Green buildings
South Africa	Nedbank	Banking	5 senior Unsecured, Green Use of Proceeds Floating Rate Notes	2,662	LCY	116.7	3-5	2019	Renewable energy (wind and solar)
South Africa	Nedbank	Banking	1 corp. "SDG-linked" green bond	2,000	LCY	116	10	2020	Power
South Africa	Standard Bank Group	Banking	1 green private placement	200	USD	200	10	2020	Water, energy, buildings
South Africa	Development Bank of Southern Africa	DFI	1 green private placement	200	Euro	200	3	2021	Infrastructure

Sources: Table data and information adapted and updated from Marbuah, George, "Scoping the Sustainable Finance Landscape in Africa: The Case of Green Bonds". Stockholm Sustainable Finance Centre (https://www.stockholmsustainablefinance.com/scoping-the-sustainable-finance-landscape-in-africa-ssfc-report/; Tyson, Judith, "ODI Policy Brief 3: Green bonds in Sub-Saharan Africa", May 2021; Climate Bonds Initiative; WFE (https://focus.world-exchanges.org/articles/nigeria-green-bonds); Nedbank Annual Impact Report, Dec. 2020 (https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Investor%20Centre/Debt%20Investor/SDGIssuances/Annual%20Green%20Bond%20Impact%20Report%202020.pdf); https://www.dbsa.org/press-releases/dbsa-launches-green-bond

As the green asset space grows and develops, these assets could become a larger share of assets under management, according to managers of local pension funds in Botswana participating in our study. Asset managers of one local fund described how, as their fund has grown, they have evolved from holding strictly "standard" asset classes to taking up more alternative assets, including green assets. They noted a clean energy/electricity deal in which they are invested, adding that they are inclined to take up green assets where available and that have the potential to generate adequate returns. According to managers of another local pension fund, attractive local green assets have been difficult to find and offshore green government bond issues have been "a bit expensive". However, the fund remains alert to green asset opportunities — whether listed or unlisted.

Regulators permit local pension funds in Ghana to invest in sustainable financial products up to a maximum of 5 percent of the fund's AUM — additional to the overall ceiling for investment in fixed-income securities.[50] Green bonds are not yet listed on Ghana's securities exchange and local green assets are in short supply generally, however. Nevertheless, interest by pension funds and other local longer-term investors in green housing as a niche sub-asset could increase going forward, according to managers of a local pension fund participating in our study discussions. They described anticipated interest in this niche green asset class as potentially "one of the more enduring impacts" of the pandemic.

Renewable energy and, within this, rooftop solar panels, were mentioned during our structured discussions with South African pension industry stakeholders as a niche green sub-asset class of strong interest. It is reportedly relatively easy for investors to access information around these niche assets since they are being widely discussed in the local financial market and can be accessed via debt as well as equity instruments. A number of pension funds in South Africa are also focused on investing in green projects that would directly impact their members.

Nigeria is one of six countries in Africa where green bonds have been listed on the local capital market and is the only African country where there have been sovereign and corporate green bond issues. Currently, there is not a strong inclination among market players in Nigeria to seek out green assets, because there is still not much product available, according to local pension industry stakeholders. A large market player in Nigeria indicated during our study discussions that they are keen to invest in green and sustainable asset classes — and have participated in every green structure so far including the only "clearly labelled" green corporate bond issue,[51] as well as a sovereign green bond and two green power projects. However, the local market supply of these products is still limited and understandably fund board members expect to see reporting and official, third-party certification of the actual use of proceeds.

Namibia's market has been devoting significant attention to devising guidance and frameworks for green bonds, according to pension industry stakeholders. Bank Windhoek, a local commercial bank, issued Namibia's first green bond in 2019 and followed with a sustainability bond via private placement in June 2021. The bank announced that it will use the proceeds to finance a combination of green and social projects benchmarked and aligned with core components of the International Capital Market Association's (ICMA) Green Bond Principles and Social Bond Principles, and follow the ICMA sustainability bond guidelines.[52] According to a Namibian asset manager for local institutional investors, longer-term asset managers in Namibia are considering how they might add green asset classes to their portfolios on a larger scale.

Fair pricing and adequate returns for green assets are essential

Most longer-term asset managers participating in our study across markets emphasized that the starting point for green assets must be the potential to generate adequate returns and reflect "fair pricing". Thus far, considerations of green — and overall ESG — aspects of potential investments across the focus markets have tended to be more informal and lacking clarity. However, some funds in these markets have begun selectively factoring in one or more ESG aspects in certain sectors (Box 2).

Asset managers across markets therefore are not yet willing to part with a portfolio management approach that looks across a mix of green and brown investments.

Where financial returns are expected to be much lower than "corresponding" asset classes, asset managers must "make a call" on the value of the green component, as pointed out by an asset manager for local institutional investors in Namibia. In Namibia, the concept of green and sustainable investments is picking up in the market and there have been two landmark corporate issues (Table 4). Bank Windhoek's landmark green bond in 2019 highlighted growing appetite. Local market stakeholders emphasize that structures with a green profile and similar returns to traditional or brown asset classes would make useful additions to longer-term investors' portfolios.

One local asset manager in Namibia indicated that they believe that green asset classes have growth potential, but at this stage they have not been actively bringing these assets into their portfolios because the yields on more traditional, plain vanilla bonds are "always at a premium". Another Namibian asset manager emphasized that any investment they make is based on the evaluation of asset fundamentals: available green assets so far are being priced "as a novelty" rather than as fairly priced assets that they could seriously consider adding to portfolios.

A Nigerian pension fund manager participating in our study discussions echoed investors in other markets, describing the challenge as yields that typically are not competitive with those available for comparable plain vanilla issues. At the same time, this fund's manager emphasized that green assets are of interest and the green bond issue by Access Bank was priced relatively competitively. Moreover, the four domestic green bonds that have been issued so far were fully taken up by the market, which, he concluded, suggests an appetite for green assets in the country.[53]

Managers of a local pension fund in Botswana emphasized that they aspire to focus on green and ESG-compliant investments whenever they can. However, given the limited range of available green asset choices to date, they plan to maintain the benefits of having different asset managers at this juncture — including some that may take up “brown” asset classes.

Asset managers for pension funds in Kenya similarly noted that there is currently a shortage of opportunities within the green investment space locally. The opportunities that have come to market have not tended to be commercially attractive when compared to other assets, they pointed out. For the time being, investing in green assets could involve taking a discount, thus reducing its appeal. The local market remains more focused on the return-side of the equation, as opposed to the sustainability aspect — seeming to view the two separately. Still, the space is relatively new, and with an improvement in capacity and investible assets, it is an area where Kenyan asset managers and pension funds do see future opportunities.

At least a few asset managers across Ghana, Kenya, and Nigeria indicated that they would be willing to trade off some returns for sustainability, however — or at least weight them equally in importance. Although asset managers for pension funds in Ghana indicated in our study discussions that they would be willing to accept somewhat lower returns in exchange for greener/more sustainable outcomes, they were not sure that their clients, the trustees, would be willing to accept this — at least at this early stage of development for green and sustainable structures[54]. More engagement and awareness raising with trustees and the public, more broadly, would be needed first, in their view. A pension market player in Kenya participating in our study discussions emphasized that they weight financial returns and green/sustainability considerations in use of proceeds equally in importance — describing this as “not an either/or situation” in evaluating asset classes with these considerations in mind. According to pension industry stakeholders in Nigeria, because of the large amount of cash sitting in pension industry players’ portfolios, if there is a well-structured, “decent” offer that clears the market, with risk-free returns plus a premium, pension funds and other longer-term asset managers will take it up. This is regardless of whether it is in the green or brown asset space. They pointed to the healthy appetite for the green bond issues so far by Nigeria’s pension industry as evidence that “pension funds definitely will invest”.

Box 2: Investors' ESG considerations tend to be informal and internally imposed

To date, ESG frameworks and considerations adopted by pension industry players have tended to be informal and internally imposed. Initiatives to begin redefining pension industry fiduciary duties to include ESG rest primarily with asset owners and managers themselves; pension regulators have not yet actively engaged in this. Nevertheless, securities market regulators in a few jurisdictions have begun taking the lead within capital markets on ESG matters, including by engaging with pension industry players.

Even within the region's largest capital market, South Africa, ESG frameworks continue to lack clarity and are not standardized. In South Africa, the Code for Responsible Investing in South Africa (CRISA) is observed on a voluntary basis to pension funds, other institutional investors and their asset managers, fund managers and consultants. CRISA provides guidance on how institutional investors should analyse assets and exercise their investor protection rights. At the level of firms listing on the Johannesburg Stock Exchange (JSE), requirements for a public listing include an obligation that the firm report on its application of the King Codes[55] principles and recommendations in its annual reports. Asset management consultants in South Africa are not yet geared or skilled enough to properly evaluate ESG, according to pension industry stakeholders. Although ESG features in discussions among market stakeholders, follow-through is not yet well structured. Pension industry players participating in this study called for ESG to be better tracked, monitored, and incorporated as a standing item.

Namibia's securities exchange, the NSX, also requires publicly listed firms to comply with the corporate governance code, which includes sections on sustainability as well as corporate governance — the Corporate Governance Code for Namibia (the NamCode). From a practical perspective, incentives in Namibia's market for investors to actively factor ESG into decision making are lacking because, so far, regulations do not address ESG considerations. Consequently, pension fund trustees and other clients are not formally seeking this out, according to an asset manager for local institutional investors.

A large pension industry player in Nigeria similarly called for more formalized reporting and certification of thematic issues and ESG claims in Nigeria's market. Since 2019, Nigeria's securities exchange has required publicly listed firms on the Premium Board to report on ESG as a listing requirement.[56] Nigeria's securities exchange and the exchanges in South Africa and Namibia, also provide some ESG training to investors.[57] More systematic, verified reporting on the use of proceeds could boost investor appetite for thematic bonds and other securities issues, according to pension industry participants in our study, however.

Currently, many firms are voluntarily reporting on ESG in Ghana, but, according to one pension industry player, standard ESG reporting by firms would likely require the securities exchange to mandate this. The securities market regulator reportedly has begun engaging with pension funds and other asset managers to determine a "roadmap on how to get the listed entities (at least) to start reporting [regularly] on some of the ESG factors". However, the national pension industry regulator continues to place more emphasis on "security of income" than on sustainability factors in its oversight of the industry, according to market participants. Thus far, the discussion on redefining pension industry fiduciary duties to include ESG is mainly confined to the asset owners.

The Botswana Stock Exchange and other capital market stakeholders in Botswana were reportedly prioritizing the adoption of ESG disclosure by corporates and the creation of ESG indices in the period before the Covid-19 crisis. However, unlike in neighbouring South Africa, there is no formal national ESG compliance framework or code. Most pension funds and their asset managers in Botswana reportedly "have an ESG framework of some kind", but these are still in need of further refinement to comply with international standards more systematically. Another pension market player indicated that, while they have not yet specifically devoted significant time and resources to ESG per se, in a less formal sense they have been mindful of ESG kinds of considerations in managing their portfolio, including to avoid attracting public criticism. According to one local asset manager, the "S" and "G" within "ESG" are particularly important and they engage with listed companies — and all of their stakeholders–on how they can improve the social aspects for pension fund members and the local population, generally. However, more could be done to emphasize ESG's "environmental" aspects.

Potential returns must be considered alongside ESG scores

Some market players (for example, in Ghana) indicated that they would be less likely to invest in securities and other vehicles issued by firms that do not score well on ESG. In comparing investment opportunities, a higher score on ESG would not outweigh lower financial returns, however, based on discussions with pension funds and their asset managers in the study focus markets. Asset classes scoring high on ESG must also produce competitively high financial returns to justify uptake.

In deciding between two investment opportunities, it would be hard to justify an opportunity with a lower return merely because it scores higher on ESG, pension industry stakeholders in Kenya noted. However, participants emphasized the growing importance of carrying out project screening for impact on employment or environmental sustainability issues: the aim is to seek out competitively high returns that also take ESG standards into account.

According to participating longer-term asset managers in Ghana, ESG considerations are becoming an increasing part of what they consider in investing, alongside potential returns, because they believe that ESG factors "also work towards sustainability of the investee companies in all regards". This year, local pension industry participants engaged with the securities exchange to discuss the idea of listed companies reporting on ESG as a standard procedure (see also above). Asset managers of one local pension industry player described how they look at potential investee track records environmentally, in terms of corporate governance, and within society — and are less likely to invest in companies that do not actively have ESG considerations.

Selectively factoring in one or more ESG aspects in certain sectors

Some funds across this study's focus markets have begun selectively factoring in some ESG considerations in considering investments in particular sectors — such as healthcare and green housing — and/or emphasizing one ESG aspect (such as governance) more than others. For example, managers of a large pension fund in Nigeria have shown some interest in investing in sectors such as healthcare that support ESG. In the context of the Covid-19 crisis, there are opportunities in this sector that could deliver more impact.

Managers of a pension fund in Ghana described how they have begun assessing the ESG aspects of green home construction for investments linked to real estate. Although ESG considerations have not yet been factored into their broader investment decision making in a standardized way, they have begun examining how to start implementing ESG principles with other kinds of investment.

An asset manager for longer-term investors in Namibia referred to ESG considerations as "quite fundamental" to their investment processes. However, they described their focus at this stage as more so on the "governance" aspects of ESG. While the social impact is more "secondary" at this stage, pricing is not yet compensating fairly for the expected environmental impact.

In WAEMU, local institutional investors participating in study discussions indicated that they apply ESG criteria in evaluating potential investments, particularly in seeking out socially responsible, sustainable investment targets. The intention is to increasingly emphasize climate-friendly asset classes, going forward. One such investor in Côte d'Ivoire has already been active in investing in thermal energy, water transport and hotel projects with a strong ESG component, and plans to continue strengthening its allocation to these subsectors.

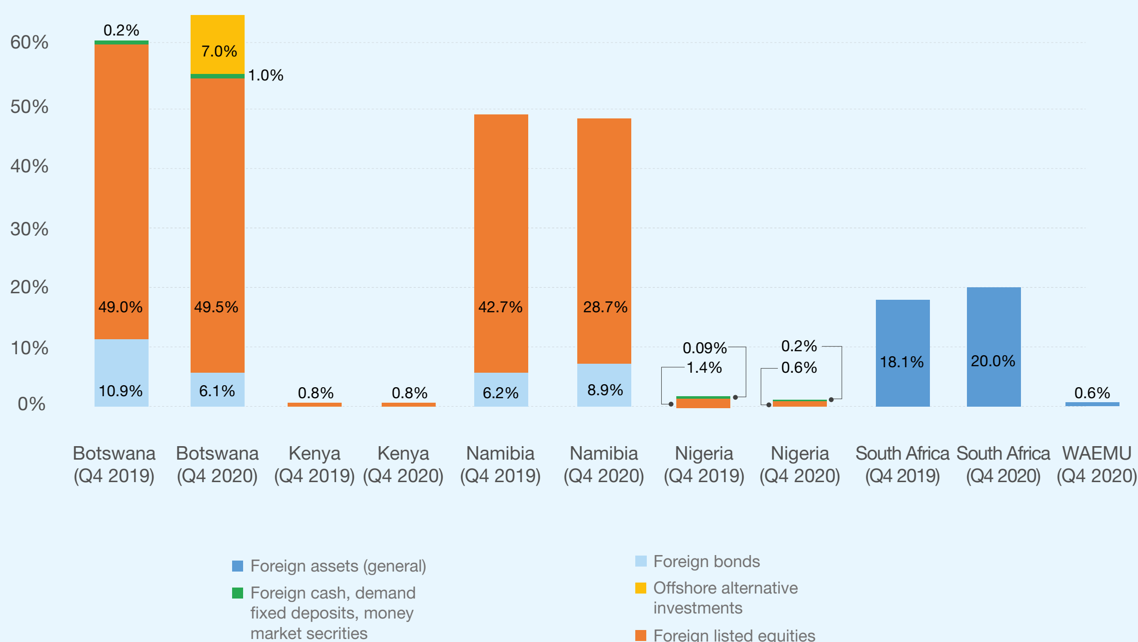
E. Foreign/offshore asset classes

Total share of AUM in foreign assets has remained relatively stable overall

Practices in including foreign or offshore assets as alternative assets vary considerably across markets including for this study's focus markets (see also Section III). Some market jurisdictions apply a relatively broad definition of "alternative asset classes" in including (or referring to) all offshore asset classes as "alternative assets". For example, Ghana's pension industry regulator, NPRA, specifically defines "alternative investments" as comprising "external (cross-border)" investment, as well as REITs/REIT funds and PE.[58] Certain other jurisdictions, such as that governing Botswana's pension industry among this study's focus markets, have designated an "offshore alternative investment" sub-asset class, while considering other foreign sub-asset classes as standardized asset classes. In the case of some other markets, regulators and policy makers may not yet have directly addressed whether foreign asset subclasses are considered "alternative assets". For the purposes of this subsection of the paper, we have applied a relatively broad definition, where the categorization of foreign asset classes as standardized assets versus alternative assets is not yet clear.

Locally domiciled assets comprise the vast majority of total assets held by the focus markets' pension systems, based on asset allocation data (Chart 10). Botswana's pension industry constitutes an exception to this local-offshore balance, however. Foreign assets, including offshore alternative investments, made up just under 64 percent of total AUM for Botswana's pension industry at end-2020 — the largest share compared with the other focus markets.[59]

Chart 10. Share of pension industry AUM in foreign assets remained relatively stable — with the exception of Namibia's market



Sources: Pension fund regulators including their annual and other periodic reports.

There was a more than 11 percentage point decline over the 2016-20 period in the share of total AUM held in foreign assets by Namibia's pension industry — to 37.6 percent.[60] Namibia and Botswana's market supervisors have been raising the mandated minimum share of AUM allocated to locally domiciled asset classes in recent years. These regulatory revisions have been prompted by policy aims to further develop and deepen local financial markets.

Limited local product and offshore allocation restrictions can constrain portfolio diversification

At least a few pension funds in Botswana are managing their portfolios to hold assets domiciled locally that exceed the current 30 percent minimum threshold, in anticipation of further regulatory changes that would raise this threshold. Under Pension Fund Rule 2 (PFR 2), pension funds in Botswana are currently required to invest at least 30 percent of their assets locally. Mangers of one local fund described how they have opted to prepare for this anticipated regulatory shift by exceeding the regulator's current minimum by 10 percentage points, possibly foregoing higher returns offshore.

In Namibia's market, the mandated minimum share of AUM that a pension fund can hold in domestic assets increased to 45 percent under Regulation 13 in 2018, up from 35 percent. There has also been a tightening of the maximum amount held in dual listed securities in Namibia, which, before 2014, were categorized as domestic assets.[61] At the same time, however, market players in Namibia have felt constrained by the limited increase in the domestic products on offer to date.

Pension funds in Ghana, Nigeria, and WAEMU currently face de facto restrictions on their ability to hold offshore assets in their portfolios. In Nigeria, although the Pension Reform Act permits foreign investment within specific limits, the legislation is awaiting approval by the country's president ahead of enactment. In Ghana, although 2016 reforms permit cross-border investment, in practice, a pension fund manager is obliged to secure written permission in advance from Ghana's Securities and Exchange Commission, the Ministry of Finance, and the country's president to invest in assets domiciled outside the country.[62] At least one pension market player has managed to access cross-border opportunities via a PE fund domiciled in Ghana that invests in firms intra-regionally.

In WAEMU, investments abroad are still subject to approval by the higher echelons of government and are consequently unattractive to investors in a de facto sense. Before investing in a foreign asset, a pension fund must obtain authorization from the central bank and/or the Ministry of Finance, among others. These steps are generally unlikely to be successful due to the strict controls in place, according to market stakeholders.

Several funds in southern Africa have shifted offshore allocation toward Chinese equities

In managing their approach to foreign asset holdings, some funds in southern Africa have been increasing the portion of their portfolio allocation to offshore listed equities towards listed equities on China's market, recognizing the large size of that country's equity market. Managers of a pension fund in Botswana described their approach to investing in foreign equities as evolving in the past several years from having an allocation for "developed market equities" and "emerging market equities" to adding an allocation for listed equities on China's market as a standalone market allocation — as China's market has grown after opening to foreign institutional investors. With the benefit of hindsight, these fund managers regret that they had not been more aggressive in the early days of this shift into Chinese equities. While emphasizing an overall geographically diversified approach to offshore listed equities, another pension fund in Botswana has set a numerical portfolio target specifically for its allocation to Chinese shares, accessing these opportunities via a European-based asset manager that is more familiar with Chinese market regulations.

During study discussions held with market players in South Africa on their approach to foreign asset holdings, managers of a major pension fund mentioned that they take an overall geographically diversified approach to offshore equities, while noting specifically that they have favoured China-domiciled assets (A-shares) in recent years. Although not stating that they have specifically shifted into Chinese equities, an asset manager for life insurance portfolios in Namibia indicated that the portfolio allocation to offshore listed equities has shifted somewhat away from South Africa and towards "large emerging markets" outside the region. The asset manager described this as the biggest change to its asset allocation strategy in the past two years.

Foreign assets as part of a diversified portfolio may provide a hedge during crises

A few asset managers for pension funds across the focus markets indicated that they have included hard-currency- and other foreign-currency-denominated assets in portfolios — as a hedge particularly in periods of uncertainty as well as for further diversification. According to market players in Kenya, holding some equity investment in the US and other businesses that earn revenues in US dollars may provide some further diversification, via a currency hedge. This is the case particularly during periods of uncertainty, based on the assumption that the US dollar can take on a "safe haven" role and dollar-denominated investments can generate good returns. Within this allocation, managers with one Kenyan pension fund explained that they have recently been favouring listed US technology firms such as Amazon, Apple, and Microsoft, noting that offshore investment in traded technology-related firms has remained quite resilient and performed better due to the impact of the Covid-19 crisis.

The few investments in foreign asset classes by WAEMU-based pension funds in the past have mainly been motivated by geographical diversification aims and have been initiated during periods of recurring crises in domestic financial systems. This was the case during the banking and insurance sector crisis in Togo between 1990 and 1994, for example. However, according to one market player, the intention of pension funds in the WAEMU zone is to disengage from those international markets that offer lower returns, despite any offsetting currency appreciation and/or stability benefits that may accrue from holding foreign-domiciled asset classes.

Offshore asset allocation tends to strongly favor equities

With yields at historic lows across many markets this past year, where funds have held or further diversified into foreign asset classes, the tendency until now has been to take up foreign equity over fixed-income securities — with some exceptions. According to a pension fund in Botswana, investing in some hard-currency-denominated emerging market debt works well as one part of an overall globally diversified portfolio management strategy that emphasizes different asset classes with low correlation. At the same time, the fund managers hold a majority of their portfolio in global equities with a proven track record of delivering on strong returns that also provide diversification across value, growth, and quality.

The Namibian pension industry's exposure to foreign bonds has come down significantly — at just below 9 percent as of end-2020 (down from 16–18 percent a few years ago). According to an asset manager for Namibian pension funds, this has been partly influenced by the minimum requirement for portfolio allocation to domestic assets, as well as declines in yields across markets in the current context–thus diminishing the attractiveness of foreign bonds.

Similarly, a Kenyan asset manager for local pension fund portfolios has approached its offshore investments by favouring listed equities over fixed-income securities due to the low yields in many markets. They invest through vehicles managed by entities with a strong track record in geographies such as North America, using both the S&P and Russell indices as benchmarks. This asset manager seeks exposure from North American companies that have earnings coming from the wider global market, including Europe and Asia, as a means of achieving further diversification.

Another Kenyan pension industry investor described an offshore asset allocation approach that emphasizes listed equities globally as well as within the region as part of its portfolio diversification strategy. According to asset managers for a South African pension fund, its offshore asset allocation similarly is basically "all listed equity" split between developed markets and emerging markets, although more recently favouring emerging markets more. More recently, the fund added a private equity offshore allocation and has begun considering listed and unlisted debt instrument opportunities within the African region for firms "that have been performing well", as well as offshore REIT opportunities.

F. ETFs and related products

ETFs may bring some useful automatic diversification into certain assets

Typically geared to smaller retail investors, exchange traded funds (ETFs) can provide a means for investors to invest passively and take up small increments of an issue that might otherwise be out of bounds. In recent years, pension funds and other local institutional investors — particularly smaller ones — in emerging and frontier markets have taken more note of ETFs as a vehicle for finding and choosing assets to invest in and therefore enabling some "automatic diversification". Regulators have focused attention on risks and costs inherent in ETFs as an investment instrument, including a potential mismatch between the liquidity of the ETFs and that of the assets they own. One issue that has focused the debate on this instrument is whether ETFs investing in less liquid asset classes create demand for assets that cannot easily be bought and sold, thereby raising systemic market risk.

Pension funds in Ghana await suitable ETF products with lower fees to come onto their local capital market, according to discussions with managers of a local pension fund there. They indicated interest (hypothetically) in investing in an ETF instrument that would track certain segments of the local listed securities market. However, such products are not yet available on Ghana's market. According to these pension fund managers, the transaction costs for the existing gold ETF available on Ghana's market is currently too high.

At least one pension fund in Ghana has some exposure to ETFs that track commodities (gold), however, according to local pension industry stakeholders. Pension funds may allocate a small amount of assets to commodities ETFs because they provide some automatic diversification into asset classes that they would not otherwise access, noted market stakeholders in both Ghana and Nigeria. Local asset managers in Nigeria participating in our study discussions indicated that commodities ETFs also may have some appeal to local institutional investors as a hedge against inflation and local currencies.

Managers of a local pension fund in Botswana similarly indicated that they find ETFs attractive, to some extent, because they enable de-risked diversification into minerals and certain other assets that they would not invest in directly. Thus far, Botswana's pension industry is the only market among the seven focus markets of this study to provide disaggregated data on pension industry allocation to ETFs. Local pension industry allocation to ETFs increased to 0.95 percent at end 2020, up from under 0.8 percent of total AUM at end 2019 and 0.5 percent at end 2016. Nevertheless, local participation in ETFs is considered small and market players in Botswana have reportedly begun exploring in the past year — on both the BSE and investor sides — the factors that would encourage more local institutional investor uptake of ETFs. ETFs have been available on the local capital market since 2010, when Botswana's stock exchange became the second African exchange to list ETFs, after South Africa. Gold, platinum, and fixed-income ETFs have been available and, most recently, an equity ETF was listed on the BSE in September 2021.[63]

Some pension funds in South Africa's more developed capital market have sought out automatic diversification for some portion of their portfolios — either through ETFs or similar instruments. A few pension funds in South Africa's market participating in study discussions pointed to the merits of investing in an ETF overcompensating an underperforming active fund manager. Managers of one South African pension fund intend to increase the allocation to passive investing instruments — up to a maximum of 30 percent of total AUM — mainly because they currently have underperforming active managers. In their view, this would, at a minimum, "replace negative alpha with zero alpha" and "replace high fees with lower fees". According to this fund, ETFs make sense particularly for smaller pension funds as a means of improving fund performance at an affordable price to "add a lot of value" for pensioners. For its own portfolio, this fund finds the broad-based indices "too expensive", however. It prefers somewhat more of a focus in its passive investing strategy in rolling over investment in short-term equity-linked notes issued by FIs meeting a credit rating threshold. This combines features of fixed-income securities with potential equity upside returns.

Some pension funds participating in our discussions in South Africa and Nigeria have sought automatic diversification more indirectly — by working with an internal manager or mechanism for tracking the equity market. One Nigerian pension fund has "created [its] own" ETF in the sense of having created its own internal asset management mechanism for tracking the equity market and reducing the need for continuous analysis. According to this fund, it is likely that most, if not all, funds are engaged in some version of this, at least indirectly. According to a large pension fund in South Africa, their internal asset manager, which manages 50 percent of the fund's assets, confers the diversification benefits of an ETF and with similar returns and lower overall cost.

According to one South African pension fund, active management via a fund manager is better suited to a longer-term investment strategy while passive investment instruments confer benefits in the shorter term for the more liquid portion of portfolios needed as pension fund members retire. A balanced index tracker fund providing automatic diversification across a range of asset classes (such as equities, commodities, inflation-linked bonds) would be attractive for meeting the latter objective.

From a somewhat similar standpoint, many pension funds and their asset managers in Namibia have favoured money market unit trusts (mutual funds) as a "parking space" for more liquid assets, which they can access quickly as needed, according to local pension market stakeholders participating in our study discussions. This market's pension funds generally, particularly smaller funds that seek exposure to a range of different asset classes, have strongly favoured local unit trusts as a means of passing on the active investment management.[64] According to a Namibian asset manager for local pension fund portfolios, local ETFs and related passive investing instruments that would introduce automatic diversification for infrastructure as well as commodities would be attractive. Another Namibian asset manager, however, indicated in study discussions that they cannot see any "tangible benefit" from passive investment vehicles in cases where the assets are directly available locally. In the views of this investor, participating in local assets via ETFs, where these assets can be accessed directly themselves, creates a discount that is then "given away" to the ETF initiator.

Overseas ETFs versus compensating an active manager

One reason several pension funds and their asset managers participating in study discussions across markets outside South Africa have been cautious in accessing available local ETF instruments is the lack of liquidity. During study discussions, pension industry players in Kenya, Namibia, and Nigeria expressed interest in accessing ETFs in overseas markets, where these products confer more liquidity.

Pension industry stakeholders in Kenya noted that ETFs may help to provide some "automatic" diversification within portfolios, but liquidity is at least as important. A Kenyan investment manager that manages pension fund portfolios noted that, although there is a gold ETF on the local market that has done well recently, they have not invested due to illiquidity concerns and the insufficient volume from a trade perspective would not warrant the exposure. This investment manager intends to have index funds forming the core of its offshore exposure, however, in addition to looking at alpha-type investments such as specific regional exposures where they expect markets to do well. In this way, they have sought to closely mimic "almost ETF-type returns" with low costs through global index funds.

Given that, in Nigeria, there is a limited number of local listed equities (around 10) that pension funds are permitted to invest in and that are sufficiently liquid,[65] the underlying asset class is not developed enough for ETFs to track local listed equities with adequate liquidity, according to a few market participants in Nigeria.[66] ETFs tracking foreign indices would be of interest for portfolio diversification into more liquid equity markets but take-up by local pension funds is not yet permitted in Nigeria, in practice. Managers of a large Nigerian pension fund echoed the view that the limited depth of Nigeria's local capital market renders the ETFs themselves as illiquid and shallow, adding that there is currently more opportunity for longer-term investors in accessing other alternative assets locally.

An asset manager in Namibia for local pension fund portfolios described how they have made frequent use of ETFs and ETNs outside of Namibia's market, where they have found that the advantages of passive investing outweigh the compensation of an active manager in a particular asset class. Local ETFs tracking listed securities would not be appealing because of the current relatively low market liquidity. In this way, the asset manager can focus more on the local portion of the investment portfolio, which, under current regulations, must meet a minimum threshold of 45 percent.[67]

G. Asset-backed securities

Transparency, valuation clarity, and quality underlying assets must underpin ABS product

Certain ABS subclasses potentially could be of interest in leading to more "product". Appropriate product is very limited in practice, if available at all, however — including in South Africa's relatively well-developed financial market. Asset managers across markets emphasized that quality underlying assets, well-regulated transparency including for related risk, and valuation clarity are essential features for uptake.

Pension fund trustees in South Africa would be uncomfortable with the risk-return trade-off for this kind of asset class, particularly in the current context, where firms and individuals are struggling to pay back loans, according to a major South African market stakeholder. In addition, trustees would require a steady cash flow from the underlying assets in order to be comfortable with it, likely rendering this unfeasible in practice.

While noting that bank loans theoretically could be structured into an ABS product in Botswana, the associated regulations need to be reformed first to accommodate this asset class while at the same time enabling adequate investor protection, according to a local pension industry player during our study discussions. This is important, particularly in the case of potential take-up by pension funds given their fiduciary responsibilities, they emphasized. Similarly, another local pension fund in Botswana indicated that the development of ABS structures would be a welcome means of boosting the limited supply of local product, as long as investors could be confident that the underlying assets were not of poor quality.

According to a large local pension fund, the investment guidelines in Nigeria have provisioned well for this asset class, but supply has been very limited with only a few appropriate instruments available. This is not for lack of appetite by investors; rather, the "right instruments" with adequate underlying quality of assets with overall low risk of default currently are lacking in the market. Linked to this, transparency and clarity around valuation are important features as well as sufficiently liquid instruments, so that an investor can exit if needed, according to another pension market player in Nigeria.

In Ghana, ABS lacks a specific framework that ensures the transparency of structures and, consequently, adequate trust on the part of investors. There is also a lack of capacity to evaluate structures and a shortage of potential originators, according to local asset managers for pension portfolios. The market remains interested in ABS, however, and has been proactively engaging with local banks to discuss potential products including ABS that would securitize commercial or retail loans. Local pension market players emphasized that, with appropriate regulatory infrastructure and a mandatory collateral manager, there is potential for this asset class to develop.

There is potential in Kenya for developing mortgage-backed securities as an ABS subclass, according to one Kenyan asset manager of pension fund portfolios. At the same time, they also emphasized the need for a specific framework providing for adequate risk management and more transparency and clarity on valuation and the quality of the underlying assets.

Securitization is one of the tools that institutional investors in the WAEMU subregion would like to see developed to increase the density of the secondary market. Receivables held by growth-oriented companies and local authorities potentially could also provide securitization "product", although capacity and governance problems would need to be resolved first and pose impediments to this end, at least in the short term. The contribution of DFIs in the form of guarantees for local government entities and growth companies could facilitate the development of securitized assets — assuming the prerequisites of quality underlying assets, well-regulated transparency including for related risk, and valuation clarity.

V. CONCLUSIONS AND RECOMMENDATIONS

Findings

Deep, liquid capital markets are fundamental to economic growth because they help channel the domestic savings of an economy to their most productive uses. An important step towards developing well-functioning capital markets is to develop the "buy side", including by encouraging greater participation by domestic institutional investors, such as local pension funds and local insurers that have predominantly longer-term liability profiles. Further development and appropriate regulation of these investors can potentially enable them to take a more diversified portfolio approach and evolve as important sources of longer-term finance.

This study has examined how and to what extent local institutional investors in seven Sub-Saharan African focus markets[68] have been diversifying into alternative asset classes and looked at the actual and perceived impediments to further diversification. At the same time, this study's findings and recommendations are relevant for a much broader selection of pension market stakeholders globally — beyond the African focus markets.

Pension fund investment in "alternative assets" still accounts for a very small share of assets — ranging from 0-2.7 percent of AUM for the the five focus markets reporting asset allocation data at end-2020. It is clear that national ceilings are not a disincentive, based on available data for the focus countries: investment in alternative assets has remained well below national limits.

One probable reason that the data show such a small share for alternatives is that disaggregated reporting of multiple "alternative asset class" categories among the focus countries remains limited, thus far, to Kenya, Nigeria, and South Africa. Disaggregated reporting has increased across the seven focus markets, however, with the number of alternative asset categories for reporting purposes increasing from a total of 5 to 11 over the 2016-20 period. At the same time, it is likely that the actual allocation to alternative assets is higher than reported.

Pensions funds' limited progress in diversifying into newer asset classes likely also is due to the lack of capacity or familiarity with evaluating risk associated with newer types of asset classes, such as PE and infrastructure. The extent to which capacity constraints manifest varies by market — and can also vary by fund within a market.

In terms of infrastructure as an asset class, market players in Ghana, Kenya, Nigeria, and South Africa indicated that they favour energy and private market infrastructure assets over transport projects. This is due to relatively easier deal assessment, better understanding of the transaction "economics", and the more limited public-sector role. As pointed out by a market player in Kenya, deal assessment is facilitated by energy sector transactions typically having a more direct financial link with the customer paying an energy bill to the local utility, which then has agreements with generators. In Nigeria, a few market players indicated that they prefer the power sector over transport because the largely privatized power sector would generally be better suited to private investment. Notably, however, the direct earmarking of the proceeds for road construction as a "tangible outcome" in recent sovereign-issued sukuk issues has raised the attractiveness of these particular issues to asset managers.

Domestic markets for newer asset classes such as PE remain tiny overall. Small public capital markets often coexist with tiny PE markets — and the lack of exit opportunity for PE is often one factor keeping the PE market itself underdeveloped and further impedes investor interest. Access to certain foreign-domiciled asset classes, particularly intra-regionally — such as PE via an experienced international PE fund manager — may be one means of enabling useful diversification.

Recommendations

More standardized, disaggregated asset class categorization in the data collection and reporting by pension market supervisory authorities could help make clearer the extent to which funds diversify into asset classes that better match their longer-term liability profiles and potentially maximize returns, while safeguarding members' savings. This would enable regulators and policy makers to more closely track portfolio shifts over time, which, in turn, could facilitate policy making for further developing local capital markets as well as assessing capacity needs of local institutional investors in evaluating newer asset classes and their potential role in portfolios.

Improved data collection and dissemination by national regulators can make it easier to gauge and understand the relative market gaps in available longer-term finance and thereby help inform policy making. By better understanding the evolution of available sources of longer-term capital over time, financial market stakeholders and national policy makers would be better placed to engage with impact in fostering market development. When national regulators and/or policy makers earmark particular asset categories as newly distinct asset or sub-asset classes, this may have some merit in attracting investor participation — when regulators simultaneously improve regulatory clarity on how investment in such assets will be treated. It may be feasible that, where national pension supervisory bodies and policy makers publicly designate specific asset categories, the associated increase in visibility may actually help drive investment into certain areas. However, regulators should stop short of prescribing mandatory minimum investment thresholds for specific asset or sub-asset classes. Such prescribed regulatory floors can distort market incentives, causing institutional investors to take up asset classes they might consider "unwise investments or investments inappropriate for their portfolios".[69]

Developing and introducing structures that would appeal, and be well suited, to the interests and the fiduciary duties of particular investors — as well as to the longer-term financing needs of issuers in the specific market context — is critical. In markets where pension funds and their asset managers proactively engage with local investment bankers — meeting with them one-on-one — at an early stage of product development, the products are likely to be more relevant to investor needs and of more interest. Participation by pension funds in forums that are discussing evolving taxonomies (such as for green assets) could help to provide guidance on developing this asset class in a way that offers products that the trustees actually want to see and participate in.

Market stakeholders underscored the importance of a policy and supervisory context that is conducive to allowing and encouraging pension fund and other capital market stakeholders to take the initiative in early engagement with regulators. This would better ensure product innovations that align more closely with regulations and also meet investor goals.

It is also important for national policy makers and DFIs working with market stakeholders to help develop these markets to keep in mind that products in demand vary considerably, depending on the macroeconomic context and the level of development of the national securities market. National regulatory reforms and product development innovations intended to increase investor take-up of particular asset classes will not be effective if the underlying national macroeconomic policy context is not conducive. A context where short-term government securities are paying very high yields that crowd out private-sector borrowing provides no incentive for investors to diversify their portfolios away from such relatively low-risk/high return assets.

This points to the prerequisite sequencing of national policy reforms: The underlying macroeconomic and overall policy framework must first provide the right foundations for policies that could develop the local capital market including the local buy side.

It is important to address capacity constraints related to evaluating associated risks of newer asset classes among all relevant stakeholders: regulators and financial intermediaries, as well as investors. For DFIs and other co-investors, specifically, there may be a role in devising ways for market players to pool together and channel the capital of multiple investors. These kinds of consortia and other vehicles could help to address capacity constraints and mitigate some of the risk associated with an individual investor conducting the requisite due diligence. In Kenya, for example, pension funds have been partnering with one another to form a consortium (KEPFIC), which pools their assets and other resources with partner co-investors to invest collectively in infrastructure projects and other longer-term investment opportunities, thereby mitigating some of the risk of investing alone.

Still-large infrastructure gaps mean a larger potential role going forward for private capital and co-investors, particularly in the context of the Covid-19 crisis where fiscal space is more severely limited. There are potential opportunities for DFI investors, government, and/or other market players to collaborate in devising similar vehicles to the KEPFIC consortium that brings together co-investors — as well as in devising other products, frameworks and mechanisms that would enable local pension funds to invest in infrastructure in a commercially viable and structured manner. In two focus markets (Ghana and Nigeria), market players indicated that there is strong potential for developing structures for investing in infrastructure in the form of equity as well as debt (and hybrid structures such as mezzanine finance). Local investors emphasize that the key element attracting their interest is the potential for risk-adjusted returns.

The smaller funds within a market would benefit from more hands-on guidance on due diligence for newer asset classes, such as PE, as well as the sharing of experiences of larger, more experienced asset managers and DFIs. Many asset managers continue to take the approach of balancing their portfolios across more traditional asset classes, which provides little incentive to diversify into newer asset classes. This is the case particularly where asset managers lack expertise and would have to pay fees to other managers in order to gain access to specific expertise. Under certain circumstances, such as where intraregional diversification is also an aim, a "fund of funds" approach may be one means of mitigating some of the risk of diversifying into newer asset classes. However, some pension funds from a few focus countries (Botswana and Nigeria) pointed out that any potential benefits from a "fund of funds" must be weighed against the "extra layer" of fees involved.

There is a need for more clear and direct education around the risk-reward trade-off associated with different asset classes for all buy-side stakeholders — for the asset managers, the trustees, and the asset owners, as well as the regulators. There is a dual challenge in the sense of, first, the need to ensure that asset managers are comfortable with a less familiar asset class and, second, the need to raise the comfort level of trustees as the "gatekeepers". Here, too, there may be a role for DFIs and larger asset managers to provide this kind of guidance and capacity building around risk evaluation.

Project promoters should be present and active in ensuring and enabling a clear understanding of newer asset classes across the different market players — from the policy makers, to the trustees, to the fund managers. It is important that trustees are engaged in the process from the earliest stages of consideration, rather than just being presented with what is considered a complete project or a fully developed financial product.

More hands-on transaction support with "live opportunities" would be the most useful sort of capacity building assistance that DFIs could provide in terms of enabling longer-term asset managers to better understand the opportunities and risks associated with newer structures. This could include alternative asset classes such as PE and products, frameworks and mechanisms that would enable them to invest in infrastructure in a commercially viable and structured manner. According to market stakeholders in Kenya and Nigeria, this might take the form of guiding the "pension fund community" — including the trustees and their fund managers — through a project, after working with stakeholders to identify target investments. DFIs are perceived by local asset managers as bringing important governance standards and a valuable investment track record, which can help attract additional capital locally. Similarly, within WAEMU, market stakeholders emphasized that, in the face of limited appropriate product in local markets, high risk-return trade-offs, and the lack of specialized capacity for evaluating risks for specialized asset classes such as PE, the presence of DFIs around the table could provide some comfort to potential investors.

For newer asset classes such as real estate investment trusts (REITs), more engagement by project promoters and asset managers with pension fund trustees in the process from the earliest stages of consideration is particularly important. Overall, across the focus markets where REITs are available (South Africa, Kenya, and Nigeria), pension funds are more interested in REITs that have sufficient scale to take a diversified approach rather than target specific subsectors. Generally, however, pension market players view the cost and risk-reward trade-off as high and existing structures and associated policies still lacking clarity.

There may also be potential opportunities for DFIs and other co-investors to work with local market stakeholders in niche underserved property segments closely linked to affordable housing that have been identified as of interest to investors: affordable tertiary student housing in Kenya, land located close to mines where housing is scarce in Botswana, social housing in the Dakar suburbs in Senegal, affordable housing designated for the national police in Côte d'Ivoire, and rural township shopping centres in South Africa.

Green bonds, social bonds, and related assets comprise an important new asset class that would benefit from more education and awareness raising around the risk-reward, trade-off in the green and sustainability space. To this end, more engagement by policy makers, regulators, and promoters, beginning with trustees and society more broadly, is needed as a starting point.

In order for local investor interest in green bonds to grow and develop, further clarity is needed on the part of regulators and policy makers on taxonomies, reporting procedures and standards, and niche sub-asset classes. There is a need for pension regulators to be more actively engaged in initiatives to redefine pension industry fiduciary duties to include ESG. Most longer-term asset managers across the focus markets emphasized that the starting point for green assets must be the potential to generate adequate returns and reflect "fair pricing". At the same time, pension funds and asset managers in African markets have begun selectively factoring in ESG considerations in considering investments in particular sectors (such as healthcare and green housing) — and/or emphasizing one ESG aspect (for example, governance) more than others.

For other alternative asset classes such as ETFs and ABS, appropriate local product is very limited in practice, if available at all — including in South Africa's relatively well-developed financial market. Pension funds and other local institutional investors — particularly smaller ones — in emerging and frontier markets have taken more note in recent years of ETFs as a vehicle for enabling some "automatic diversification". Quality underlying assets, well-regulated transparency including for related risk, and valuation clarity are essential features for uptake and operation of these asset class markets generally, particularly for ABS subclasses. Prerequisites for operation of these markets with pension fund participation include specific and appropriately designed regulatory frameworks providing for adequate risk management and ensuring transparency of structures.

Botswana Asset Allocation

Botswana		Dec 2016			Dec 2017			Dec 2018			Dec 2019			Dec 2020		
Asset Class	Regulatory Limit (% of total AUM)	AUM ($' Mn)	AUM (P' Mn)	% of total AUM	AUM ($' Mn)	AUM (P' Mn)	% of total AUM	AUM ($' Mn)	AUM (P' Mn)	% of total AUM	AUM ($' Mn)	AUM (P' Mn)	% of total AUM	AUM ($' Mn)	AUM (P' Mn)	% of total AUM
Standardized Asset Class																
Bonds [1]	100	767	8,169	10.9%	813	8,021	9.8%	782	8,432	10.8%	846	8,987	9.7%	896.58	9,673.53	9.2%
Quoted Equities	70	1,305	13,898	18.5%	1,437	14,189	17.4%	1,208	13,034	16.6%	1,238	13,155	14.2%	1,187.62	12,813.76	12.2%
Cash/Fixed Deposit	25	259	2,760	3.7%	364	3,596	4.4%	614	6,619	8.4%	846	8,988	9.7%	740.78	7,992.59	7.6%
Property	25	35	371	0.5%	37	370	0.5%	138	1,494	1.9%	170	1,802	2.0%	292.91	3,160.29	3.0%
Other assets																
Unlisted Equities	20	195	2,082	2.8%	210	2,070	2.5%	196	2,114	2.7%	221	2,348	2.5%	217.73	2,349.15	2.2%
Unlisted Debt	5															
Alternative Investments - Domestic																
Exchange Traded Funds		38	409	0.5%	42	411	0.5%		580	0.7%	69	737	0.8%			
Offshore Investments																
Foreign Bonds	50	768	8,176	10.9%	1,006	9,934	12.2%	542	5,846	7.5%	573	6,087	6.6%	593.03	6,398.48	6.1%
Foreign Equities	50	3,455	36,795	49.0%	3,993	39,418	48.3%	3,394	36,610	46.7%	4,041	42,939	46.5%	4,823.34	52,040.96	49.5%
Foreign Cash/Fixed Deposit	30	18	187	0.2%	190	1,874	2.3%	105	1,137	1.5%	102	1,083	1.2%	98.11	1,058.60	1.0%
Offshore "alternative Investments"	5	-	-	-	60	594	0.7%	164	1,773	2.3%	529	5,626	6.1%	678.90	7,324.94	7.0%
Dual Listed Equities [2]		214	2,281	3.0%	155	1,527	1.9%	124	1,333	1.7%	130	1,382	1.5%	126.12	1,360.78	1.3%
Total AUM		7,054	75,128		8,265	81,593		7,267	78,392		8,695	92,397		9,747.96	105,175	

Sources: NBFIRA (https://www.nbfira.org.bw/nbifira-statistical-bulletin-2020); for end-2020 data, Bank of Botswana BFS, July 2021.

Notes:
/1 Includes all domestic debt instruments: government and corp.
/2 Confirm composition with NBFIRA to validate if they are onshore or offshore investments.

Botswana Regulatory Limits

Botswana	
Regulatory Body	The Non-Bank Financial Institutions Regulatory Authority (NBFIRA).
Pension system structure	Both DB and DC pension schemes operate in Botswana with a shift in favor of the latter. Approximately 86 licensed retirement funds were operating as of 2018, of which only two were DB funds, according to the International Organization for Pension Supervisors. While the Botswana Public Officers Pensions Fund (BPOPF) is still the largest pension fund in Botswana, it was reformed in 2001, transitioning from a DB to a DC fund.
Regulatory Overview	NBFIRA was established under the Non-Bank Financial Institutions Regulatory Authority Act 2006 after the endorsement (by Government) of the Carmichael Consulting Report, which recommended setting up a single independent NBFI regulator. The Act grants NBFIRA the mandate to regulate and enforce compliance within the NBFI sector in order to safeguard the stability, fairness, and efficiency of the non-bank financial sector. Under 2017 amended PFR2 rules, there is a ceiling of 5% on any one asset held in a pension fund portfolio. The PFR2 rules set ceilings on investment by type of asset class.
Government Securities	A maximum investment limit of 100% in bills, bonds or other securities issued or guaranteed by the Government of Botswana including supranational bonds.
Government agencies, local authority and Development Bank	A maximum investment limit of 20% in bills, bonds, or securities issued or guaranteed by a corporate body(ies) established by act or local authority in Botswana, approved by the regulatory authority. Individual security limit is set at 5% of total AUM.
Corporate Bonds	Investment in corporate bonds listed on the Botswana stock exchange is limited at 35%. Although there is no specific ceiling on investment in unlisted corporate bonds approved by the Regulatory Authority, there is a cap of 5% per issuer and a combined limit of 40% on total investment in listed and unlisted corporate bonds.
Equities (including non-property CIS)	i. A maximum limit of 70% in shares of companies (excluding property companies), convertible debentures and collective investment schemes (CIS), excluding CIS invested in property shares. The following indivial limits are applicable to public equity investment: 5% of AUM where market cap is greater than P500mn; 10% of AUM where market cap is between P500mn and P1,500mn; 15% of AUM where market cap is between greater than P1500mn. ii. Investment in unlisted shares is limited at 20%; there is also a 5% single issuer portfolio limit. iii. A maximum limit of 10% in paid up shares of a building society.
Fixed Deposits/ Cash	Investment in local cash assets are limited at 25% of the total portfolio under the provisions of PFR2.
Offshore	i. A maximum limit of 50% is applicable to offshore bond investments (government and/or corp. combined) and a 5% limit on exposure to any one issuer; ii. A maximum limit of 30% can be held in offshore cash balances; iii. A maximum limit of 50% is applicable to offshore listed equities investments and 5% to unlisted shares of foreign firms; iv. A maximum limit of 10% in foreign property collective investment undertakings, and shares in, loans to, and debentures of properties outside Botswana; v. Investments in offshore unlisted equity cannot exceed 5% of total AUM with a 2.5% ceiling per individual investment; vi. Not more than 70% of total assets can be invested outside of Botswana: Under Pension Fund Rule 2, pension funds are required to invest at least 30 percent of their assets locally.
Private Equity & Venture Capital	Total investment in local unlisted equity is limited at 5%; there is also a 2.5% limit per single issuer.
Property and REITs	Investment in immovable property, units in property collective investment undertakings; and shares of, loans to, and debt securities issued by property companies in Botswana are limited at 25%; there is also a 5% limit on exposure to any one property company. Investment in securities or collective investment vehicles issued by foreign property companies is limited at 10%.
Alternative Investments	Total investments in alternative assets excluding commodities is set at a maximum of 15% of AUM. There are limits of: i. 10% of AUM for aggregate investment in instruments based on the value of underlying commodities, where the instruments are settled in cash. Investment in individual securities or an individual instrument based on the value of an underlying commodity cannot exceed 5% of total AUM; ii. There is a maximum limit of 5% of AUM in hedge funds or other assets not covered in the regulation; iii. A maximum limit of 5% of AUM in offshore unlisted equity; iv. Investment in individual securities (except instruments based on the value of underlying commodities) cannot exceed 2.5% of total AUM.

Source: Botswana's Non-Bank Financial Institutions Regulatory Authority (NBFIRA--https://www.nbfira.org.bw/sites/default/files/pfr2%20issued%2012122017%20%281%29_0.pdf)

Ghana Asset Allocation

Ghana		Dec 2016			Dec 2017			Dec 2018			Dec 2019			Dec 2020		
Asset Class	Regulatory Limit (% of total AUM)	AUM ($' Mn)	AUM (Ghs'Mn)	% of total AUM	AUM ($' Mn)	AUM (Ghs'Mn)	% of total AUM	AUM ($' Mn)	AUM (Ghs'Mn)	% of total AUM	AUM ($' Mn)	AUM (Ghs'Mn)	% of total AUM	AUM ($' Mn)	AUM (Ghs'Mn)	% of total AUM
Standardized Asset Class																
Govt. Securities (all maturities) /1	60%				2,282	10,088	48.5%	1,785	8,605	38.8%	2,547	14,093.1	53.7%	3,323	19,143	57.4%
Corporate Bonds	35%				200	882	4.2%	322	1,553	7.0%	132	730.7	2.8%	195	1,122	3.4%
Listed Equity Securities /2	20%				1,022	4,519	21.7%	580	2,796	12.6%	433	2,393.7	9.1%	489	2,818	8.4%
Real Estate / Property (Direct Investments)					552	2,440	11.7%	477	2,300	10.4%	407	2,253.5	8.6%	506	2,915	8.7%
Cash, demand and term deposits, and other relatively liquid assets	35%				599	2,646	12.7%	331	1,593	7.2%	2	8.9	0.03%			
Other assets																
Loans								191	920	4.1%	112	620.3	2.4%	150	861	2.6%
Other investments /3								400	1,928	8.7%	555	3,070.0	11.7%	414	2,386	7.1%
Alternative Investments																
"Alternative assets" /4	15%										64	352.5	1.3%	1.1	7	0.0%
Other Unlisted Equity								458	2,208	10.0%	420	2,326.5	8.8%	648	3,733	11.2%
Unit Trusts/Collective Investment Vehicles	15%				50	220	1.1%	57	277	1.2%	74	411.5	1.6%	67	385	1.2%
Offshore Investments																
Total AUM					4,705	20,794	100%	4,602	22,181	100%	4,746	26,261	100%	5,793	33,370	100%

Sources: NPRA, Annual Reports (Source: https://npra.gov.gh/npra-publications/annual-report/); SSNIT, Annual Reports (https://www.ssnit.org.gh/resources/annual-reports/)

Notes:

/1 The regulatory limit for investment in securities issued by local government and statutory agencies is 15%.

/2 Data for private pension funds does not disaggregate by listed vs. unlisted equities and has been categorized in this table under listed equities.

/3 For SSNIT, the other investments category is comprised of other assets, intangible assets such as computer software, and investment in subsidiaries. For the NPRA (privately managed funds), "Other investments" is comprised of "bank securities and other market securities".

/4 "Alternative assets", as defined by the NPRA, comprise REITs/REIT funds, PE, and external (crossborder) investment. "Alternative assets" are subject to a total 15% ceiling with individual ceilings set by type of asset as well (see Regulatory section of profile).

Ghana Regulatory Limits

Ghana	
Regulatory Body	The National Pensions Regulatory Authority (NPRA) was established by the National Pensions Act 2008 (Act 766).
Pension system structure	Ghana's pension system is a combined DB and DC system under a three-tiered structure implemented in 2010 under Acct 766 of 2008. Tier I is the Basic National Social Security Scheme, managed by SSNIT, and is a DB scheme; employers are required to make 13.5% contributions on behalf of all formal sector workers. Tier II is a DC Occupational Pension Scheme, with 5% mandatory contribution made on behalf of members. Tier III is a voluntary DC scheme comprised of Provident Funds and all other Pension Funds outside Tiers I and II.
Regulatory Overview	The National Pensions Regulatory Authority (NPRA), established by the National Pensions Act 2008, (Act 766), regulates and monitors the operations of the three-tier pension scheme and ensures effective administration of all pensions in the country. 2016 revisions to the NPRA's investment guidelines provide for up to 15% total investment in alternative asset classes--defined as REITs, PE finds, and international investment securities.
Government Securities	A maximum of 60% is permitted in securities such as Treasury Bill, Treasury Notes, Treasury Bonds including Infrastructure Bonds & Eurobonds issued by the Government of Ghana. No more than 30% allocation to a single issue of long dated securities is allowed.
Local Government and Statutory Agency Securities	A maximum of 15% is permitted in securities such as Municipal and Local Government Bonds, Infrastructure Bonds and Cocoa Bonds/Bills issued by the Local Government or any statutory. This does not include not include securities issued by individual Local Government entities but rather by Municipal Financing Authority as may be set up by law. No more than 5% allocation to a single issue is allowed.
Ordinary Shares / Non – Redeemable Preference Shares	Under 2016 revisions to the NPRA's investment guidelines, a maximum allocation of 20% (up from 10%) is permitted in company ordinary or preference shares of any listed corporate entity with a cap of 5% in a particular issue. A maximum limit of 10% is also set for total exposure to the shareholders' funds of any one corporate entity.
Corporate Bonds	A maximum allocation of 35% is permitted in corporate bonds such as Debentures, Notes, Redeemable Cumulative Preference Shares, Mortgage Backed Securities, Commercial Paper and Infrastructure Bonds with a cap of 5% in a particular issue.
Bank and money market securities	Bank and money market securities such as Fixed Deposits, Negotiable Certificates of Deposits (NCDs) and Bankers Acceptances are subject to a maximum limit of 35% with a cap of 5% in a particular issue . A maximum limit of 5% is also set for total exposure to the shareholders' funds of the issuer bank.
Collective Investment Schemes	Up to 15% investment in CIS vehicles such as Unit Trusts/Mutual Funds and Exchange Traded Funds. No more than 5% allocation to a single issue is allowed.
Alternative Investments (15% maximum limit)	
Private Equity & Venture Capital	Private Equity and Venture Capital are subject to 10% maximum investment limit except for external investments.
REITs	REITs are subject to 10% maximum investment limit under legislation enabling local REITs, drafted in 2018; however, the legislation had not yet been passed as of October 2021.
Offshore Investment	Offshore investments are subject to 10% maximum investment limit.

Source: National Pension Regulatory Authority (NPRA--https://npra.gov.gh/assets/documents/2016_Investment_Guidelines_Approved_by_Board_Final_pdf_1.pdf) and Social Security and National Insurance Trust (SSNIT--https://www.ssnit.org.gh/faq/the-new-pension-scheme/).

Kenya Asset Allocation

Kenya		Dec 2016			Dec 2017			Dec 2018			Dec 2019			Dec 2020		
Asset Class	Regulatory Limit (% of total AUM)	AUM ($' Mn)	AUM (Kshs bn)	% total of AUM	AUM ($' Mn)	AUM (Kshs bn)	% total of AUM	AUM ($' Mn)	AUM (Kshs bn)	% total of AUM	AUM ($' Mn)	AUM (Kshs bn)	% total of AUM	AUM ($' Mn)	AUM (Kshs bn)	% total of AUM
Standardized Asset Class																
Government Securities	90%	3,406.7	349.2	0.4	3,818.6	394.2	36.5%	4,513.3	459.68	39.4%	5,380.8	545.3	42.00%	5,730.9	625.65	44.7%
Quoted Equities	70%	1,552.1	159.1	0.2	2,035.9	210.2	19.5%	1,978.5	201.51	17.3%	2,251.1	228.1	17.57%	1,998.0	218.12	15.6%
Corporate Bonds	20%	458.1	47.0	0.1	406.8	42.0	3.9%	395.5	40.28	3.5%	175.7	17.8	1.37%	48.1	5.25	0.4%
Fixed Deposits	30%	239.7	24.6	0.0	318.5	32.9	3.0%	357.3	36.39	3.1%	388.9	39.4	3.04%	357.6	39.04	2.8%
Cash	5%	126.2	12.9	0.0	125.4	13.0	1.2%	124.9	12.72	1.1%	147.6	15.0	1.15%	112.1	12.24	0.9%
Immovable Property	30%	1,740.9	178.4	0.2	2,196.3	226.7	21.0%	2,257.3	229.91	19.7%	2,364.9	239.7	18.46%	2,301.6	251.27	18.0%
Other assets																
Unquoted Equities	5%	38.5	4.0	0.004	39.3	4.1	0.4%	37.2	3.79	0.3%	35.6	3.6	0.28%	31.3	3.42	0.2%
Commercial Paper, Non-listed bonds by Private companies	10%				0.6	0.1	0.0%	0.6	0.06	0.0%	0.6	0.1	0.00%	0.4	0.04	0.0%
Alternative Investments - Domestic																
Private Equity	10%	2.1	0.2	0.0	3.1	0.3	0.0%	8.4	0.86	0.1%	9.6	1.0	0.07%	15.3	1.67	0.12%
Real Estate Investment Trusts (REITS)	30%	8.2	0.8	0.0	10.0	1.0	0.1%	7.0	0.71	0.1%	5.0	0.5	0.04%	2.6	0.28	0.02%
Derivatives	5%	0.0	0.0	0.0	0.0	0.0	0.0%	0.0	0	0	0.0	0.0	0	0.0	0	0.0%
Guaranteed Funds	100%	1,264.3	129.6	0.1	1,385.0	143.0	13.2%	1,644.1	167.45	14.4%	1,988.6	201.5	15.52%	2,112.3	230.6	16.5%
Offshore Investments																
Offshore Investments	15%	67.9	6.96	0.76%	123.7	12.8	1.2%	128.9	13.13	1.1%	62.4	6.3	0.49%	104.2	11.38	0.8%
Total AUM		8,904.7	912.64	100%	10,463.1	1,080.11	100%	11,453.0	1,166.49	100%	12,810.7	1,298.2	100%	12,814.2	1,398.95	100.0%

Source: Kenya Retirement Benefits Authority (https://www.rba.go.ke/industry-performance-reports).

Kenya Regulatory Limits

Kenya	
Regulatory Body	Retirements Benefit Authority (RBA).
Pension system structure	The pension system in Kenya is a mixed DB/DC system with an overall shift toward a larger role for DC funds. Kenya's system includes a large DB social security fund, the National Social Security Fund, although privately-managed (DC) occupational schemes have been increasing rapidly in number over the past decade.
Regulatory Overview	The RBA was established in 2000 under the Retirement Benefits Acts 1997. It is responsible for the regulation, supervision and promotion of retirement benefits schemes, the development of the retirement benefits sector and for any other related purposes.
Government Securities	A maximum of 90% in East African Community Government Securities and infrastructure bonds issued by public institutions and collective investment schemes incorporated in East African Community (EAC) and approved by an EAC Capital Markets regulator reflecting this category Schemes receiving statutory contribution will be subject to a limit of 100%.
Quoted Equities/ Unquoted Equities	A maximum of 70% in Preference shares and ordinary shares of companies listed in a securities exchange in the East African Community and collective investment schemes incorporated in Kenya and approved by the Capital Markets Authority reflecting this category including Exchange Traded Funds: and global depositary receipts. A maximum of 5% in Unlisted shares and equity instruments of companies incorporated in Kenya and collective investment schemes incorporated in Kenya and approved by the Capital Markets Authority reflecting this category.
Bonds/ Non-listed bonds or Commercial Paper by Private companies	A maximum of 10% in Commercial Paper, Nonlisted bonds and other debt instruments issued by private companies provided that the bond or the instrument has been given investment-grade rating by a credit rating agency registered by the Capital Markets Authority, and collective investment schemes incorporated in Kenya and approved by the Capital Markets Authority reflecting this category.
Fixed Deposits/ Cash	Fixed Deposits, Time Deposits and Certificate of Deposits in institutions licensed under the Banking Act of the Republic of Kenya subject to a limit of 30%. Cash and Demand Deposits in institutions licensed under the Banking Act of the Republic of Kenya subject to 5% limit.
Guaranteed Funds	Up to 100% of scheme can be invested in guaranteed funds.
Offshore	Offshore investments in bank deposits government securities, listed equities and rated Corporate Bonds and offshore collective investment schemes reflecting these assets is permitted subject to 15% limit.
Private Equity & Venture Capital	Private Equity and Venture Capital are subject to 10% investment limit.
Immovable Property/REITs	Investment in listed Real Estate Investment Trusts(REITs) incorporated in Kenya and approved by the Capital Markets Authority is permitted subject to a 30% limit. Investment in immovable property in Kenya is also subject to a 30% limit. In 2021, the RBA established a new subasset class category–"Any other assets"–for purposes of tracking and reporting investment separately from the existing "REITs" category the pension fund investment in the new unlisted I- and D-REITs offered under the Unquoted Securities Platform of the Nairobi Securities Exchange.
Derivatives	Exchange traded derivatives contracts approved by the Capital Markets Authority are subject to 5% limit.
Infrastructure	In 2020, the RBA specifically designated "infrastructure" as an asset class with a 10% ceiling for AUM, reflecting government policy encouraging pension schemes in Kenya to invest in infrastructure as part of a government-wide approach to stimulating post-COVID economic recovery.

Source: National Pension Regulatory Authority (NPRA--https://npra.gov.gh/assets/documents/2016_Investment_Guidelines_Approved_by_Board_Final_pdf_1.pdf) and Social Security and National Insurance Trust (SSNIT--https://www.ssnit.org.gh/faq/the-new-pension-scheme/).

Namibia Asset Allocation

Namibia		Dec 2016			Dec 2017			Dec 2018			Dec 2019			Dec 2020		
Asset Class	Regulatory Limit (% of total AUM)	AUM ($' Mn)	AUM (N$' Mn)	% of total AUM	AUM ($' Mn)	AUM (N$' Mn)	% of total AUM	AUM ($' Mn)	AUM (N$' Mn)	% of total AUM	AUM ($' Mn)	AUM (N$' Mn)	% of total AUM	AUM ($' Mn)	AUM (N$' Mn)	% of total AUM
Standardized Asset Class																
Government Securities	95	1,164	15,849	11.5%	13	177	11.6%	1,342	19,023	12.0%	1,467.75	21,214	12.3%	1,768	25,855	14.6%
Agencies/SOE/ Subnational Bonds	30	604	8,220	6.0%	6	75	4.9%	89	1,268	0.8%	536.98	7,761	4.5%	557	8,146	4.6%
Corporate Bonds	50	201	2,735	2.0%	2	29	1.9%	715	10,146	6.4%	178.99	2,587	1.5%	206	3,011	1.7%
Quoted Equities	75	2,019	27,492	20.0%	16	215	14.0%	6,227	88,300	55.7%	6,527.31	94,344	54.8%	6,262	91,557	51.7%
Cash/Fixed Deposit	95	731	9,952	7.2%	9	124	8.1%	1,185	16,804	10.6%	1,026.23	14,833	8.6%	1,042	15,230	8.6%
Property	25	213	2,900	2.1%	3	35	2.3%	414	5,866	3.7%	560.85	8,106	4.7%	581	8,500	4.8%
Other assets																
Unquoted Debt and Equities	3.5	34	467	0.3%	1	8	0.5%	78	1,110	0.7%	119.33	1,725	1.0%	121	1,771	1.0%
Other Debt/Claims	25	161	2,199	1.6%				123	1,744	1.1%	107.40	1,552	0.9%			
Other assets	2.5	27	371	0.3%	0	2	0.1%	34	476	0.3%	346.05	5,002	2.9%	497	7,261	4.1%
Alternative Investments - Domestic																
Private Equity																
Real Estate Investment Trusts (REITS)																
Derivatives																
Guaranteed Funds																
Offshore Investments																
Foreign Bonds	50	629	8,564	6.2%	7	86	5.6%	961	13,633	8.6%	1,050.10	15,178	8.8%	1,078	15,761	8.9%
Foreign Equities[/1]		4,311	58,710	42.7%	59	781	51.1%									
Total AUM		10,093	137,462	100%	116	152,885	100%	11,168	158,528	100%	11,921	172,303	100%	12,112	177,092	100%

Source: Namfisa (https://www.namfisa.com.na/publications/)

Note:

[/1] Breakdown of holdings in domestic vs. foreign equities not available from 2018. Foreign equities refers to equity securities held outside of Namibia.

Namibia Regulatory Limits

Namibia	
Regulatory Body	The Namibia Financial Institutions Supervisory Authority (NAMFISA).
Pension system structure	Namibia's pension system is a mixed DB and DC system. Although the Government Institutions Pension Fund (GIPF), covering civil servants, is a DB scheme and is a dominant player in the national pension system, the majority of schemes are DC.
Regulatory Overview	NAMFISA was established under the Namibia Financial Institutions Supervisory Authority Act, 2001 (Act No. 3 of 2001) to supervise financial institutions and financial services and to advise the Minister of Finance on matters relating to financial institutions and financial services. Pension fund investments are subject to Regulation 13 of the Pension Funds Act, which specifies minimum and maximum investment limits by asset class.
Government Securities	A maximum investment limit of 95% of AUM in bills, bonds, and/or securities issued or guaranteed by (or loans to or guaranteed by) the Government of the Republic of Namibia is permitted.
SOE, local authority and regional council Bonds	A maximum investment limit of 30% of AUM in bills, bonds and/or securities issued and/or guaranteed by (or loans to or guaranteed by) any state-owned enterprise, local authority and/or regional council in the Republic of Namibia. Individual limits are as follows: a. Per local authority authorised by law to levy rates upon immovable property, 20%; b. Per regional council authorised by law to levy rates upon immovable property, 20%; c. Per state-owned enterprise, 20%.
Corporate Bonds	A maximum investment limit of 50% of AUM in bills, bonds and/or securities issued by (or loans to) an institution in Namibia, which bills, bonds, securities or loans the Registrar has approved subject to such conditions as he or she may determine, and also bills, bonds and securities issued by (or loans to) an institution, which institution the Registrar has likewise approved. The investment limit per individual issuer is 20% of AUM.
Listed Equities	There is a maximum investment limit of 75% of AUM in locally listed company shares and/or convertible debentures. The following limits are applicable: a. shares and convertible debentures in a single company or related party listed on any stock exchange within the common monetary area i. with a market capitalisation of N$5,000 million or less, 5%; ii. with a market capitalisation of more than N$5,000 million, 10%; b. shares and convertible debentures in a single company or related party listed on a stock exchange licensed under the Stock Exchanges Control Act i. with a market capitalisation of N$500 million or less, 5%; ii. with a market capitalisation of more than N$500 million, 10%. Effective 2018, Regulation 13 of the Pension Fund Act sets a 10% limit on pension fund assets invested in dual-listed shares.
Fixed Deposits/ Cash	A maximum limit of 95% of AUM in deposits with and balances in current and savings accounts with an office of a banking institution or a building society, including negotiable deposits and money market instruments in terms of which such a bank or building society is liable, including the paid-up shares of a building society, or deposits and savings accounts with the Post Office Savings Bank.
Offshore	Revisions to Regulation 13, effective October 2018, require that local pension funds invest a minimum of 45% of AUM in local assets. The increased minimum threshold was phased in gradually, up from a minimum of 35% (which had applied under Regulation 28). There is a maximum limit of 50% of AUM in bills, bonds and/or securities issued by the government of (or any other institution in) a country other than Namibia, which country the Registrar has approved subject to such conditions as he or she may determine, and also bills, bonds and securities issued by an institution in such an approved country, which institution the Registrar has likewise approved. Limits per individual offshore government or individual offshore corporate issuer are set at 40% and 10%, respectively.
Private Equity & Venture Capital	Under Regulation 29 of the Pension Funds Act, there is a 3.5% of AUM maximum and a 1.75% of AUM minimum requirement for investment in equity and/or debt securities issued by companies incorporated in Namibia and not listed on any stock exchange (excluding such investments in traditional asset classes).
Immovable Property	Under Regulation 13, there is a maximum limit of 25% of AUM in immovable property, and shares in, loans to and debentures, both convertible and non-convertible, of property companies. Individual asset category limits are set at: a. Per single property, 5%; b. Per property development project, 5%.
Derivatives	n/a

Namibia Regulatory Limits

Other Assets	A maximum investment limit of 2.5% of AUM is allowed in any other asset not listed excluding: a. moneys in hand; b. loans granted to members of the fund concerned in accordance with: i. the section 19(5) of the Act; and ii. such exemptions as may have been granted to the fund in terms of section 19(6) of the Act; a. investments in the business of a participating employer to the extent that it has been allowed by an exemption in terms of: b. section 19(4) of the Act; or c. section 19(6) of the Act.
Other Debt Instruments	A maximum of 25% of AUM in debentures (excluding convertible debentures) and any other secured claims against natural persons. Provided that: c. claims against any one natural person are limited to 0.25%; d. claims against any single company are limited to 5%.

Source: Namifisa (https://www.namfisa.com.na/wp-content/uploads/2017/04/Long-Term-Insurance-and-Pension-Funds-Regulations-5383-Gov-N350-351.pdf)

Nigeria Asset Allocation

Nigeria		Dec 2016			Dec 2017			Dec 2018			Dec 2019			Dec 2020		
Allocation to standardized asset class categories	Regulatory Limit (% of total AUM)	Aum ($ 'Mn)	Aum (₦ 'Mn)	% of Total Aum	Aum ($ 'Mn)	Aum (₦ 'Mn)	% of Total Aum	Aum ($ 'Mn)	Aum (₦ 'Mn)	% of Total Aum	Aum ($ 'Mn)	Aum (₦ 'Mn)	% of Total Aum	Aum ($ 'Mn)	Aum (₦ 'Mn)	% of Total Aum
Standardized Asset Class																
Domestic Ordinary Shares	25%	1,647	500,722	8.1%	2,204	672,233	8.9%	1,981	606,197	7.0%	1,807	552,895	5.4%	2,262	858,465	7.0%
Short Term Sovereign	70%	2,563	779,135	12.7%	3,863	1,178,089	15.7%	5,469	1,673,421	19.4%	6,145	1,880,329	18.4%	1,655	628,219	5.1%
Sovereign and Agency Bonds	70%	12,080	3,672,285	59.6%	13,279	4,050,185	53.9%	14,856	4,545,932	52.6%	17,532	5,364,729	52.5%	19,486	7,395,097	60.1%
Subnational Bonds	15%	486	147,617	2.4%	499	152,206	2.0%	453	138,712	1.6%	376	115,065	1.1%	360	136,589	1.1%
Corporate Bonds	40%	819	248,999	4.0%	857	261,490	3.5%	1,507	461,158	5.3%	1,698	519,588	5.1%	2,092	793,789	6.5%
Supra-National Bonds	20%	42	12,825	0.2%	37	11,435	0.2%	23	6,913	0.1%	14	4,143	0.0%	4	1,442	0.0%
Real Estate Properties		771	234,349	3.8%	667	203,358	2.7%	751	229,712	2.7%	719	220,009	2.2%	421	159,703	1.3%
Domestic Money Market Securities and Bank Placements	30%	1,300	395,186	6.4%	2,053	626,300	8.3%	2,047	626,334	7.3%	3,449	1,055,511	10.3%	4,034		12.4%
Cash & Other Assets		227	69,123	1.1%	124	37,868	0.5%	106	32,318	0.4%	207	63,445	0.6%	324	122,797	1.0%
Other Assets																
Commercial Paper					183	55,927	0.7%	271	82,810	1.0%	382	116,837	1.1%	413	156,690	1.3%
Other Liabilities		-103	-31,325	-0.5%												
Alternative Investments - Domestic		132	40,036	0.7%	414	126,267	1.7%	572	175,156	2.0%	813	248,841	2.4%	1,083	410,974	3.3%
Sovereign Green Bonds	70%				24	7,186	0.1%	24	7,227	0.1%	51	15,456	0.2%	36	13,814	0.1%
Sovereign Sukuk	70%				185	56,556	0.8%	283	86,545	1.0%	273	83,517	0.8%	247	93,552	0.8%
Corporate Infrastructure Bonds	40%				18	5,379	0.1%	25	7,519	0.1%	58	17,709	0.2%	42	15,973	0.1%
Corporate Green Bonds	40%										97	29,548	0.3%	70	26,577	0.2%

Real Estate Investment Trusts (REITS)	20%	31	9,442	0.2%	54	16,426	0.2%	51	15,535	0.2%	36	11,093	0.1%	224	85,033	0.7%
Private Equity Funds	5%	63	19,002	0.3%	83	25,438	0.3%	102	31,348	0.4%	123	37,511	0.4%	88	33,236	0.3%
Infrastructure Funds	5%	7	2,064	0.0%	23	6,868	0.1%	60	18,510	0.2%	124	37,987	0.4%	175	66,430	0.5%
Mutual Funds	20%	31	9,528	0.2%	28	8,414	0.1%	28	8,473	0.1%	52	16,020	0.2%	201	76,359	0.6%
Offshore Investments		296	89,996	1.5%	459	139,995	1.9%	193	59,072	0.7%	251	76,662	0.8%	294	111,606	0.9%
Foreign Ordinary Shares	25%	277	84,192	1.4%	343	104,605	1.4%	183	55,862	0.6%	233	71,280	0.7%	245	92,919	0.8%
Foreign Money Market Securities	30%	19	5,804	0.1%	116	35,390	0.5%	10	3,210	0.0%	18	5,382	0.1%	49	18,687	0.2%
Total AUM		20,556	6,158,948	100.0%	25,099	7,515,351	100.0%	28,421	8,637,736	100.0%	33,643	10,218,053	100.0%	32,721	12,306,153	100%

Source: PENCOM (https://www.pencom.gov.ng/category/publications/monthly-reports/)

Nigeria Regulatory Limits

Regulatory Body	National Pension Commission (PENCOM)	
Pension system structure	Pension funds have been mostly DC in Nigeria's pension system for more than a decade, a characteristic that gained momentum following pension reforms in 2014	
Regulatory Overview	PENCOM was established in 2004 to regulate and supervise the Contributory Pension Scheme established under the Pension Reform Act 2004 (Repealed by the Pension Reform Act 2014).	
Fund Type	Fund I	Fund II
Domestic and Foreign Ordinary Shares	Maximum of 30% in ordinary shares including GDR subject to the following: i. Maximum of 7.5% of the issued capital of any one listed/quoted company; ii. Maximum of 2.5% of the value of the GDR issued.	Maximum of 25% in ordinary shares including GDR subject to the following: i. Maximum of 7.5% of the issued capital of any one listed/quoted company; ii. Maximum of 2.5% of the value of the GDR issued.
Sovereign and Agency Debt	Maximum of 60% in Sovereign (FGN) bonds including including Sovereign Bonds, Global Depositary Notes (GDN), Sukuk, Mortgage Bonds and Eurobonds subject to the following: i. No more than 5% of AUM should be invested in total Sovereign Eurobond issuance; ii. No more than 2.5% in any single issue.	Maximum of 70% in Sovereign (FGN) bonds including including Sovereign Bonds, Global Depositary Notes (GDN), Sukuk, Mortgage Bonds and Eurobonds subject to the following: i. No more than 5% of AUM should be invested in total Sovereign Eurobond issuance; ii. No more than 2.5% in any single issue.
Subnational Debt	Maximum of 10% in Subnational (State Government) bonds if issue is backed by ISPOs/ Guarantees and 3% if not backed by ISPOs/Guarantees subject to the following: i. Maximum of 5% of pension assets under management in total issues of any one State or Local Government; ii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.	Maximum of 15% in Subnational (State Government) bonds if issue is backed by ISPOs/ Guarantees and 3% if not backed by ISPOs/Guarantees subject to the following: i. Maximum of 5% of pension assets under management in total issues of any one State or Local Government; ii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.
Corporate Debt	Maximum of 35% in Corporate debt securitie (including Sukuk,ABS,MBS,GDNs, Eurobond) and maximum of 25% in infrastructure bond subject to the following: i. Maximum of 7.5% of pension assets under management in total issues of any Corporate entity; ii. Maximum of 2.5% in any single GDN/Eurobond issue; iii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.	Maximum of 40% in Corporate debt securitie (including Sukuk,ABS,MBS,GDNs, Eurobond) and maximum of 25% in infrastructure bond subject to the following: i. Maximum of 7.5% of pension assets under management in total issues of any Corporate entity; ii. Maximum of 2.5% in any single GDN/Eurobond issue; iii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.
Supra-National Bonds/ Sukuk	Maximum of 20% in Supranational bonds and Sukuk subject to the following: i. Maximum of 5% of pension assets under management in total issues of any one multilateral development finance institution; ii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.	Maximum of 20% in Supranational bonds and Sukuk subject to the following: i. Maximum of 5% of pension assets under management in total issues of any one multilateral development finance institution; ii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.
Money Market Securities and Bank Placements	Maximum of 30% in money market instruments including Certificates of Deposits; Bankers Acceptances; and Commercial Paper of corporate entities) subject to the following: i. Money market instruments issued by any one bank shall be subject to the issuer's credit rating thus: 3% of the issue for BBB: , 5% of the issue for A: and 7.5% for Rating of AA & above; ii. Maximum exposure to CP of any corporate entity will be 5%; iii. Maximum exposure to a single CP issue of any corporate entity is based on credit rating stated as follows: 16% of the issue for BBB: , 20% of the issue for A: and 25% for Rating of AA & above.	Maximum of 30% in money market instruments including Certificates of Deposits; Bankers Acceptances; and Commercial Paper of corporate entities) subject to the following: i. Money market instruments issued by any one bank shall be subject to the issuer's credit rating thus: 3% of the issue for BBB: , 5% of the issue for A: and 7.5% for Rating of AA & above; ii. Maximum exposure to CP of any corporate entity will be 5%; iii. Maximum exposure to a single CP issue of any corporate entity is based on credit rating stated as follows: 16% of the issue for BBB: , 20% of the issue for A: and 25% for Rating of AA & above.

Nigeria Regulatory Limits

Funds	Maximum of 25% in Open, Close–end and Hybrid Funds (including REITs and ETFs) subject to the following: i. Maximum of 10% to any one issuer; ii. Maximum of 25% of the value of any one fund.	Maximum of 20% in Open, Close–end and Hybrid Funds (including REITs and ETFs) subject to the following: i. Maximum of 5% to any one issuer; ii. Maximum of 25% of the value of any one fund.
Real Estate Properties		
Private Equity Funds	Maximum of 10% in Private Equity Funds subject to the following: i. Maximum of 5% to any one issuer; ii. Maximum of 20% of the value of any one fund.	Maximum of 5% in Private Equity Funds subject to the following: i. Maximum of 5% to any one issuer; ii. Maximum of 20% of the value of any one fund.
Infrastructure Funds	Maximum of 10% in Infrastructure Funds subject to the following: i. Maximum of 5% to any one issuer; ii. Maximum of 20% of the value of any one fund.	Maximum of 5% in Infrastructure Funds subject to the following: i. Maximum of 5% to any one issuer; ii. Maximum of 20% of the value of any one fund.

Nigeria Regulatory Limits

Regulatory Body	National Pension Commission (PENCOM).	
Pension system structure	Pension funds have been mostly DC in Nigeria's pension system for more than a decade, a characteristic that gained momentum following pension reforms in 2014.	
Regulatory Overview	PENCOM was established in 2004 to regulate and supervise the Contributory Pension Scheme established under the Pension Reform Act 2004 (Repealed by the Pension Reform Act 2014).	
Fund Type	Fund III	Fund IV
Domestic and Foreign Ordinary Shares	Maximum of 10% in ordinary shares including GDR subject to the following: i. Maximum of 7.5% of the issued capital of any one listed/quoted company; ii. Maximum of 2.5% of the value of the GDR issued.	Maximum of 5% in ordinary shares including GDR subject to the following: i. Maximum of 7.5% of the issued capital of any one listed/quoted company; ii. Maximum of 2.5% of the value of the GDR issued.
Sovereign and Agency Debt	Maximum of 80% in Sovereign (FGN) bonds including including Sovereign Bonds,-Global Depositary Notes (GDN), Sukuk, Mortgage Bonds and Eurobonds subject to the following: i. No more than 5% of AUM should be invested in total Sovereign Eurobond issuance; ii. No more than 2.5% in any single issue.	Maximum of 80% in Sovereign (FGN) bonds including including Sovereign Bonds,Global Depositary Notes (GDN), Sukuk, Mortgage Bonds and Eurobonds subject to the following: i. No more than 5% of AUM should be invested in total Sovereign Eurobond issuance; ii. No more than 2.5% in any single issue.
Subnational Debt	Maximum of 20% in Subnational (State Government) bonds if issue is backed by ISPOs/ Guarantees and 3% if not backed by ISPOs/Guarantees subject to the following: i. Maximum of 3% of pension assets under management in total issues of any one State or Local Government; ii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.	Maximum of 20% in Subnational (State Government) bonds if issue is backed by ISPOs/ Guarantees and 3% if not backed by ISPOs/Guarantees subject to the following: i. Maximum of 3% of pension assets under management in total issues of any one State or Local Government; ii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.
Corporate Debt	Maximum of 45% in Corporate debt securitie (including Sukuk,ABS,MBS,GDNs, Eurobond) and maximum of 20% in infrastructure bond subject to the following: i. Maximum of 7.5% of pension assets under management in total issues of any Corporate entity; ii. Maximum of 2.5% in any single GDN/Eurobond issue; iii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.	Maximum of 45% in Corporate debt securitie (including Sukuk,ABS,MBS,GDNs, Eurobond) and maximum of 10% in infrastructure bond subject to the following: i. Maximum of 7.5% of pension assets under management in total issues of any Corporate entity; ii. Maximum of 2.5% in any single GDN/Eurobond issue; iii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.
Supra-National Bonds/ Sukuk	Maximum of 20% in Supranational bonds and Sukuk subject to the following: i. Maximum of 5% of pension assets under management in total issues of any one multilateral development finance institution; ii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.	Maximum of 20% in Supranational bonds and Sukuk subject to the following: i. Maximum of 5% of pension assets under management in total issues of any one multilateral development finance institution; ii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.
Money Market Securities and Bank Placements	Maximum of 35% in money market instruments including Certificates of Deposits; Bankers Acceptances; and Commercial Paper of corporate entities) subject to the following: i. Money market instruments issued by any one bank shall be subject to the issuer's credit rating thus: 3% of the issue for BBB: , 5% of the issue for A: and 7.5% for Rating of AA & above; ii. Maximum exposure to CP of any corporate entity will be 5%; iii. Maximum exposure to a single CP issue of any corporate entity is based on credit rating stated as follows: 16% of the issue for BBB: , 20% of the issue for A: and 25% for Rating of AA & above.	Maximum of 35% in money market instruments including Certificates of Deposits; Bankers Acceptances; and Commercial Paper of corporate entities) subject to the following: i. Money market instruments issued by any one bank shall be subject to the issuer's credit rating thus: 3% of the issue for BBB: , 5% of the issue for A: and 7.5% for Rating of AA & above; ii. Maximum exposure to CP of any corporate entity will be 5%; iii. Maximum exposure to a single CP issue of any corporate entity is based on credit rating stated as follows: 16% of the issue for BBB: , 20% of the issue for A: and 25% for Rating of AA & above.

Nigeria Regulatory Limits

Funds	Maximum of 10% in Open, Close–end and Hybrid Funds (including REITs and ETFs) subject to the following: i. Maximum of 5% to any one issuer; ii. Maximum of 15% of the value of any one fund.	Maximum of 5% in Open, Close–end and Hybrid Funds (including REITs and ETFs) subject to the following: i. Maximum of 5% to any one issuer; ii. Maximum of 15% of the value of any one fund.
Real Estate Properties	Not permitted	Not permitted
Private Equity Funds	Not permitted	Not permitted
Infrastructure Funds	Not permitted	Not permitted

Nigeria Regulatory Limits

Regulatory Body	National Pension Commission (PENCOM).
Pension system structure	Pension funds have been mostly DC in Nigeria's pension system for more than a decade, a characteristic that gained momentum following pension reforms in 2014.
Regulatory Overview	PENCOM was established in 2004 to regulate and supervise the Contributory Pension Scheme established under the Pension Reform Act 2004 (Repealed by the Pension Reform Act 2014).
Fund Type	Fund V
Domestic and Foreign Ordinary Shares	Maximum of 5% in ordinary shares including GDR subject to the following: i. Maximum of 7.5% of the issued capital of any one listed/quoted company; ii. Maximum of 2.5% of the value of the GDR issued.
Sovereign and Agency Debt	Maximum of 60% in Sovereign (FGN) bonds including including Sovereign Bonds,Global Depositary Notes (GDN), Sukuk, Mortgage Bonds and Eurobonds subject to the fol-lowing: i. No more than 5% of AUM should be invested in total Sovereign Eurobond issuance; ii. No more than 2.5% in any single issue.
Subnational Debt	Maximum of 5% in Subnational (State Government) bonds if issue is backed by ISPOs/ Guarantees and 3% if not backed by ISPOs/Guarantees subject to the following: i. Maximum of 3% of pension assets under management in total issues of any one State or Local Government; ii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.
Corporate Debt	Maximum of 35% in Corporate debt securitie (including Sukuk,ABS,MBS,GDNs, Eurobond) and maximum of 10% in infrastructure bond subject to the following: i. Maximum of 7.5% of pension assets under management in total issues of any Corporate entity; ii. Maximum of 2.5% in any single GDN/Eurobond issue; iii. Maximum exposure to a single issue is based on credit rating stated as follows: 25% of the issue for BBB: , 30% of the issue for A: and 35% for Rating of AA & above.
Supra-National Bonds/ Sukuk	Not permitted
Money Market Securities and Bank Placements	Maximum of 60% in money market instruments including Certificates of Deposits; Bankers Acceptances; and Commercial Paper of corporate entities) subject to the following: i. Money market instruments issued by any one bank shall be subject to the issuer's credit rating thus: 3% of the issue for BBB: , 5% of the issue for A: and 7.5% for Rating of AA & above; ii. Maximum exposure to CP of any corporate entity will be 5%; iii. Maximum exposure to a single CP issue of any corporate entity is based on credit rating stated as follows: 16% of the issue for BBB: , 20% of the issue for A: and 25% for Rating of AA & above.
Funds	Not permitted
Real Estate Properties	Not permitted
Private Equity Funds	Not permitted
Infrastructure Funds	Not permitted

Source: PENCOM https://www.pencom.gov.ng/wp-content/uploads/2019/01/AMENDED-INVESTMENT-REGULATION-FEBRUARY-2019-.pdf
https://www.pencom.gov.ng/pension-reform-act-2014/

South Africa Asset Allocation

South Africa		Dec 2016			Dec 2017			Dec 2018			Dec 2019		
Asset Class	Regulatory Limit (% of total AUM)	AUM ($' Mn)	AUM (R' Mn)	% of total AUM	AUM ($' Mn)	AUM (R' Mn)	% of total AUM	AUM ($' Mn)	AUM (R' Mn)	% of total AUM	AUM ($' Mn)	AUM (R' Mn)	% of total AUM
Standardized Asset Class													
Bonds and other debt instruments[/1]	100	15,500	211,242	9.0%	17,130	210,593	8.7%	16,165	232,957	9.2%	17,066	239,356	9.1%
Equities[/2]	75	27,338	372,563	15.9%	30,465	374,536	15.5%	27,306	393,527	15.6%	26,900	377,282	14.4%
Cash/Fixed Deposit	100	6,469	88,155	3.8%	6,500	79,916	3.3%	4,948	71,303	2.8%	5,491	77,020	2.9%
Property (investment and owner-occupied properties)	25	1,843	25,121	1.1%		26,823	1.1%	1,899	27,314	1.1%	1,753	24,592	0.9%
Other assets													
Investment in participating employers	10	789	10,753	0.5%	846	10,404	0.4%	737	10,627	0.4%	834	11,700	0.4%
Insurance Policies		70,059	954,783	40.8%	82,621	1,015,742	42.0%	72,393	1,043,298	41.3%	76,419	1,071,819	40.8%
Other assets		108	1,467	0.1%	108	1,322	0.1%	53	765	0.0%	61	854	0.0%
Alternative Investments - Domestic													
Private Equity	10	550	7,490	0.3%	588	7,235	0.3%	514	7,404	0.3%	543	7,610	0.3%
Hedge Fund	10	934	12,734	0.5%	586	7,210	0.3%	666	9,594	0.4%	594	8,336	0.3%
Commodities	10	314	4,285	0.2%	312	3,833	0.2%	204	2,937	0.1%	253	3,552	0.1%
Derivatives		65	892	0.0%		632	0.0%	-5	-76.0	0.0%	55	771	0.0%
Collective Investment Schemes (CIS)		16,800	228,949	9.8%	19,865	244,222	10.1%	17,498	252,177	10.0%	19,857	278,507	10.6%
Offshore Investments													
Foreign Investments	30	31,050	423,158	18.1%	35,618	437,886	18.1%	32,752	472,004	18.7%	37,510	526,100	20.0%
Total AUM		171,169	2,341,592	100.0%		2,420,354	100.0%	175,129	2,523,831	100.0%	187,336.7	2,627,499	100.0%

Source: FSCA 2017 (https://www.fsca.co.za/Annual%20Reports/Registrar%20of%20Pension%20Funds%20Annual%20Report%202017.PDF)

Notes:

[/1] Includes all investments in debt instruments.

[/2] Includes quoted and unquoted equities.

South Africa Regulatory Limits/[1]

South Africa	
Regulatory Body	Financial Sector Conduct Authority (Fomerly Financial Services Board).
Pension system structure	South Africa saw a dramatic shift away from DB and towards DC funds during the 1980s-90s, particularly with establishment of provident funds. South Africa's pension system is a mixed DB-SC system: the majority of private-sector employees are covered by DC schemes while those in the public sector largely remain covered under DB schemes. The largest pension fund regionwide and one of the largest pension funds in the world, South Africa's Government Employees Pension Fund, is a DB fund.
Regulatory Overview/[2]	The Financial Sector Conduct Authority (FSCA) was established by the Financial Sector Regulation Act 9 of 2017 (the FSR Act) to become a dedicated market conduct authority replacing the Financial Services Board (FSB) in April 2018. Regulation 28 of the Pension Funds Act governs the way managers of pension funds invest in various asset classes, to safeguard workers retirement savings against risky investments. In February 2021, The National Treasury published proposed amendments to Regulation 28, which are expected to to make it easier for retirement funds to invest in infrastructure and alternative investments.
Government Securities	A maximum investment limit of 100% of AUM in debt instruments or loans issued or guaranteed by the Republic.
Government agencies, local authority and Development Bank	A maximum investment limit of 50% of AUM in listed debt instruments issued ot guaranteed by a public entity under the Public Finance Management Act 1999 with 10% individual investment limit. For unlisted debt instrument, a maximum investment limit of 25% is applicable with 5% individual investment limit.
Corporate Bonds	A maximum investment limit of 75% of AUM in listed corporate bonds issued by a South African bank with individual limits as follows: i. 25% in listed corporate bonds with market capitalisation of R20bn or more; ii. 15% in listed corporate bonds with market capitalisation of between R2bn and R20bn; iii. 10% in listed corporate bonds with market capitalisation of less than R2bn; A maximum limit of 25% in unlisted corporate bond issued by a South African bank with 5% individual limits; A maximum limit of 50% in listed corporate bonds issued or guaranteed by an entity that has equity listed on an exchange 10% individual limit; A maximum limit of 25% in unlisted corporate bonds issued or guaranteed by an entity that has equity listed on an exchange with 5% individual limit.
Quoted Equities and Unquoted Equities/[3]	i. A maximum limit of 75% of AUM in shares of companies (excluding property companies), convertible debentures and collective investment schemes (CIS) structures (excluding CIS invested in property shares). The following limit per entity or issuer is applicable to public equity investment: 15% of AUM where market cap is greater than R20bn; 10% of AUM where market cap is between R2bn and R20bn; 5% of AUM where market cap is less than R2bn; ii. A maximum limit of 10% in shares of unlisted companies. Individual security limit is set at 2.5%.
Cash/Fixed Deposits/ Money Market	A maximum of 100% allocation is allowed in bank balances or deposits, cash held in a margin account and bank issued money-market instruments including islamic liquidity management financial instrument. Single issuer/entity limit of 25% is applicable.
Offshore/[4]	i. A maximum limit of 10% of AUM is applicable to debts instruments issued by foreign government; ii. A maximum limit of 5% can be held in bank balances or deposits, cash held in a margin account and bank issued money-market instruments including islamic liquidity management financial instrument; iii. Maximum exposure to foreign investment is set at 30% and an additional 10% in African assets.
Property and REITs/[3]	A maximum limit of 25% of AUM in shares and linked units comprising shares linked to debentures in poperty companies or units in CIS in property listed on an Exchange. The following limits per issuer/entity are applicable: i. 15% of AUM, where market cap is greater than R10bn; ii. 10% of AUM, where market cap is between R3bn and R10bn; iii. 5% of AUM, where market cap is less than R3bn; iv. A maximum limit of 15% of AUM in shares and linked units comprising shares linked to debentures in poperty companies or units in CIS in property not listed on an Exchange; v. A 5% limit is applicable to individual issuer/entity.

South Africa Regulatory Limits[/1]

Alternative Investments	A maximum limit of 10% of AUM in investments in listed Kruger Rands and other commodities including Exchange Traded Commodities. The following limits are applicable per security: i. A maximum limit of 10% in gold and 5% in any other commodity; ii. A maximum limit of 10% in domestic or foreign hedge funds. Investment in individual issuer/entity is limited to 5% per fund of hedge funds and 2.5% per hedge funds; iii. A maximum limit of 10% in domestic or foreign Private Equity (PE) funds. Investment in individual issuer/entity is limited to 5% per fund of PE fund and 2.5% per PE fund; iv. Investment in derivatives is permissible.
Other Assets[/5]	i. A maximum limit of 10% in investments in the business of a participating employer as permitted by section 19(4) of the pension funds act and 5% in in the business of a participating employer that has been granted exemption in terms of section 19(4); ii. A maximum limit of 95% in housing loans granted to other members as permitted in section 19(5) of Pension Funds Act; iii. A maximum limit of 2.5% in other assets not named.

Source: National Treasury, Republic of South Africa (http://www.treasury.gov.za/publications/other/Reg28/)

Notes:

[/1] For equities, property, and alternative assets, regulatory limits covers investment in the Republic and offshore assets.

[/2] http://www.treasury.gov.za/legislation/GovernmentNotices/Gazette%20-%20Draft%20Amendments%20to%20Regulation%2028.pdf

[/3] Total exposure to unlisted securities — debt, equities, PE, hedge funds, immovable properties or shares of property companies—cannot exceed 35% of total AUM. Total exposure to unlisted equities and PE funds cannot exceed 25% of total AUM. Total exposure to an issuer or entity cannot exceed 25% of total AUM.

[/4] The sum of aggregate exposure to foreign assets cannot exceed the maximum allowable amount as determined in terms of an Exchange Control Circular issued by the South African Reserve Bank. https://www.resbank.co.za/content/dam/sarb/what-we-do/financial-surveillance/financial-surveillance-documents/2020/Currency%20and%20Exchanges%20Manual%20for%20Authorised%20Dealers.pdf

[/5] Pension Funds Act- https://www.gov.za/documents/pension-funds-act-22-may-2015-1349

WAEMU Asset Allocation

WAEMU		Dec 2016			Dec 2017			Dec 2018			Dec 2019			Dec 2020		
Asset Class	Regulatory Limit (% of total AUM)	AUM ($' Bn)	AUM (FCFA' Bn)	% of total AUM	AUM ($' Bn)	AUM (FCFA' Bn)	% of total AUM	AUM ($' Bn)	AUM (FCFA' Bn)	% of total AUM	AUM ($' Bn)	AUM (FCFA' Bn)	% of total AUM	AUM ($' Bn)	AUM (FCFA' Bn)	% of total AUM
Standardized Asset Class																
Bonds		0.51	317.13	20.92%	1.00	575.01	25.4%	1.16	658.51	24.12%	1.44	839.90	27.27%	1.20	637.76	17.81%
State and Corporate Debt (Loans)		0.00	0.00	0.00%	0.29	168.28	7.4%	0.20	112.49	4.12%	0.12	67.85	2.20%	0.11	57.62	1.61%
Equities[/1]		0.13	81.85	5.40%	0.22	128.59	5.7%	0.26	149.72	5.48%	0.38	223.42	7.26%	0.57	303.47	8.48%
Cash/Fixed Deposit		1.64	1,027.91	67.81%	2.13	1,220.23	53.9%	2.49	1,416.86	51.90%	2.50	1,454.96	47.25%	2.80	1,482.90	41.41%
Property		0.00	0.00	0.00%	0.00	0.00	0.0%	0.55	311.55	11.41%	0.68	395.57	12.85%	0.87	461.57	12.89%
Other assets																
Other debt securities		0.00	-	0.00%	0.00	-	0.0%	0.04	21.80	0.80%	0.04	24.29	0.79%	0.05	24.40	0.68%
Deposits at the Caisse de Dépots et Consignations (CDC)		0.00	-	0.00%	0.00	-	0.0%	0.00	-	0.00%	0.00	-	0.00%	0.98	521.09	14.55%
Alternative Investments - Domestic																
CIS		0.14	88.87	5.86%	0.09	50.55	2.2%	0.06	36.46	1.34%	0.09	53.95	1.75%	0.14	72.04	2.01%
Offshore Investments																
Foreign Investments			-	0.00%	0.21	119.74	5.3%	0.04	22.54	0.83%	0.03	19.49	0.63%	0.04	19.84	0.55%
Total AUM		2.42	1,516	100%	3.94	2,262	100%	4.80	2,730	100%	5.29	3,079	100%	6.75	3,581	100%

Source: Conférence interafricaine de la prévoyance sociale (CIPRES).

Note:
[/1] Includes quoted and unquoted equities.

WAEMU Regulatory Limits

WAEMU	
Regulatory bodies	The Conférence interafricaine de la prévoyance sociale (CIPRES) is the subregional regulator for state-owned retirement funds in WAEMU member states. The Caisse de retraite par répartition avec Epargne de l'Union Monétaire Ouest Africaine (CRRAE-UMOA) currently is the only privately-owned and managed retirement institution in WAEMU. Nearly all retirement funds in WAEMU are supervised by two ministries within the national government: social protection ministry and finance ministry.
Pension system structure	The main schemes available in the WAEMU region are DB. A new system tier being tested in Cote d'Ivoire is comparable to a DC scheme, providing an optional, supplementary DC component intended to supplement the income of retirees. It is designed to be optional for workers who retire in 5 years or less and mandatory for all others.
Regulatory overview	There are no specific regulatory limits by asset class in WAEMU. However, there are plans within the market to set asset allocation ceilings and a proposal is expected for approval by mid 2022.
Offshore	Before investing in a foreign asset, a retirement fund must obtain authorization from the central bank and/or the Ministry of Finance, among others.

Source: Conférence interafricaine de la prévoyance sociale (CIPRES).

The Covid-19 crisis is having a significant impact on the pension fund industry in African countries through a few main channels. Broadly speaking, the Covid-19 crisis has and will continue to directly impact pension funds via members' reduced contributions, early withdrawals, and some shifts in investment across asset classes by the funds themselves.

One initial and direct impact of the Covid-19 crisis on DC funds has been the impeded ability of employers, particularly in hard hits sectors such as tourism and hospitality, to make their usual periodic contributions on behalf of their employees to funds. Economies have seen hospitality/tourism sectors heavily impacted, for example, while other sectors have been relatively more resilient in the crisis.

Pension fund schemes also face the risk of mass employee exit from funds due to job losses, especially in hard-hit sectors. Pension fund regulators in a number of countries have come under pressure to relax employer contribution requirements, particularly in industries with large fund member job losses and unpaid leave. Arguments in support of these measures have included that the resulting reduction in labour costs may enable employers to retain more employees.

In Namibia, for example, mandatory contributions were suspended for several months in 2020.[70] This did not lead to a reduction in total industry assets, however, which industry analysts attribute to relatively well-diversified asset allocation for Namibia's pension industry as a whole. Because most Namibian pension industry investments have been in listed equities and bonds—particularly listed equities—as the financial markets recovered from the sharp dip in March 2020, the asset base of the pension industry overall also recovered (see also below).

Total pension industry AUM for all of the seven African focus markets continued to grow in local currency terms over the one-year period through end-2020—and by more than one-third in South Africa, the largest market (Table A2.1). Total AUM growth over the crisis year, however, decelerated in local-currency terms in three markets, compared with the 2018-19 period—reflecting factors including the adverse effects of the pandemic on the broader economy and financial markets, particularly in the first half of 2020 (Chart A2.1).

For Nigeria's pension system, assets in naira (NGN) terms continued to grow robustly in 2020, comparing year-end with one year earlier. Total assets showed a contraction in US dollar (USD) terms, however, due to sharp naira depreciation. According to local pension industry stakeholders, the crisis—and related declines in yields together with regulatory changes—prompted some portfolio diversification away from short-term government and other debt securities and into listed equity and other asset classes.

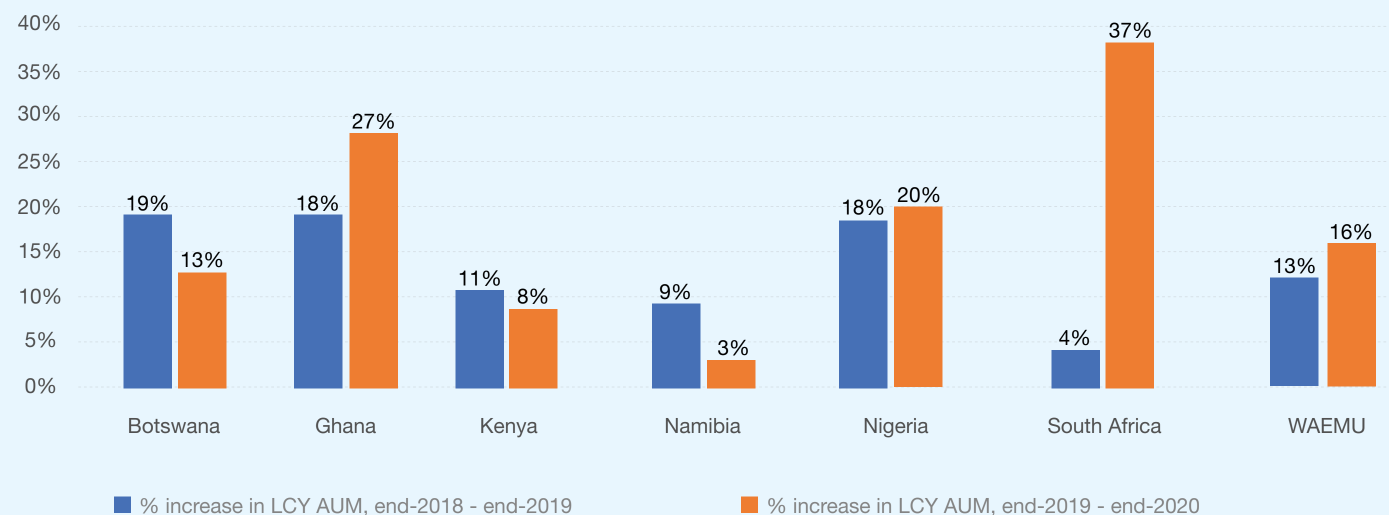
Table A2.1. Growth of pension fund industry AUM over the first year of the Covid-19 crisis[71]

Total AUM (USD billion-equivalent)			Total change in AUM in local currency terms, year-end 2019-20 (%)
	End-2019	End-2020 /1	
South Africa	187.3	245.1	37.0%
Nigeria	33.3	32.3	20.4%
Kenya	12.8	12.8	7.8%
Namibia	12.2	12.1	2.8%
Botswana	8.8	9.7	12.9%
WAEMU	5.3	6.8	16.3%
Ghana	4.7	5.8	27.1%

Source: Pension fund regulators including their annual and other periodic reports for Botswana (end-2019), Ghana (end-2019), Kenya, Namibia, Nigeria, and WAEMU; Bank of Botswana periodic report (Botswana, end-2020); Ghana SEC, 1stQ2021 Newsletter (Ghana, end-2020); SARB FSR May 2021 (South Africa, end-3rdQ 2020).

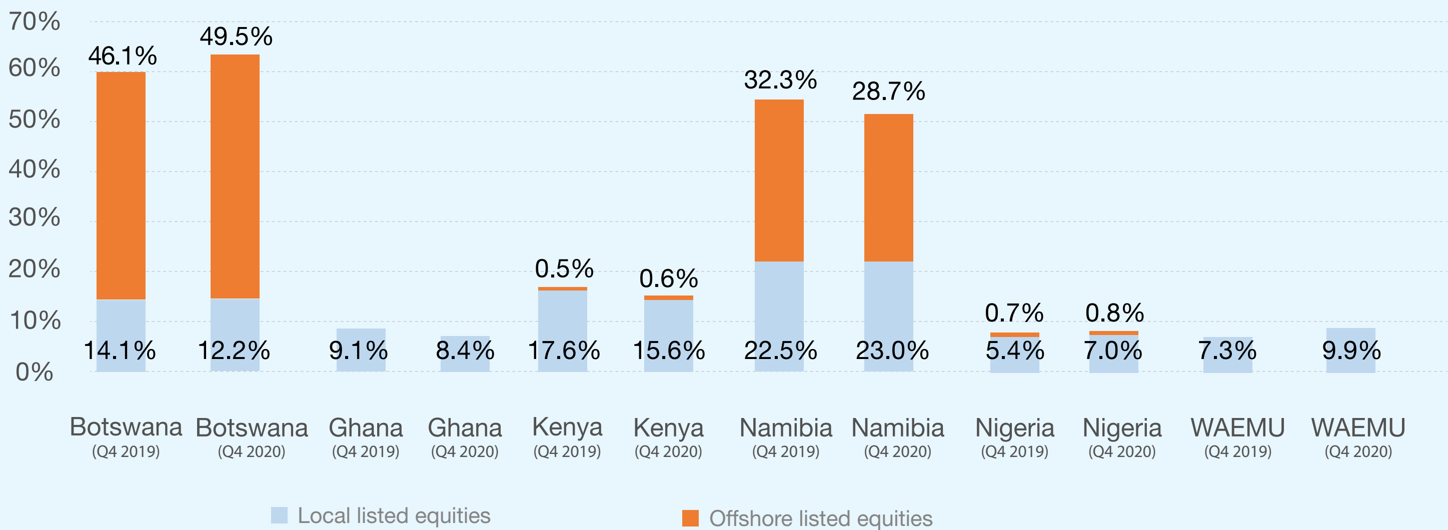
Note:
/1 End-Sept. 2020 for South Africa.

Chart A2.1. Pension AUM grew in LCY terms for the focus markets in 2020, although more slowly for some markets



Source: Pension fund and other national financial regulators annual and other periodic reports. Data for South Africa for end-Sept. 2020 rather than end-2020.

Chart A2.2 AUM share in listed equities remained relatively stable [/1]



Source: Pension fund and other national financial regulators annual and other periodic reports.
[/1] Data for focus markets reporting disaggregated asset allocation to listed equities for end-2019 and end-2020. Reported data for WAEMU does not disaggregate specifically for share of pension industry AUM held in foreign listed equities. Based on available data, at end-2020, only 0.6 percent of total WAEMU pension industry AUM was held in assets domiciled outside WAEMU.

Share of total assets in listed equities had remained relatively stable by year-end 2020

The share of total industry AUM held in listed equities remained relatively stable for the study focus markets where allocation data are available, when comparing the year end data — with a slight increase in offshore listed equities for three of these markets (Chart A2.2).

In contrast to pension funds in Botswana and Namibia,[72] local pension funds in Kenya, Ghana, Nigeria, WAEMU and many other African markets have tended to hold a smaller share of their portfolios in listed equities and other corporate securities. The vast majority of listed equities held in their portfolios are locally listed, which tend to have share values with a lower correlation with those of global equity markets. Consequently, they likely were somewhat more shielded than funds in larger emerging markets from the more immediate crisis impact of downturns and volatility.

Pension funds within these markets did take advantage of the lower valuations to selectively buy equities, according to our discussions with pension funds and other market sources. In this way, local pension funds provided investment — ideally much of it longer term in line with their liabilities profile — that led local share prices to recover. In Kenya, for example, pension industry share of AUM in in listed equities fell over the first half of 2020, from 17.5 percent to 14.2 percent, but had increased back to 15.6 percent by end-2020, as the equity market rebounded from the initial effects of the Covid-19 pandemic.[73]

Based on feedback provided during our structured discussions with local pension market participants in Kenya, some local pension funds have been shifting their portfolio strategy to increase exposure to listed equities offshore, within the region, and globally — including large international capital markets. Market participants emphasize that this strategy of geographic diversification partly reflects the limited listed product on the local market. With the onset of crisis and strengthening of the US dollar, however, at least one fund in Kenya stepped up this strategy on the possibility of earning higher returns (see also Section IVE., “Foreign/offshore asset classes” above).

In Ghana, in contrast, asset owners pressed for more flexibility in terms of the share of risk-free assets held in portfolios, in the context of the impact of the Covid-19 crisis. During the pandemic, a number of asset owners in Ghana sought and gained from the regulator (NPRA) a temporary waiver of the 60 percent ceiling on total assets held in government securities. As a result, pension funds in Ghana can hold up to 70 percent in government securities. At the same time, according to our structured discussions with pension market players, asset managers for at least one local pension fund took advantage of the situation to increase allocation to quality stocks on the market, as well as buying some of Ghana’s Eurobond issue at a large discount.

Total pension industry AUM in listed equities remained relatively stable — decreasing slightly from an estimated 9.1 percent at end-2019 to 8.4 percent of a larger share of total AUM at end-2020 (see above). Overall, however, fund managers in Ghana consulted for structured discussions emphasized that, because investment guidelines are "very prescriptive" in Ghana, combined with the limited depth of the local capital market and restrictions on taking up assets domiciled offshore, there is little room for manoeuvre during a crisis or otherwise.

Many pension funds maintained a longer-term view through Covid crisis market volatility

Pension funds from across several of the study's focus markets — in Botswana, Kenya, Namibia, Nigeria, and South Africa — opted to maintain a longer-term perspective in the face of the crisis. During our structured discussions, managers of several funds across these focus markets reported keeping a longer-term perspective, either overall or by sub-portfolio based on "life-cycle" mandate. Moreover, they reported that maintaining, or even increasing, diversification by asset class and/or geography (where feasible) paid off as a portfolio strategy even in the short term.

According to managers of a large pension fund in Botswana, the immediate reaction to the crisis when it hit was to consider exiting countries and/or asset classes. However, on further consideration, the fund opted to maintain a longer-term investment strategy in the face of unknown risks and held steady in what it described as relatively diversified portfolio positions. Having backed away from a panicked immediate response to the crisis, this has paid off. Another fund in Botswana explained its investment strategy as heavily influenced by its mandate as a "life stage" pension fund with subportfolios that have varying portfolio management strategies aligned with members' stages in their working lives, running from least to most conservative as retirement approaches. This mandate determined the fund's response in managing its portfolio, ultimately, as the crisis hit. With the subportfolio targeting younger members having a higher propensity to absorb risk, the fund therefore maintained a relatively diversified approach, both by asset class and geography, seeking assets with low correlations.

Faced with sharp declines in share prices in equity markets as the Covid-19 crisis hit, local managers of pension fund assets in Namibia tended not to panic — in spite of around half of industry AUM in listed equity on the local and foreign stock exchanges, noted pension industry stakeholders participating in our structured discussions. Rather, fund managers opted to stay the course as longer-term investors. With the onset of recovery of share prices towards mid-year 2020, this approach reaped benefits in the form of an increase in the industry's asset base. At least one asset manager in Namibia indicated that the crisis may have offered an opportunity to increase equity exposure, but more so based on expectations of future valuation levels rather than as a response to the crisis per se. According to an asset manager that manages portfolios for local institutional investors in Namibia with longer-term liabilities profiles, the biggest shift from a portfolio standpoint over the past two years has been a reallocation of holdings in listed equity away from the South African market and into the larger emerging and international markets. This had begun occurring before the Covid-19 crisis struck, however. Similarly, another asset manager providing portfolio services to pension funds in Namibia emphasized that the Covid-19 crisis shouldn't impact their overall portfolio approach, noting that there typically have been different crises occurring every few years.

Asset managers for one of the larger pension funds in South Africa similarly indicated in our discussions that they have been shifting their offshore exposure increasingly into listed equities on emerging markets with geographic diversification — a portfolio strategy that preceded the crisis and was maintained. Another sizeable fund in South Africa maintained the same asset allocation as it had before the pandemic, including its allocation to alternatives.

In contrast to funds in these five focus markets,[74] the predominantly defined benefit pension system in WAEMU, overall, revised investment strategies following the onset of the pandemic to slow or halt further portfolio diversification,[75] according to feedback provided in our structured discussions. WAEMU's state-run pension funds, in particular, opted to take a more conservative approach to portfolio management, increasing their focus on investing in government securities. Capital market stakeholders in WAEMU consulted for this research study also emphasized that the very narrow choice of financial products available in WAEMU — (generally, listed) equities, (sovereign) bonds, and real estate investments — had limited their opportunities for diversification even ahead of the crisis.

WAEMU pension regulator CIPRES recommended that pension funds should "limit investments to what is strictly necessary" and "defer non-essential and major investments", in a note published in April 2020. Policy measures to address the impact of the crisis (including deferred payment of contributions) led to a significant reduction in investment budgets (by 32 percent for Côte d'Ivoire's largest retirement fund and CFA7 billion (USD 1.27 billion) for another retirement fund in Senegal. Both retirement institutions also focused on taking up government securities (short-term as well as bond issues) in a bid to support these WAEMU member states in financing public expenditure and investment. Note that, in contrast to the largely private funds in anglophone focus countries, the main pension funds in WAEMU are state controlled, and therefore have different approaches to portfolio management.

Appendix III. Assets held in listed local corporate securities

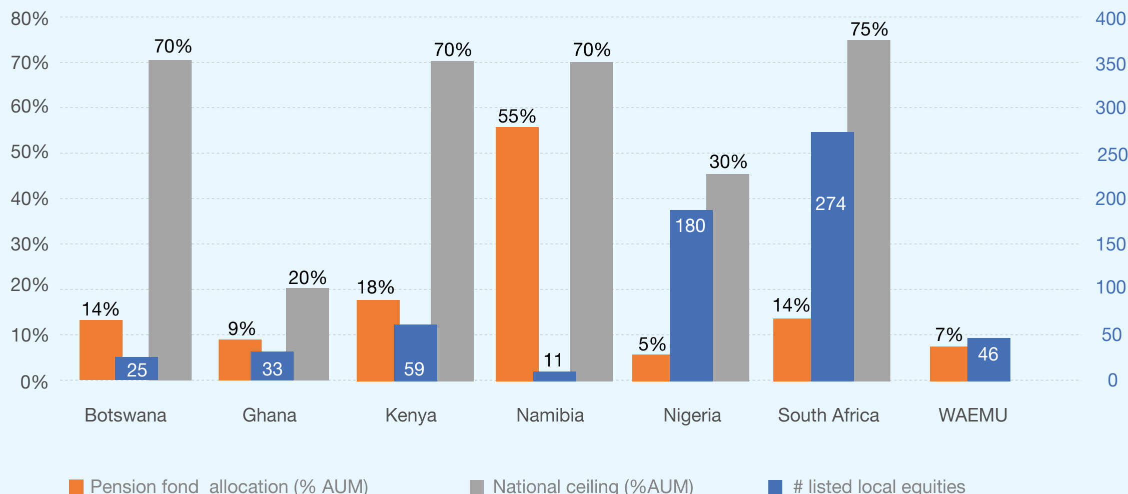
Investment in listed equities of just under 17 percent of total AUM for the six emerging focus markets at end-2019 was up somewhat from just under 14 percent three years earlier. This statistic reflects particularly strong appetite for equity securities by Namibia's pension industry, however — recorded as 55 percent of local pension AUM in 2019 and making up just over half of total assets recorded as held in listed equities for the six focus markets. Because Namibia's pension industry regulator has been recording holdings in listed foreign equities along with domestic equities since 2018, a sizeable share recorded as "quoted equities" held by Namibia's pension industry is actually listed on foreign securities markets and/or are dual listed shares of firms domiciled offshore. Consequently, the local share of the 17 percent of total AUM in listed equities for the six emerging focus markets is likely considerably lower.

Investment in listed corporate bonds was only an estimated 2.8 percent of total AUM at end-2019 for the six markets combined, down slightly from 3 percent at end-2016. Nigeria's regulator is unique among the focus markets in having set up and reported on specific asset categories for corporate infrastructure and green bonds in recent years. However, these remained a very tiny share of total AUM within Nigeria's market as of end-2019, at 0.3 and 0.2 percent of Nigeria's pension industry AUM, respectively, compared with 10 percent of Nigeria's pension system AUM for other listed corporate bonds.

Pension fund managers and industry stakeholders in Nigeria noted in our discussions that, with restrictions on the ability to take up asset classes domiciled outside of Nigeria, diversification into still-limited local product can be challenging. Macroeconomic conditions in Nigeria, coupled with the sudden, sharp reaction of international markets in March-April 2020, have reinforced the notion, however, that pension funds must be more aggressive in diversifying away from government securities.

The still limited take-up of listed corporate securities also partly reflects a relative "lack of product" in most of the focus markets — particularly for corporate bonds (Charts A3.1-3.2). Local equity and corporate bond markets remain relatively small in terms of market capitalization/amounts outstanding and number of listings for the focus countries with the exception of South Africa. Pension sectors in Botswana and Namibia, however, have been significantly more exposed to equities as an asset class, holding a majority of assets in listed equities at end-2019 — although most of this was in equities listed on nonlocal securities markets.[76]

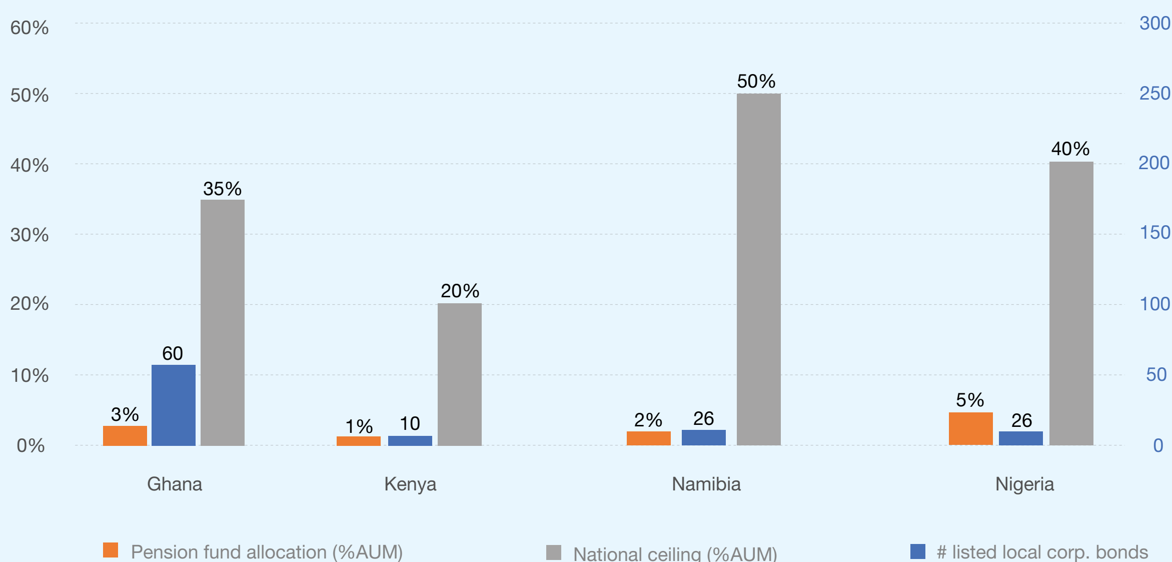
Chart A3.1. Investment in listed equities falls well below ceilings, end-2019



Source: Listing tallies sourced from periodic reports by the WFE and Kenya CMA.

* For Ghana, the 20% ceiling covers total equity, which includes PE. For Nigeria, ceilings for listed equities range from 5-30%, depending on type of pension fund; chart plots ceiling for fund category covering active contributors 49 years and below. The 55% allocation to listed equities for Namibia includes holdings in listed foreign equities and dual listed shares of firms domiciled offshore; consequently, the allocation to local listed equities is likely considerably smaller.

Chart A3.2. Investment in listed corporate bonds falls well below ceilings, end-2019



Source: Listing tallies sourced from periodic reports by the WFE and Kenya CMA.

* For Nigeria, ceilings for corp. bonds range from 35-45%, depending on type of pension fund; chart plots ceiling for fund category covering active contributors 49 years and below.

The national regulatory ceilings clearly are not the impediment to further diversification into listed securities for the focus countries. The differential between actual allocation and regulatory limits for listed equities is more than 50 percentage points large in Botswana, Kenya and even South Africa. The differential is at least 10 percentage points large in the other focus markets that have mandated such a regulatory ceiling.[77] The corresponding differentials are still larger for allocation to listed corporate bonds based on the available data for asset allocation for four of the focus markets — ranging from just under 20 percentage points to nearly 50 percentage points.[78]

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Notes

1. Report prepared by Jacqueline Irving (IFC), David Ashiagbor (AfDB), and Guy Menan (MFW4A).
2. See Irving and Manroth (2009), inter alia, for a discussion of some of the main challenges and opportunities that emerging and frontier markets encounter in developing pension fund systems and local capital markets that more effectively intermediate longer-term finance to infrastructure and other longer-term development needs.
3. The eight WAEMU member states (Benin, Burkina Faso, Guinea Bissau, Côte d'Ivoire, Mali, Niger, Senegal, and Togo) share a subregional securities market, the Bourse Régionale des Valeurs Mobilières (BRVM).
4. Alternative asset classes" comprise the following asset categories reported by pension industry supervisory authorities: corporate green bonds, corporate infrastructure bonds, private equity/venture capital, real estate investment trusts, infrastructure funds and other vehicles, "alternative investments", hedge funds/derivatives, exchange traded funds, "offshore alternative investments", government-issued sukuk, and government-issued green bonds.
5. According to the findings from IEG's most recent (2016) comprehensive evaluation of The World Bank Group's Support to Capital Markets Development, "downstream attention to fund management or asset allocation has received negligible attention, although this is necessary for [the] sound management [of pension funds and life insurers], even apart from capital market development considerations. There was little focus on asset management; thus, opportunities were missed to link the World Bank Group's interventions in the areas of insurance and pensions with capital market development".
6. These five focus markets are Botswana, Ghana, Kenya, Nigeria, and South Africa. "Alternative asset classes" comprise the following asset categories reported by pension industry supervisory authorities: corporate green bonds, corporate infrastructure bonds, private equity/venture capital, real estate investment trusts, infrastructure funds and other vehicles, "alternative investments", hedge funds/derivatives, exchange traded funds, "offshore alternative investments", government-issued sukuk, and government-issued green bonds.
7. South Africa's pension fund industry is at a more developed stage than the other six focus countries of this study and its capital markets are relatively large and deep. Pension industries in Botswana and Namibia have been significantly more exposed to equities as an asset class, holding a majority of assets in listed equities at end-2019 — although most of this was in equities listed on non-local securities markets.
8. Macroeconomic stability provides the foundations for developing a national financial system that can provide sustainable and affordable medium- to long-term finance. This study builds further on earlier research that emphasized the need for underpinning, sound macro-economic fundamentals as a prerequisite for effective intermediation of longer-term finance by African pension funds and other local institutional investors to meet longer-term development financing needs such as infrastructure. See Irving and Manroth (2009).
9. As part of launching phase two of our research, we held consultative discussion webinars with key pension market stakeholders including the African Pension Supervisory Forum and local asset managers in order to refine the questionnaires, including the selection of alternative asset classes of most relevance for the focus markets.
10. In a study on the financial systems of 24 African focus countries for the AU/NEPAD-commissioned Africa Infrastructure Country Diagnostic project, Irving and Manroth (2009) found that in 12 of the countries with a pension system in place, DC schemes were becoming more prevalent, while the role of DB schemes was declining as pension systems overall allowed a larger role for privately managed pension fund administrators.
11. Because DB funds commit to pay a specific amount on retirement to each member, where funding levels become insufficient, a DB fund would be unable to pay retirees the committed pension.
12. South Africa's pension fund industry is at a more developed stage than the other six focus countries of this study and local capital markets are relatively large and deep overall.
13. Among the focus markets of this study, this ranges from an estimated 32 percent in South Africa to more than 95 percent in some WAEMU members including Benin, Burkina Faso, and Senegal. See data for the share of informal employment by country, as compiled by the International Labour Organization and sourced from national household and other surveys. Available at https://ilostat.ilo.org/topics/informality/
14. See World Bank, World Development Indicators, Gross Savings (percent of GDP). Available at https://data.worldbank.org/indicator/NY.GNS.ICTR.ZS
15. The eight WAEMU member states (Benin, Burkina Faso, Guinea Bissau, Côte d'Ivoire, Mali, Niger, Senegal, and Togo) share a subregional securities market, the Bourse Régionale des Valeurs Mobilières (BRVM).
16. E.g., reflecting differences in local capital market development levels and regulations governing offshore asset allocation, pension funds in Botswana, Namibia, and South Africa have tended to hold a smaller share of their portfolios in listed equities and corporate bonds, as compared with local pension funds in Kenya, Ghana, Nigeria, and WAEMU (see Appendix III). See country market profiles Appendix I, for market structure characteristics based on the roles of DC versus DB-pension schemes and regulations governing local investor offshore portfolio allocation.
17. Alternative asset classes are typically considered those investments that fall outside of the categories of "traditional" or standardized asset classes, such as listed equities, "plain vanilla" bonds and short-term debt securities, and cash and relatively liquid assets. Practices in specifically defining alternative assets vary considerably across markets, however. For further discussion, see Section III.
18. According to the findings from IEG's most recent (2016) comprehensive evaluation of The World Bank Group's Support to Capital Markets Development, "downstream attention to fund management or asset allocation has received negligible attention, although this is necessary for [the] sound management [of pension funds and life insurers], even apart from capital market development considerations. There was little focus on asset management; thus, opportunities were missed to link the Bank Group's interventions in the areas of insurance and pensions with capital market development".
19. Pension funds in Ghana currently face de facto restrictions on their ability to hold offshore assets in their portfolios, however.

Notes

20 For the purposes of compiling the table data, "alternative asset classes" comprise the following asset categories as reported by pension industry supervisory authorities: corporate green bonds, corporate infrastructure bonds, private equity/venture capital, real estate investment trusts, infrastructure funds, "alternative investments", hedge funds/derivatives, exchange traded funds, "offshore alternative investments", government-issued sukuk, and government-issued green bonds.

21 As of end-2016, Botswana reported allocation to ETFs; Kenya, Nigeria and South Africa to PE/VC; Kenya and Nigeria to REITs; Nigeria to infrastructure funds; and South Africa to hedge funds/derivatives.

22 The Namibian pension industry regulator, NAMFISA, reportedly intends to introduce a new asset class category for supervision purposes in the form of private equity and assign a ceiling of 5 percent of AUM. NAMFISA also plans to increase the domestic unlisted asset requirement ceiling from 3.5 percent to 5 percent of AUM. See also below.

23 Under Regulation 29, pension funds in Namibia can only invest in unlisted assets such as PE through a special purpose vehicle (SPV). See https://www.namfisa.com.na/educates/regulation-29-unlisted-investments/

24 Kenya's "Big Four agenda" includes an ambitious target of achieving 500,000 affordable housing units by 2022.

25 NBFIRA, which supervises Botswana's pension fund industry, had noted in its Research Bulletin 2017-18, that, "larger pension funds, had, in recent years, been increasing their allocation to alternative investment…" See https://www.nbfira.org.bw/sites/default/files/2017-18%20RESEARCH%20BULLETIN.pdf

26 Although legislation enabling local REITs in Ghana was drafted in 2018, it had not yet been passed as of mid-2021. HFC Bank launched a REIT-like vehicle in Ghana's market in 1995 that is structured more so as a mutual fund.

27 NPRA, 2020 Annual Report.

28 The CBN banned all local institutional investors last year from investing in (short-term) Open Market Operations (OMO) bills. As OMO bills have matured, the PFAs have been trying to allocate a larger share of assets to the equity market — although here as well options are limited. According to local market players, there are currently a limited number of listed equities (around 10) that pension funds can actually newly invest in, in practice: if a listed firm hasn't turned a profit in the past five years or paid dividends in the past three of five years, investment guidelines preclude pension funds from investing. Pension funds are not permitted to invest in offshore assets, further limiting current available options to diversify.

29 Data for South Africa, having a more developed pension fund sector and local capital market overall, have been omitted from Box Charts 1.1 and 1.2 and the corresponding narrative in this section because it greatly alters the overall outcome. South Africa's pension-fund industry AUM accounted for 70 percent of the total estimated AUM of USD 264 billion for the seven focus markets at end-2019.

30 The national ceiling on share of AUM invested in any one of these alternative asset subclasses in Ghana is 10 percent.

31 NAMFISA, Annual Report 2021. Available at https://www.namfisa.com.na/wp-content/uploads/2021/09/NAMFISA-Annual-Report-2021_Web-FINAL.pdf

32 Pillar 4 of the ABSA Index "evaluates local investor capacity based on the size of the pension fund market and its potential to drive market activity". See https://www.omfif.org/videos/absa-africa-financial-markets-index-2021/

33 ABSA and OMFIF, ABSA Africa Financial Markets Index 2021, October 2021. Available at https://www.omfif.org/videos/absa-africa-financial-markets-index-2021/

34 Returns on the BRVM's composite index were -8.7%, -7.5% and -29.1% in 2020, 2019 and 2018, respectively.

35 For South Africa, the chart plots end-2019 rather than end-2020 data.

36 AVCA and PenOp, "Pension Funds and Private Equity in Nigeria", December 2021.

37 Ibid.

38 While there is no numerical regulatory ceiling per se mandated by CIPRES on retirement funds' investment in equity in WAEMU, CIPRES encourages retirement funds to invest in assets with a lower risk profile.

39 According to pension funds participating in structured discussions, the fact that PE funds are registered in a foreign jurisdiction increases the risk of total loss in the event of liquidation or insolvency. These concerns, which have been confirmed by regulators within WAEMU, gave rise to the prudential measures governing investments in asset classes subject to the jurisdiction of countries outside the Organization for the Harmonization of Business Law in Africa (OHADA) treaty and, more narrowly, those subject to the legal and regulatory rules of WAEMU. Moreover, this restriction is exacerbated by the various regulatory and policy barriers imposed on capital transfers for cross-border investment purposes, including outside the WAEMU area.

40 AVCA and PenOp, "Pension Funds and Private Equity in Nigeria", December 2021.

41 2021 Pension Strategy Conference, Axis Pension Trust in partnership with the CFA Society Ghana, February 23-24, 2021. https://www.axispension.com/ghana/conferences-events/pension-strategy-conference.html

42 Under Regulation 29, pension funds in Namibia can only invest in unlisted assets such as PE through a special purpose vehicle (SPV). See https://www.namfisa.com.na/educates/regulation-29-unlisted-investments/

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43 African Private Equity and Venture Capital Association, “African infrastructure investment managers to increase access to clean energy with ZAR5.5bn fundraise for ideas fund”, October 12, 2021 (https://www.avca-africa.org/newsroom/member-news/2021/african-infrastructure-investment-managers-aiim-to-increase-access-to-clean-energy-with-zar55bn-fundraise-for-ideas-fund/).

44 AVCA and PenOp, “Pension Funds and Private Equity in Nigeria”, December 2021.

45 Data sourced from UN Habitat for a Better Urban Future and World Bank staff estimates based on the United Nations Population Division’s World Urbanization Prospects.

46 This has coincided with a regulatory shift further motivating many funds to look beyond the usual short-term debt securities asset classes. The CBN banned all local institutional investors last year from investing in (short-term) Open Market Operations bills. As OMO bills have matured, the PFAs have been shifting into other asset classes.

47 REITS Association of Kenya, “Exemption of VAT on Transfer of Properties Into REITs - July 2021” (https://rak.co.ke/exemption-of-vat-on-transfer-of-properties-into-reits).

48 The Kenyan pension fund regulator, RBA, established a new subasset class category–“Any other assets”–for tracking separately from the existing “REITs” category the pension fund investment in the new unlisted I- and D-REITs offered under the Unquoted Securities Platform of the Nairobi Securities Exchange.

49 See Botswana Stock Exchange Annual Report 2018, “CEO’s Review”. Available at https://images.assettype.com/xchange/2020-08/135228dd-06a6-40c3-b5cd-56c57041424a/Botswana_Stock_Exchange_Annual_Report_2018.pdf

50 ABSA, ABSA Africa Financial Markets Index 2021, October 2021.

51 In 2019, Access Bank issued the “first certified” corporate green bond in Africa, raising N15bn (US$41m), according to the Climate Bonds Initiative (https://www.climatebonds.net/2019/04/nigeria-access-bank-1st-certified-corporate-green-bond-africa-leadership-green-finance).

52 https://www.bankwindhoek.com.na/Pages/News/NamibiafirstSustainabilityBond.aspx

53 The 7-year sovereign green bond issued in 2019 was oversubscribed by 220 percent (N17.93 billion). See https://focus.world-exchanges.org/articles/nigeria-green-bonds

54 Ghana has not yet had any green bond issues on the local market.

55 The King Codes establish “voluntary principles and leading/recommended practices” as guidelines for promoting good corporate governance in South Africa. See https://www.iodsa.co.za/page/king-iv

56 https://sseinitiative.org/stock-exchange/nse_nigeria/

57 Tyson, Judith, “Green bonds in sub-Saharan Africa”, ODI Policy Brief, May 2021. Available at https://cdn.odi.org/media/documents/ODI_Policy_brief_3_FINAL_clean_xxP8GTN.pdf

58 Pension funds in Ghana currently face de facto restrictions on their ability to hold offshore assets in their portfolios, however.

59 Data for pension industry AUM in Botswana was sourced from Bank of Botswana, Botswana Financial Statistics - July 2021, available at https://www.bankofbotswana.bw/publications.

60 Data for pension industry AUM in Namibia was sourced from NAMFISA, Quarterly Report, 4thQ 2020.

61 Effective 2018, Regulation 13 of the Pension Fund Act set a 10 percent limit on pension fund assets invested in dual-listed shares.

62 Under 2016 NPRA Guidelines, a maximum of 15% of total AUM may be invested in “alternative assets”, as defined by the NPRA, which includes external (cross-border) investment; the ceiling on the share of AUM invested in any one alternative asset subclass is 10%.

63 Cloud Atlas, Ltd. listed an equity ETF and a fixed-income ETF in September 2021. The Cloud Atlas Big50 ex-SA ETF aims to invest in the “50 most representative companies” across Botswana and eight other African equity markets (excluding South Africa). See https://www.bse.co.bw/exchange-traded-fund/#

64 According to NAMFISA, there is a wide range of unit trust/mutual fund products locally, from very liquid money market to highly growth-oriented.

65 According to PenCom regulations, pension fund assets can be invested in listed equities where the corporate issuer has an operating track record of having made taxable profits for, at least, three out of the five years preceding the investment; and paid dividends or issued bonus shares for at least one out of the five years. See https://www.pencom.gov.ng/wp-content/uploads/2019/01/AMENDED-INVESTMENT-REGULATION-FEBRUARY-2019-.pdf

66 Over the past decade, the supply of ETFs provided locally on Nigeria’s market has increased from a single gold ETF to around a dozen ETFs currently that provide exposure to listed equities and fixed income securities as well as commodities including Newgold ETF; Vetiva Griffin 30 ETF; Lotus Halal Equity ETF; Stanbic IBTC 30 ETF; Vetiva Banking ETF; Vetiva Consumer Goods ETF; Vetiva Industrial ETF; Vetiva S & P Nigeria Sovereign Bond ETF; The SIAML Pension ETF 40; Greenwich Alpha ETF; Meristem Growth ETF; and Meristem Value ETF (https://businessday.ng/markets/article/nse-engages-issuers-to-deepen-activity-in-etf-market/).

67 Since 2018, regulatory reforms in Namibia increased the minimum share of the investment portfolio held in local assets gradually to 45 percent, up from a minimum of 35 percent. These revisions were prompted by Namibia’s aims to develop and deepen its local financial market under the National Financial Sector Strategy (Circular NAMFISA 01/2017 Amendments to Regulations).

Notes

68 Botswana, Ghana, Kenya, Namibia, Nigeria, South Africa, and the WAEMU.

69 See the OECD's "Guidelines on Pension Fund Asset Management", which recommends that national pension supervisory authorities should avoid imposing minimum requirements for particular asset classes with some limited exceptions (https://www.oecd.org/finance/private-pensions/36316399.pdf). The Guidelines notes that prescribing floors for particular asset classes also may have the distortionary market effect of inflating the relevant asset prices.

70 See https://www.namfisa.com.na/wp-content/uploads/2020/05/PF-CIR-02-2020-Master-Rules-Amedments.pdf

71 South Africa's more developed pension fund sector is the region's largest ranked by AUM, estimated at US$187.3 bn -equivalent as of end-2019.

72 Namibia and Botswana's market supervisors have been raising the mandated minimum share of AUM allocated to locally-domiciled asset classes in recent years (see also Chapter III, section below on "foreign asset classes" and the market profiles on p. xx). These regulatory revisions have been prompted by policy aims to further develop and deepen local financial markets. In Namibia, under Regulation 13, pension funds are subject to a 45 percent of AUM domestic asset requirement. The amount held in domestic assets had increased to 44.5 percent of AUM as of end-Dec. 2020, up from 41.8 percent in Sep. 2020. There has also been a tightening of the amount held in dual listed securities (maximum 10 percent of AUM), which, prior to 2014, was categorized as domestic assets by Namibia's pension industry regulator, NAMFISA. In Botswana, Under Pension Fund Rule 2, pension funds are required to invest at least 30 percent of their assets locally.

73 RBA, Industry Brief, December 2020.

74 Botswana, Kenya, Namibia, Nigeria, and South Africa.

75 Some retirement funds in WAEMU were pursuing market opportunities to further diversify, however, in recent years. E.g., a pension fund in WAEMU became a minority shareholder of Oragroup, purchasing 9 percent of the bank's shares during its IPO in 2019.

76 The 55% allocation to listed equities for Namibia in Chart A3.1 includes holdings in listed foreign equities and dual listed shares of firms domiciled offshore. Consequently, the allocation to local listed equities is likely considerably smaller.

77 There is no regulatory ceiling in WAEMU, mandated by the regulator, CIPRES. However, CIPRES encourages retirement funds to invest in assets with a lower risk profile. CNPS, for example, has opted for a risk-based portfolio allocation of 30 percent "risk-free" assets.

78 Disaggregated asset allocation data for pension industry investment in listed corporate bonds are not available for Botswana, South Africa, and WAEMU.

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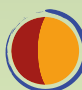

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