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African states tap pension funds

By Harvey Morris at the United Nations

African states have begun tapping some of the \$300bn held by domestic pension funds to finance economic development, at a time when sub-Saharan countries are experiencing unprecedented rates of growth but also a slowdown in foreign aid.

Pension funds in South Africa, Ghana and Nigeria have already invested some \$625m (£305m, €439m) to fund pan-African infrastructure projects and the aim is to lift that figure to \$3bn by mid-2008, according to Firmino Muca-vele, a Mozambican who heads Nepad, the African Union's development agency.

The pension fund strategy is one of a series of self-help measures African states are undertaking as they face what was described to the United Nations general assembly last week as a stalling in the flow of aid from the developed world.

African leaders fear the aid slowdown will undermine the benefits of a surge in economic growth recorded by sub-Saharan states in the past five years.

Kemal Dervis, head of the UN Development Programme, said on his return from a tour of southern and eastern Africa that gross domestic product south of the Sahara had risen by an average 5.6 per cent last year and was heading for 6 per cent growth this year, more than one percentage point above the world average. He said it could amount to the most rapid growth in the region for decades.

Mr Dervis acknowledged that growth was patchy and said countries experiencing internal conflict were growing more slowly than those that were at peace. "Where conflict is overcome, it's the first condition for progress. If you take out the conflict zones, growth is even higher," he said.

Echoing Mr Dervis's upbeat assessment of one of the world's poorest regions, Patrick Hayford, a senior UN adviser on Africa, said: "Africa is not all civil war and famine, chaos and fighting. There are developments of a more positive nature."

African delegates at the UN nevertheless warned that progress could be undermined by the failure of developed countries to keep their promise to double aid to Africa by 2010. That pledge was made by the Group of Eight leading industrialised countries at the 2005 Glen-eagles summit.

The general assembly heard, however, that for the first time since 1997 official aid flows declined in real terms in 2005 and stalled in 2006. In the interim, only limited progress had been made in liberalising world trade in Africa's favour.

Mr Dervis said on his return from Africa that the continent needed more help to deal with foreign investors for the benefit of its economies. "The income from two to three well-negotiated contracts can be the equivalent of the total foreign aid going to a country," he said.

Mr Mucavele, meanwhile, urged African investors to place their funds locally rather than abroad. "Most of our pension funds are used outside Africa, with a lower rate of return than most of our projects," he said.

He said much African capital placed abroad was tied up in the private and parastatal funds of big labour unions. "Instead of asking for loans, in some countries

there can be agreement between the state and the unions,” he said. “We have \$500bn in assets outside Africa, and we only get \$70bn-\$100bn in remittances coming back.”

Capital raised from domestic sources would be used for essential infrastructural projects in the continent, including roads and railways, he said.

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