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Building momentum for Gabon's sovereign wealth fund

The Report – Gabon 2015

Oxford Business Group (OBG)

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Analysis

Since the launch of the Emerging Gabon plan in 2009, the country has unveiled a number of measures to try to reduce its dependency on its flagship hydrocarbons sector – a process that has become all the more urgent as oil prices have fallen.

The nation's sovereign wealth fund, the Gabonese Strategic Investment Fund (Fond Gabonais d'Investissements Stratégiques, FGIS), is one means by which the government is seeking to do that, while stimulating investment and expanding the state's revenues. The fund has a number of broad overarching targets, including supporting the growth of small and medium-sized local enterprises through direct investment; increasing the capture of revenue from the country's natural resources; diversifying government revenues and mitigating risk; and broadly supporting the government's strategic economic policy objectives.

Speaking with OBG in 2014, the managing director of the FGIS, Serge Mickoto, outlined a number of sectors that the fund is targeting for investment. "In light of the current data, the primary sector industries that we have identified are agriculture, livestock and forestry, particularly wood transformation. In terms of secondary sectors, the targeted industries are energy and construction of infrastructure, in line with the country's sustainable development plans. Finally, among the industries involving the tertiary sector we have identified hospitality and tourism," he said.

The FGIS offers significant scope for expanding the government's revenue streams by diversifying risk and increasing holdings in a range of geographies and sectors. The fund is still very much in the early stages of growing its capital and the portfolio has been particularly active, with more than 70 direct investments.

Structure

Gabon has had a dedicated fund receiving a percentage of oil revenues since 1998, when it created a reserve account at the Bank of Central African States (Banque des Etats de l'Afrique Centrale, BEAC), although it was primarily designed to serve as a stabilisation fund. The government restructured the account in 2011 and relaunched it in January 2012 as a standalone institution with a broader mandate – now the FGIS.

The FGIS is funded by a 10% levy on government oil revenues – receiving CFA104bn

(€156m) in 2012 – and aims to support long-term investments in strategic projects. In 2013 the US State Department reported that the FGIS had roughly €1.81bn in assets. With its initial capital ring-fenced from government access – and thus unable to serve as a stabilisation mechanism to buttress the state’s general budget during periods of low oil prices – the FGIS is treated in large part as a future generation fund, similar to the Government Pension Fund in Norway, which is funded in large part by the European country’s North Sea oil revenues. The fund expects to report its investment figures in 2015, and aims to yield net dividends by 2017, which the government would then be able to use to finance the budget as needed.

Portfolio

The FGIS has a wide number of tools with which it deploys capital. It has a set of portfolio investments, for example, serving as a fund of funds, in part to help diversify geographic risk and broaden exposure to a wider range of projects and timelines. Among the funds it has provided capital for are the €301m Infrastructure Public-Private Partnership (PPP) Africa Fund, run by Luxembourg-based YCAP and France’s Edifice Capital, and which focuses on greenfield infrastructure projects and PPPs; and the €200m Agriland Fund, managed by Edifice Capital and targeting processing and supply-chain activities. Among Agriland’s investments is an industrial chicken-processing facility in Gabon.

The FGIS has also looked to the debt market, and subscribed to the six-year, CFA15bn (€22.5bn) bond launched in late 2013 by Benin’s Orabank, which also has operations in Gabon. It bore a rate of 6.75% and closed early, after being oversubscribed by 143%. The FGIS subsequently took a €10.5m stake in Orabank in November 2013, adding the bank to its portfolio of direct investments. In fact, direct investments comprise a large proportion of the fund’s activity, and in total it has 76 holdings. Its stakes are spread across several sectors, with hydrocarbons accounting for the largest number of companies, with 12, followed by 11 in the industrial sector, and nine in the general trade sector. Tourism, telecoms, banking and building materials make up just some of the other sectors in which it has a presence.

Among its direct holdings is a port development company, Société de Développement des Ports (SDP), which the FGIS owns outright and established in 2012 to upgrade port facilities throughout the country. The first deal SDP signed was to develop a €47m third terminal at Owendo port in partnership with Dubai-based Divers Marine Contracting. The FGIS has also been closely involved with the establishment of Société Commerciale Gabonaise de Réassurance (SCG-Ré), which has been one of the government’s more ambitious initiatives to address local content in the insurance sector. SCG-Ré looks to ensure that a larger share of reinsurance premiums for the country’s major projects in infrastructure and energy – among other sectors – are kept onshore.

It is also investing in South African SFM Group’s multi-use Grande Mayumba Project, has taken a stake in the Port Mole redevelopment project in Libreville and partnered with

France's Telespazio to establish a cartographic data and environmental monitoring station in Gabon known as Earthlab. Furthermore, it is working on a feasibility study for a greenfield rail line in a bid to attract private investment.

A New Trend

Sovereign wealth funds have become particularly prominent in recent years in large part due to the oil-fuelled success of Gulf-based vehicles – such as the Abu Dhabi Investment Authority (ADIA), which according to some press estimates has as much as €538bn under management, and the Qatar Investment Authority, which has acquired a number of flagship properties in London such as Canary Wharf and the Shard.

As a result, a number of major hydrocarbons producers in Africa – such as Nigeria, Angola and Ghana – are looking to establish or strengthen their own rainy day and future generation funds, in the hopes of eventually developing similar investment vehicles. While Nigeria, for example, has long had an oil stabilisation fund – the Excess Crude Account – it only established a dedicated sovereign wealth fund, the Nigeria Sovereign Investment Authority, in 2012.

Outlook

While the FGIS is a long way from reaching the clout wielded by the ADIA, it does represent an encouraging step in the right direction. In light of the sheer number and volume of investments made in the three short years since inception, its long-term potential is very promising.