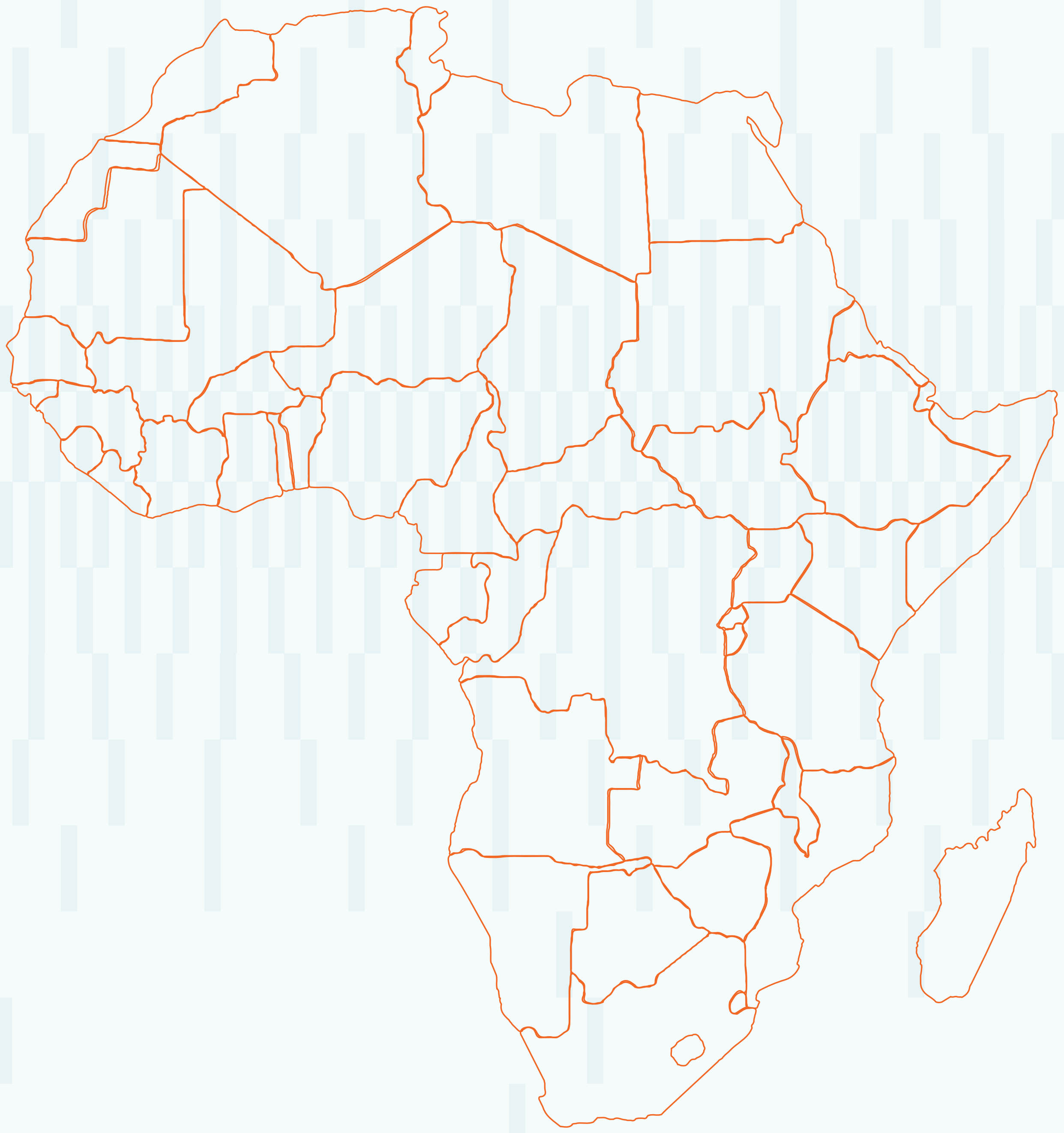
Bright Africa 2021
Pension Funds

How technology adoption acts as a conduit for long-term savings

This research highlights the measures required to improve future pension coverage for economically active Africans.



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1. Foreword

Sound pension systems provide a financial and social safety net for the elderly and an essential source of long-term capital for investment. Where pensions systems exist across most of Africa, they do so against a backdrop of elevated levels of informality in labour markets. The result is that the pension contributions outside of the public sector are intermittent and relatively low.

There is growing awareness to relook pension policy and its relevance in Africa. Since informality is structural to most African economies, economic structures will take time to realign. The immediate imperative of financial inclusion simply cannot wait for such realignment. There is an urgent need to innovate around formal and informal savings to accelerate the known positive impact that domestic savings can have on African economic growth.

Age composition shifts are inevitable, making it an urgent imperative to improve African retirement systems now to take care of the elderly in the future. Mobile technology, innovation, early adoption and a youthful and economically active population provide a fertile environment to reshape African retirement systems to enable them to be more effective in providing financial security in the future.

About Bright Africa

Bright Africa was first launched in 2013 and is RisCura's research resource that seeks to answer investors' questions by providing insight into Africa.

About RisCura

RisCura is a purpose-driven global investment firm that offers investors unique insights and guidance to help shape the future world we all want to live in while still achieving and exceeding financial goals for its clients.

RisCura is known for its leading focus on liability-driven investing, responsible investment practices, investment transparency, reliable valuations, independent risk assessments, world-class performance standards and excellent returns, which has brought about a major systemic shift in the African investment landscape. Through constantly exploring new ways to invest with care and meet the needs of clients, RisCura finds unique investment opportunities for its clients.

Today, RisCura advises clients with combined assets of more than USD150bn. The company strives to steer global capital towards investments that benefit society and the planet in the long run.

RisCura has won numerous industry awards. The firm has a big Africa focus: with a footprint in South Africa, United Kingdom, China, Hong Kong, Botswana, Kenya, Mauritius, Namibia, Nigeria, Zambia and Ireland.

For more information about its investment services and approach, visit the RisCura website: https://www.riscura.com

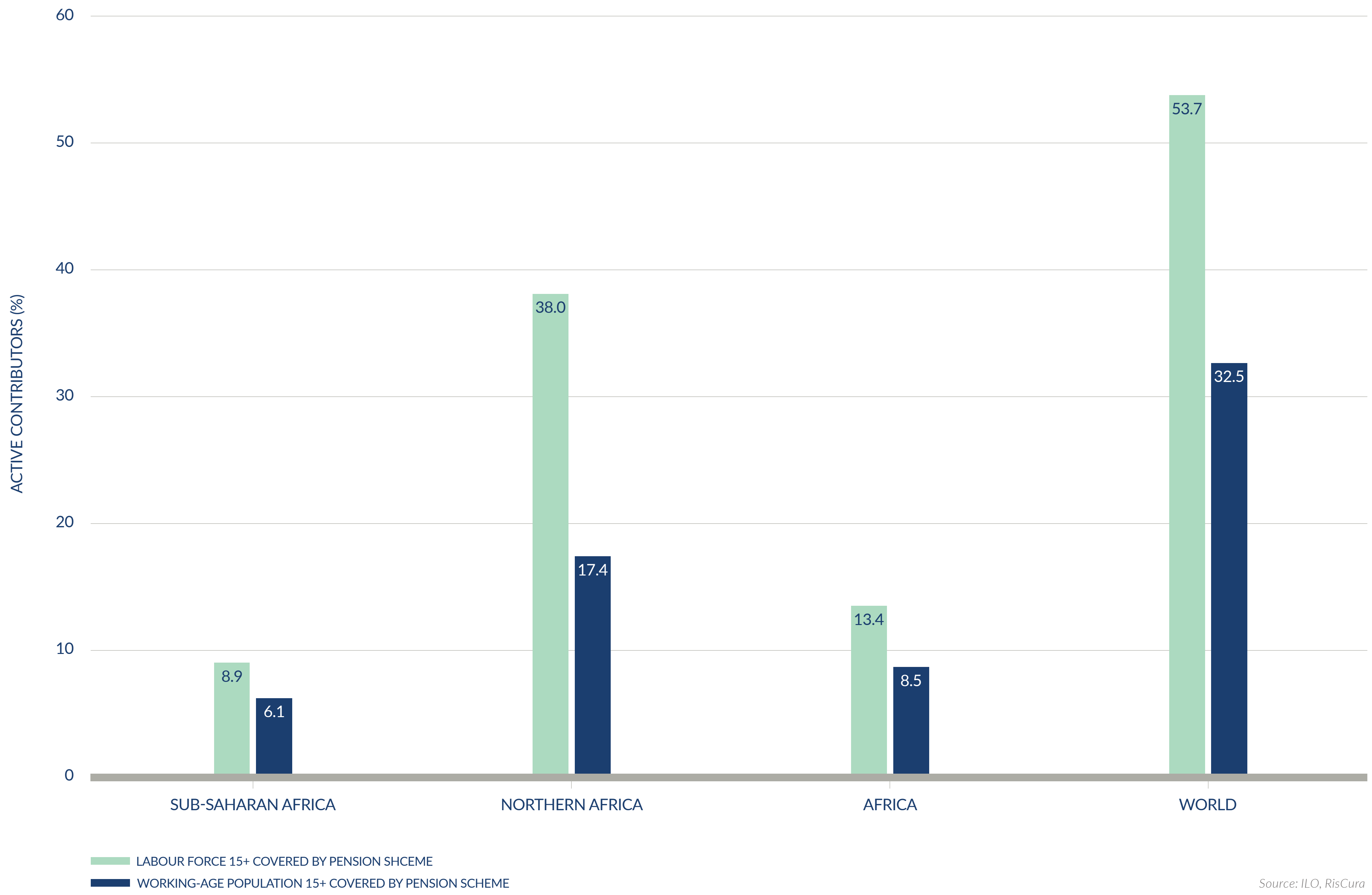
2. Pension funds and social security

The majority of people in Africa lack social protection. The standard narrative across the continent is of a small percentage of the population in formal employment for whom social security is possible. When you consider the latest available statistics of formal measures of social protection, such as the working-age population above 15 years old covered by pension schemes (active contributors as a percentage) and the labour force above the age of 15 covered by a pension scheme (active contributors as a percentage), the comparative figures for Africa are low.

For Africa in general, and more specifically sub-Saharan Africa, urgent measures are required to improve future pension coverage for economically active Africans who are of working age and actively contributing to existing pension schemes.

> *Only 8.5% of working-age Africans have pension coverage compared to 32.5% of their global counterparts. This is still alarmingly low.*

Comparative pension coverage 2020

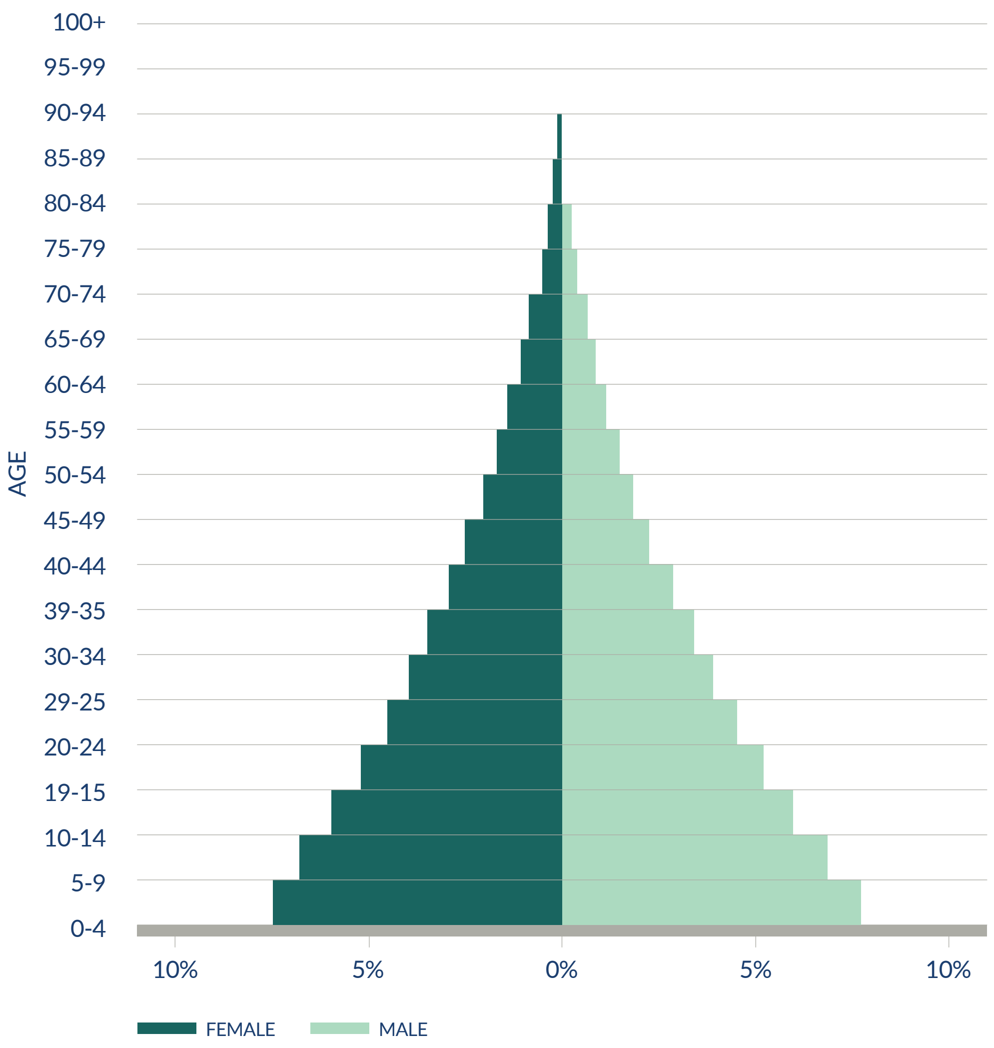


Source: ILO, RisCura

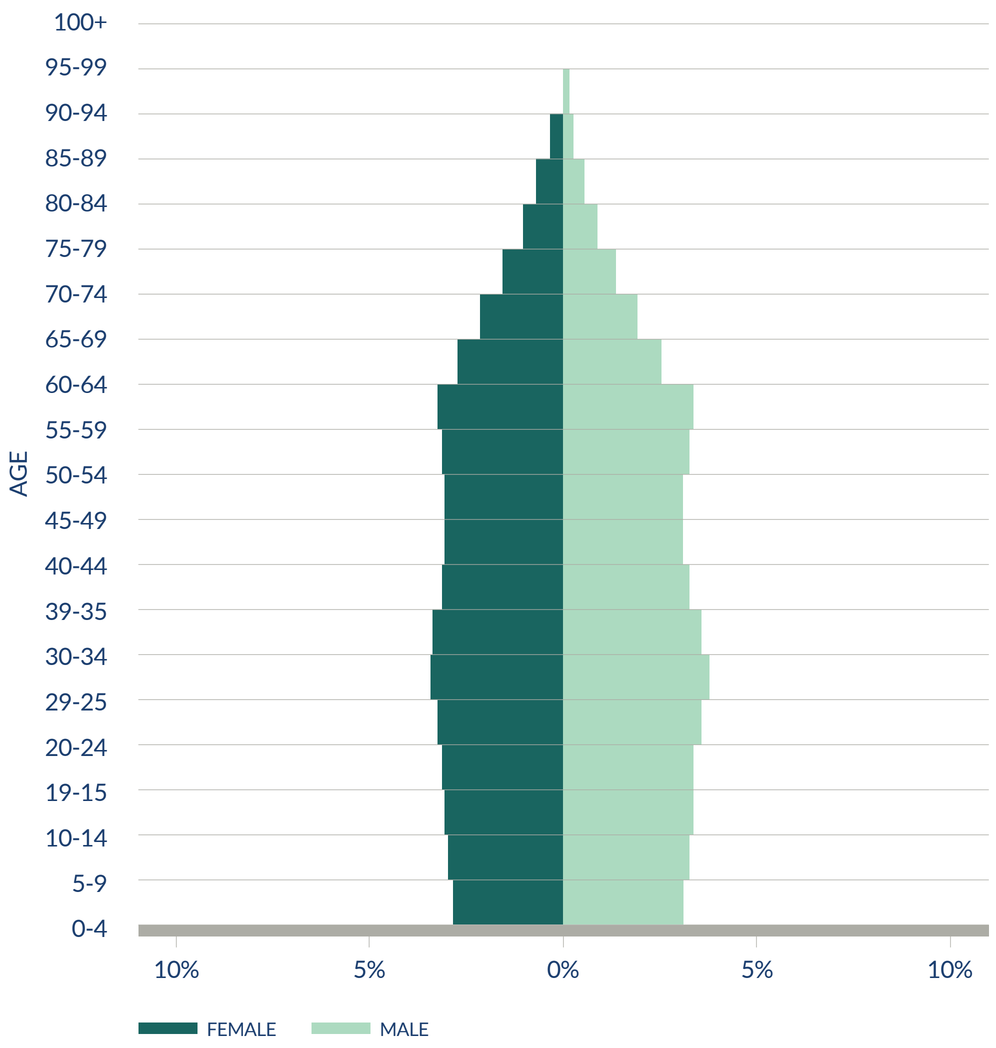
2.1 Demographics

Africa has some time to address this problem, given the current youthful demographics.

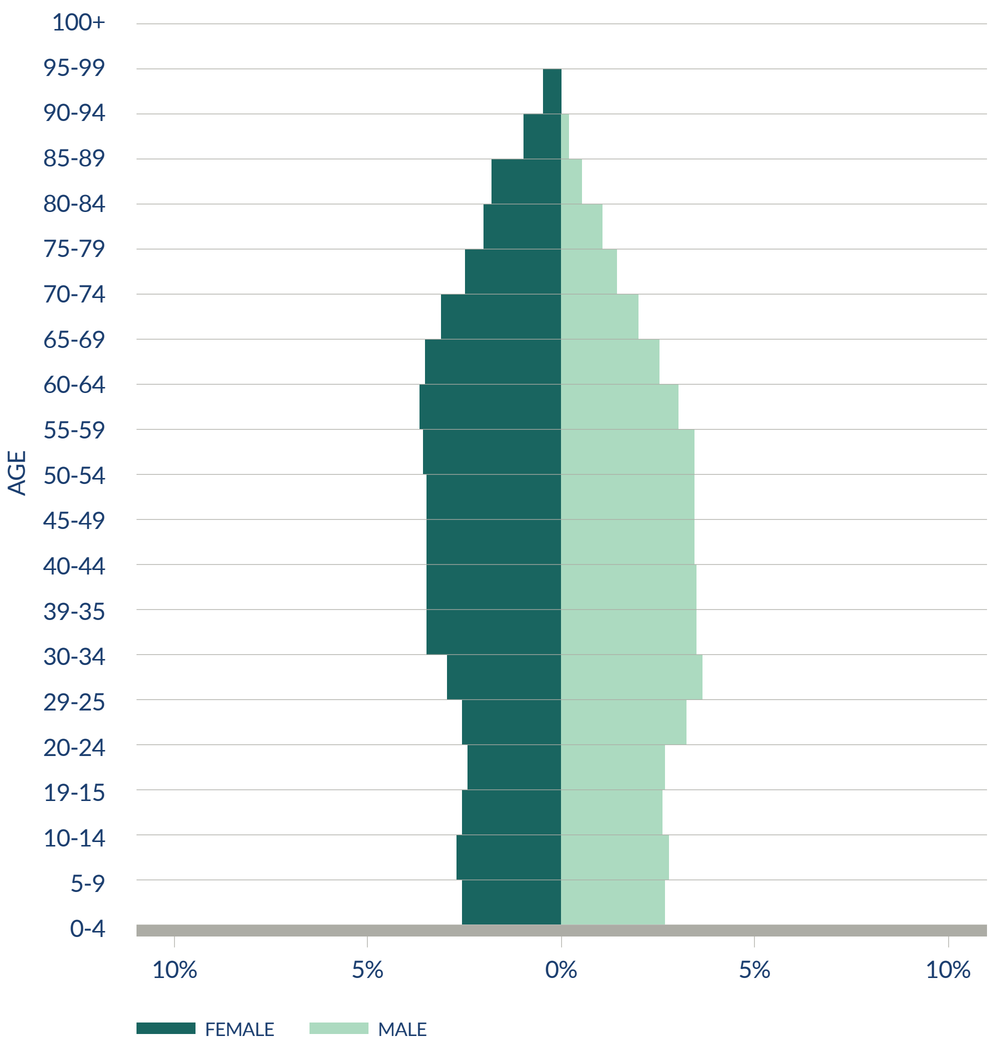
Africa



United States



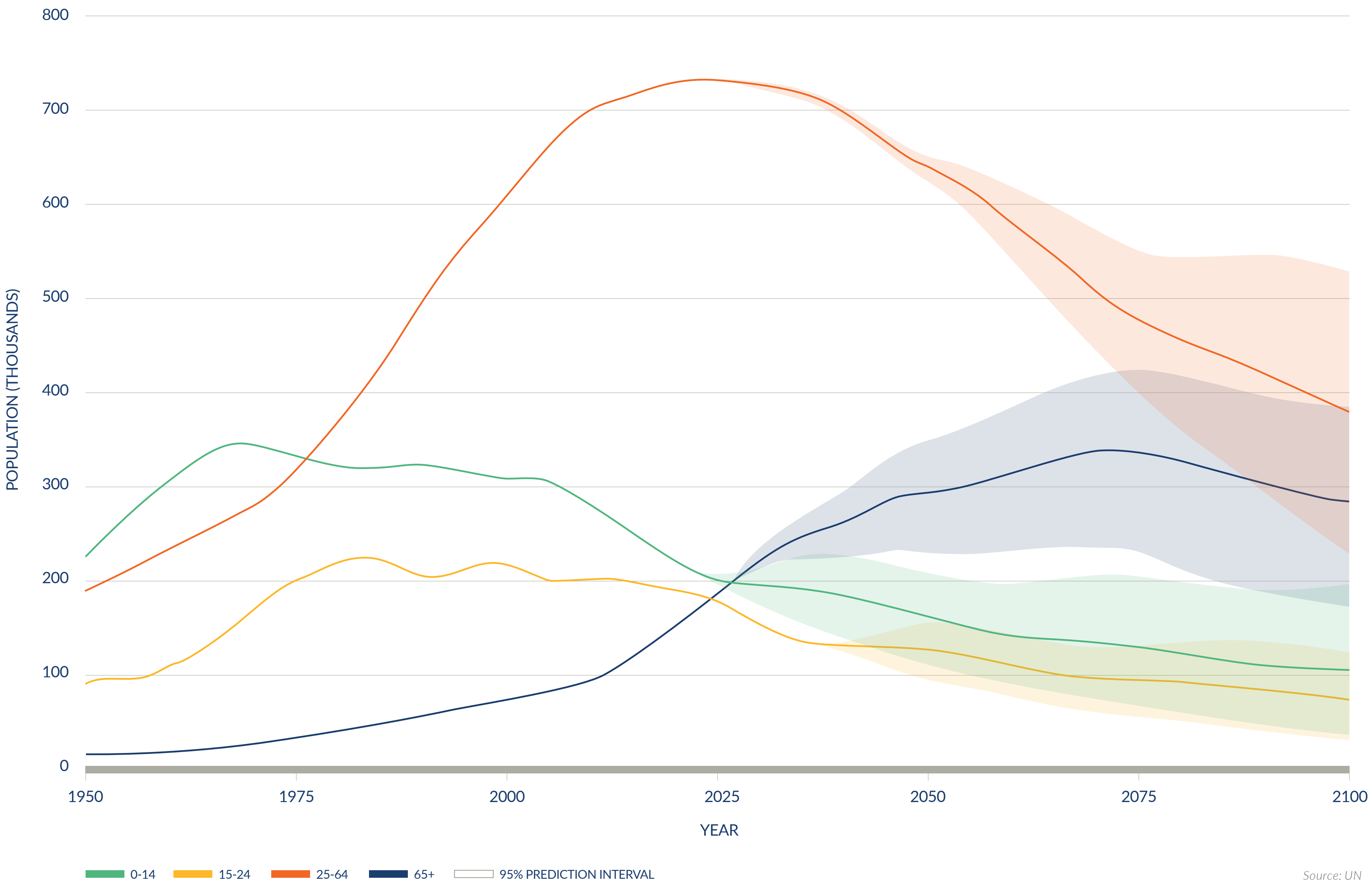
Europe



Source: UN, RisCura

This should suppress what should be considered an urgent, latent and long-term socio-economic threat to the continent. Certain African countries, like Mauritius, already must contend with the impending and immediate challenge of providing adequate coverage for older people (and beneficiaries). Current models predict that the Mauritian population grouping of people older than 65 will proportionately be the country's most significant population age group by 2030.

Population by broad age groups

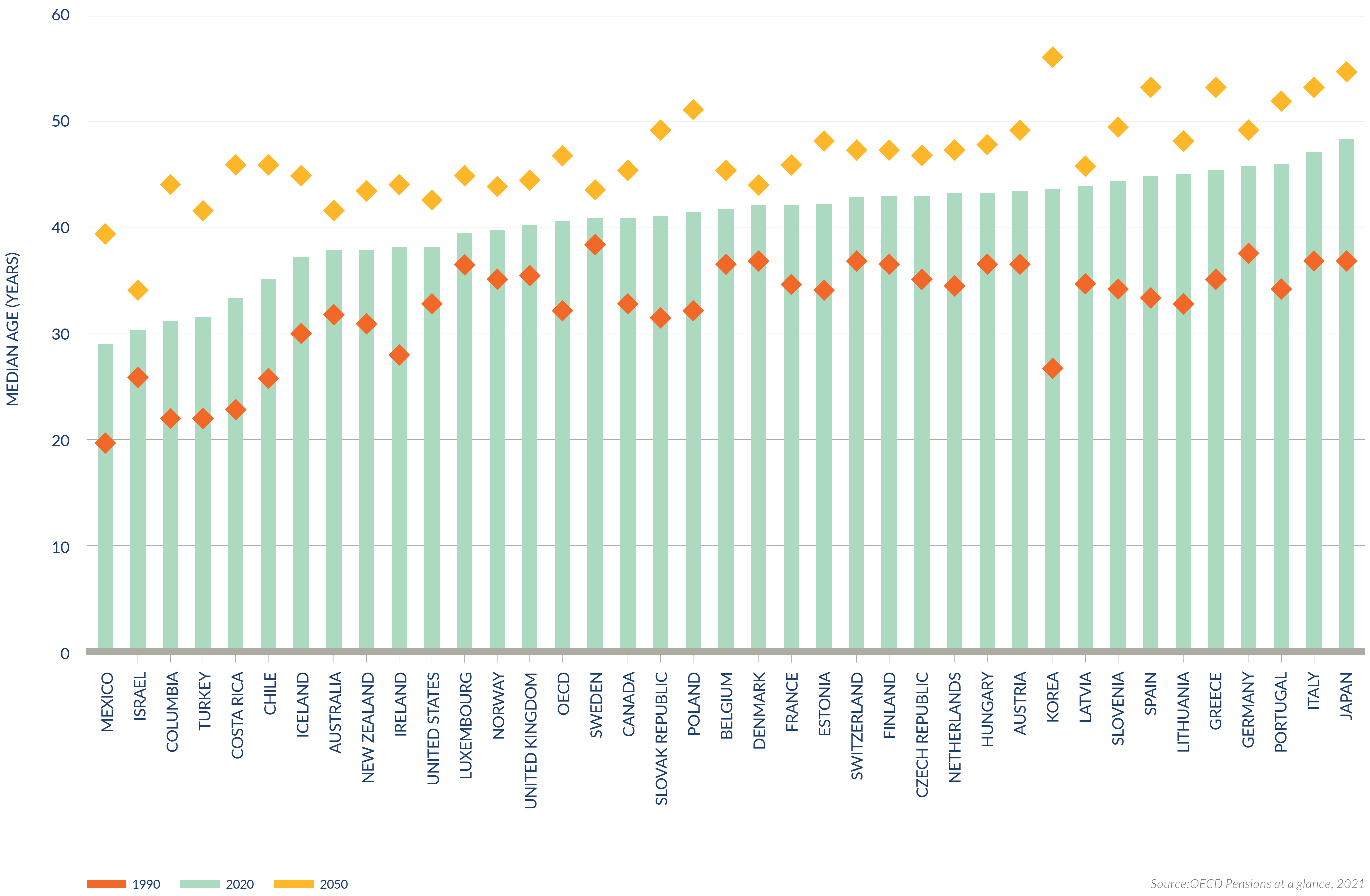


Source: UN

2.1.1 Accelerated population ageing

Sustainable pension growth will prove critically important for the OECD countries, as most of them face accelerated population ageing. In 1990, the number of people older than 65 per 100 people of working age (20 to 64 years old) was measured at 21. This measure is forecast to reach 53 by 2050 (more than double). The median age in the OECD in 1990 was 32.5. By 2050, the OECD median age is forecast to be 46.8. In contrast, the forecast median age for Africa in 2050 is 23.9.

Median Ages of OECD Countries



Source:OECD Pensions at a glance, 2021

3. Early adopters of technology

Africa can leverage its high mobile telephony penetration and digital adoption to tackle a foundational challenge to improved provision of social protection: enrollment. Statistics related to mobile technology access for Africa positively contrast the above poor statistics of pension coverage.

- There are eight times more unique mobile subscribers in sub-Saharan Africa than active pension contributors in Africa.
- There are five times more mobile internet users in sub-Saharan Africa than active pension contributors in Africa.

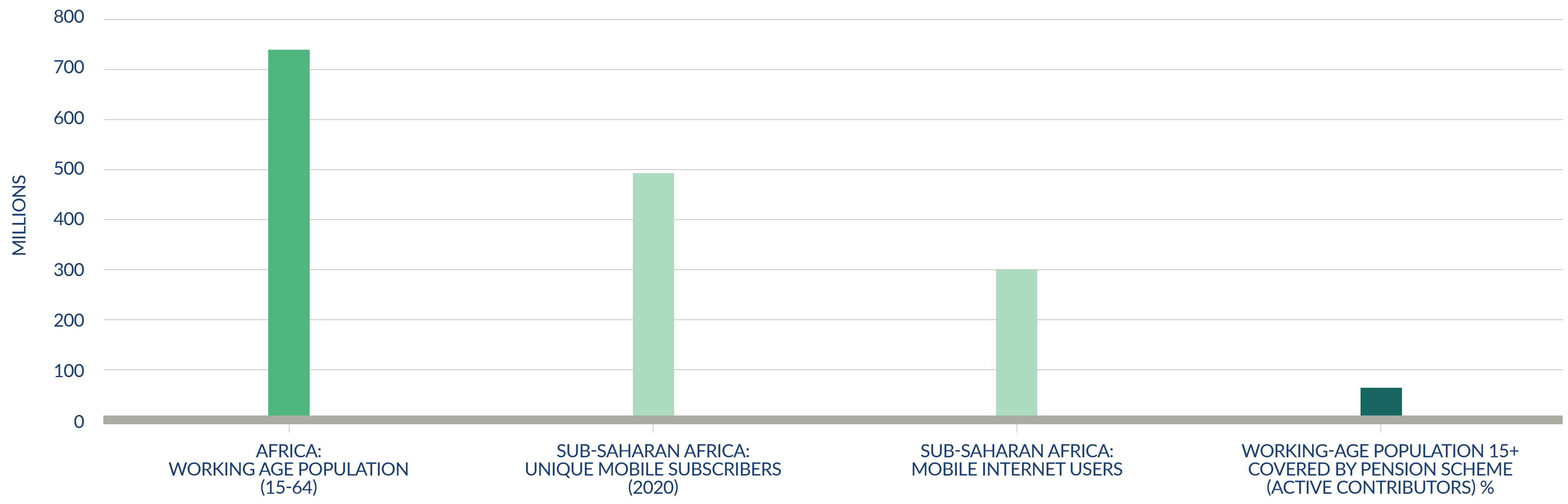
Pension system reform and future investments by pension funds should prioritise and enable the acceleration of Africa's digital transformation. The current reality for Africa's pension policy and frameworks is that the majority of economic activity and income occurs in what is referred to as the "informal economy". Future contributions will come from individuals working in the informal economy, with the cohort of these youthful contributors set to increase. Pensions and savings will increasingly need relevance and congruence with mobile application ecosystems. Apps are part of everyday life, with super-apps in ascendance. Super-apps are aggregators of other applications that provide the user with an integrated interface.

> *Contributions to pensions or savings must be as easy and within the same ecosystem as other services that include (but are not limited to) e-commerce, e-mobility, entertainment, and communication.*

Nigeria and Tanzania can serve as essential litmus tests for other African countries contemplating innovative accelerated enrollment of new contributors into the national pensions and savings ecosystem. These countries have licensed their Mobile Network Operators (MNOs) to act as the Identification (ID) enrollment partners of their respective governments. These governments are "piggybacking" off the pre-existing and expanding presence of MNOs within their respective countries to accelerate citizen enrollment onto their national digital ID platform. Without downplaying valid concerns around data privacy, the partnership between governments and MNOs presents a unique opportunity for accelerated delivery of services, financial inclusion, healthcare benefits and social security provision. The provision of digital IDs is an African imperative, with a number of the continent's governments implementing this in line with the African Union's Digital Transformation Strategy. The strategy recognises the importance of an integrated and inclusive digital society and economy in Africa and identifies inclusive and trusted digital ID systems as a crucial component of this vision. The AU recognises that digital ID systems must be designed to empower people, especially disadvantaged and marginalised populations.

The Covid-19 pandemic reinforced the critical importance of the mobile sector in Africa, serving as an essential lifeline that not only kept the continent connected but also learning, working and economically active by facilitating trade and transactions via mobile money wallets and cloud-supported payment systems. The intersection offered by mobile phone access and rapid digital adoption necessitates accelerated and prioritised creation of digital platforms that can help bridge the pensions coverage gap. Digital platforms represent a digital-centric future for Africa, with mobile telephony at the centre of innovation, consumption and financial service provision and deepening.

Africa: Pension Contributors vs. Mobile Economy



Source: GSMA, UN

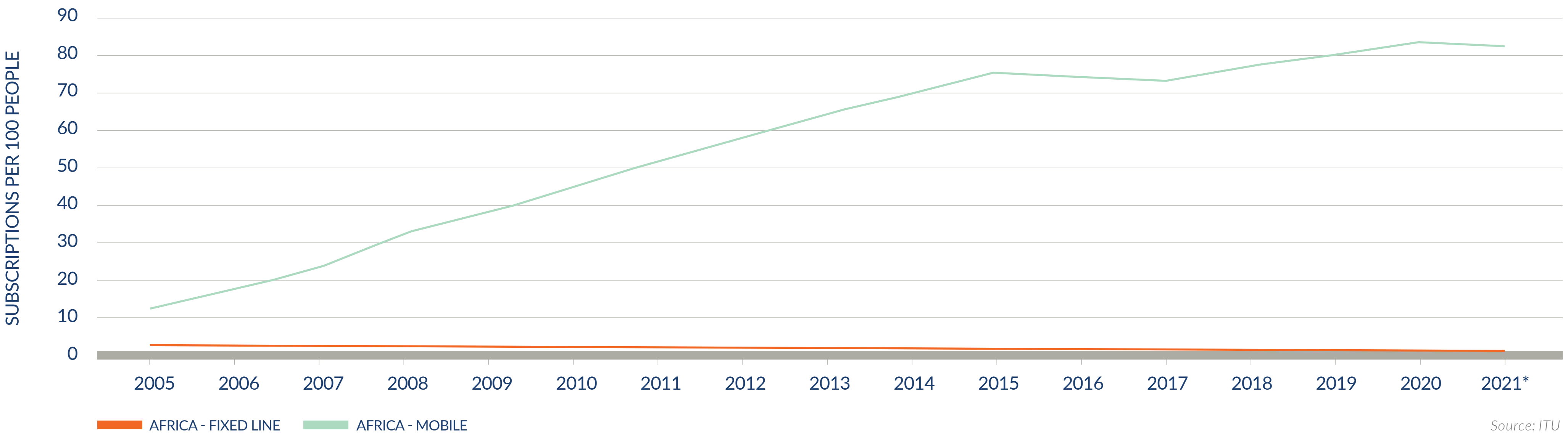
3.1 Mobile telephony

Widescale mobile telephony adoption was a critical trigger to the ongoing technological deepening and internet penetration. Notably, mobile telephony crowded in large-scale private sector investment on the continent. This is in contrast to the legacy fixed line investments, which were predominantly falling under the exclusive remit of the public sector. Unsurprisingly, the profit incentive of the private sector enabled substantive technological fixed capital expenditure and ensured that mobile phone subscriptions rapidly surpassed fixed-line subscriptions. The International Telecommunication Union (ITU) estimates fixed broadband connectivity in Africa at just 0.4 subscriptions per 100 inhabitants, compared to 34 active mobile broadband subscriptions per 100 inhabitants on the continent.

Increased mobile telephony adoption drives the need for enhanced internet accessibility and speed. In 2010, Africa accounted for just over 4% of global internet users. By 2020, Africa's proportion had nearly doubled to 7%. Africa's hunger for data connectivity is a compelling and durable investment opportunity. According to Africa Bandwidth Maps, current estimates are for an additional 30% of terrestrial links (fibre-optic links) planned for Africa in the next five years. This would increase the fibre-optic network around Africa from 1 000 000km to 1 300 000km. Much of this capital expenditure is being funded by private capital alongside global development finance institutions.

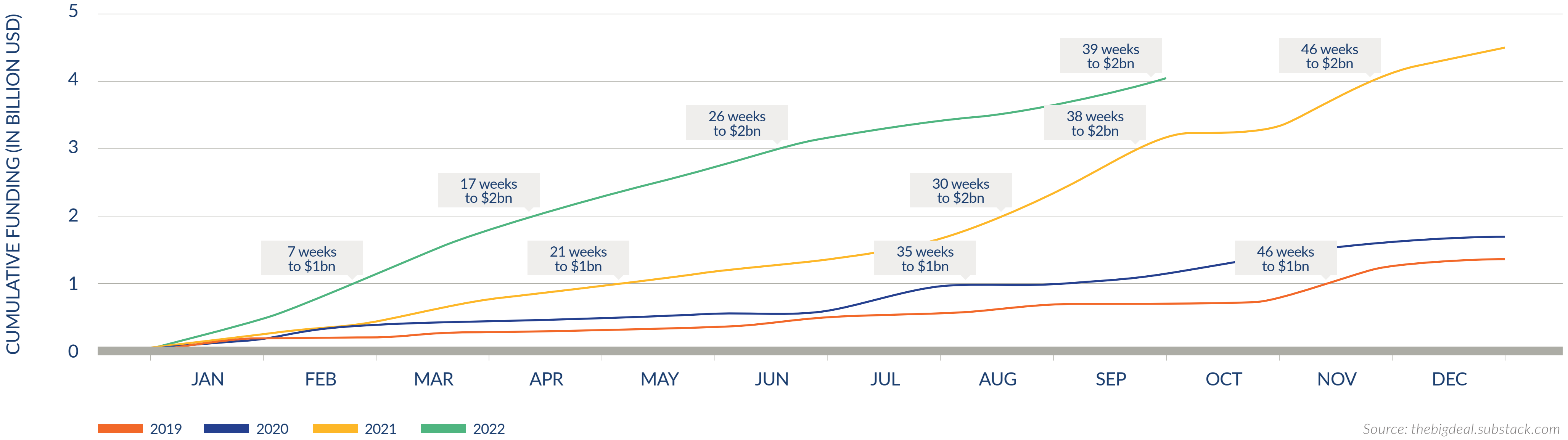
Investments to increase the availability of infrastructure to support the seismic rise in internet usage in Africa are essential enablers for the burgeoning innovation and tech start-up ecosystem on the continent. According to the Partech Partners Africa Tech Venture Capital Report (2020), global interest in the African tech ecosystem remains strong, even in the context of the worldwide crisis driven by the Covid-19 pandemic. Measured from 2019, the amount and value of equity fundraising to support tech and digital venture capital opportunities has grown progressively.

Mobile vs. fixed-line subscriptions



Source: ITU

Funds raised by start-ups in Africa, 2019 – 2022 (30 Sept)



Source: thebigdeal.substack.com

As of September 30, 2020 | Deals $1m+ (2019), $500k+ (2020) & $100k+ (2021-)
Full database: thebigdeal.gumroad.com | Based on deals both publicly disclosed & shared confidentially by selected investors

4. Africa's pension fund assets

Two years have elapsed since the first reported outbreak of Covid-19. According to the Organisation for Economic Co-operation and Development (OECD), assets in pension funds continued to grow throughout 2020, growing by 11% from the end of 2019 to a reported USD56 trillion as of the end of 2020. Pension fund assets for OECD countries rose to just over USD54 trillion in 2020. With an initial drop in the first quarter of 2020, global equity markets recovered during the remainder of 2020. Among OECD countries, the US remains an outsized market, with assets in pension funds and all retirement vehicles at the end of 2020 at USD35.5 trillion. The UK is the second-largest pensions market, at USD3.6 trillion.

4.1 Pension assets to GDP

A standard measure used to determine the significance of pension assets to a country's economy is pension assets to GDP. For OECD countries, pension assets have increased faster than GDP (in nominal terms) over the last decade, rising from 64% in 2010 to 103% in 2020.

OECD Countries' Pension Assets: GDP

Source: OECD pensions at a glance, 2021

Our review uses a sample of 10 countries, representing approximately 81% of Africa's 2020 GDP as measured by The World Bank. It comprises those countries with significant economic influence in each region.

Africa Pension Fund Assets: GDP

Country	Currency	Year	AUM (USD) millions	GDP (World Bank 2020) millions	AUM as % GDP
Nigeria	NGN	2020	USD32.300m	USD432.294m	7%
South Africa	ZAR	2020	USD227.000m	USD335.442m	68%
Egypt	EGP	2020	USD5.655m	USD365.253m	2%
Kenya	KES	2020	USD12.834m	USD100.667m	13%
Tanzania	TZS	2020	USD3.751m	USD62.410m	6%
Mauritius	MUR	2020	USD3.202m	USD10.927m	29%
Namibia	NAD	2020	USD12.245m	USD10.563m	116%
Botswana	BWP	2020	USD9.748m	USD14.930m	65%
Zambia	ZMK	2020	USD448.000m	USD18.111m	2%
Ghana	GHS	2020	USD5.680m	USD70.043m	8%

Source: Regulatory annual reports, The World Bank, RisCura

4.2 Asset allocation

South Africa's 68% ratio of pension assets to GDP surpasses the OECD average of 60% (per OECD Global Pension Markets in Focus, 2021). The ratio for most African countries' pension assets to GDP remains below the 60% OECD average. In our Africa sample, Namibia consistently achieved the highest ratio, now at about 116%. According to the 2020 annual report of the Government Institutions Pension Fund (GIPF), Namibia's largest pension fund, the Fund's long-term balanced growth can be attributed to good investment returns due to a diversified investment strategy and a robust asset allocation process. Local asset requirements compel Namibian pension funds to hold 45% of contractual savings locally; there are very few opportunities to invest in the Namibian Stock Exchange. This regulation enables Namibian pension funds to seek viable long-term opportunities, amid limited opportunities, while avoiding and limiting potentially harmful investments in the process.

African long-term asset composition mimics the global picture, where a few countries claim the most significant proportion of long-term savings.

In Africa, 92% of the assets are concentrated in South Africa, Nigeria, Kenya, Namibia and Botswana.

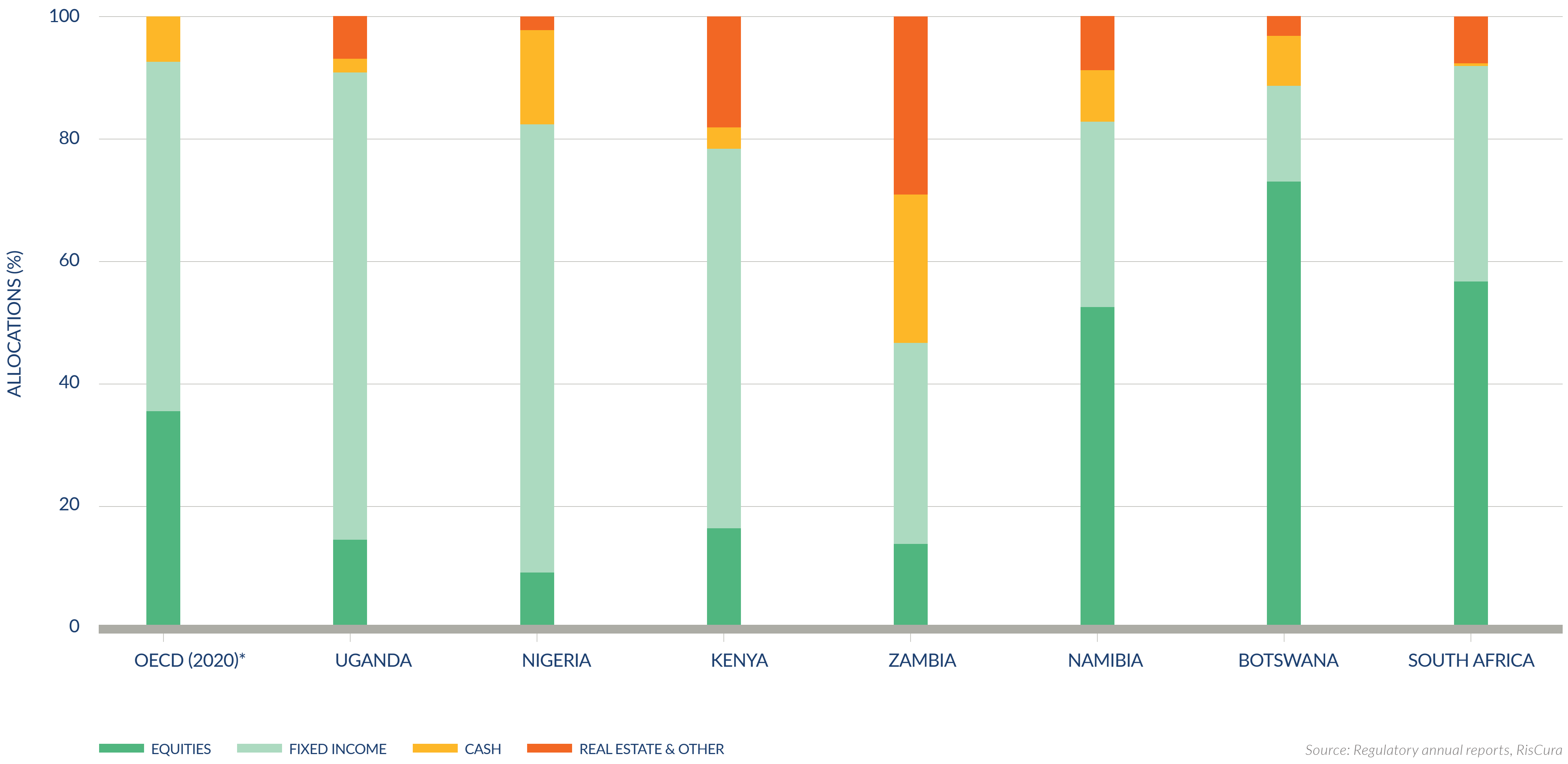
Within these countries, the most significant funds are obligatory contributory social security funds or civil service pension schemes. Examples include the Government Employees Pension Fund in South Africa, GIPF in Namibia, the Botswana Public Officers Pension Fund and the National Social Security Fund in Kenya.

In global terms, African pension assets remain comparatively small but are growing. With aligned and proactive regulatory reform, along with the ability to leverage digital and mobile technology to increase coverage, savings in Africa are set for compelling growth.

In most OECD and many non-OECD countries, bonds and equities remain the two predominant asset classes for pension funds. For the selected pension funds within this edition, asset allocations for South Africa, Botswana and Namibia continue to reflect greater allocations to equities, more so than OECD countries. For the rest of the African countries, the picture continues to be skewed towards fixed income. Higher yield local currency government bonds remain comparatively more attractive than public equities for Nigeria, Zambia and East African asset allocators. Regulation continues to be the most important determinant of asset allocation decisions in African countries.

Encouragingly, amendments to regulation to enable greater allocation to alternative assets have moved beyond discussion and are now being implemented. For example, the Pensions and Insurance Authority of Zambia announced in May 2021 that certain thresholds would be increased for investment classes. The investment threshold for private equity investments was increased from 5% to 15%. PenCom in Nigeria also recently issued regulations permitting pension funds to co-invest in private equity funds with the expectation that allowing co-investment would increase pension fund exposure to private equity. However, this allowance still requires Nigerian pension funds to secure a "No-Objection" letter from PenCom before closing a co-investment arrangement with a qualified private equity fund. Such regulatory changes are progressive as they are alert to the reality that African pension funds need to increase their allocations to the real economy. Investing in alternative investments (in this instance, venture capital and private equity) allows African pension funds to invest in an asset class that can provide uncorrelated returns to traditional asset classes. Further, African pension funds will invest in a broader universe of companies than those currently available on their local stock exchanges.

African Pension Fund Asset Allocation (2019/2020)



Source: Regulatory annual reports, RisCura

A growing and youthful population, fast adopters and ruthless disruptors will act as an extremely powerful economic driver and enable profound investment opportunities for African pension funds.

The information, communication and technology sector presents opportunities for the continent to leapfrog and accelerate and drive economic activity on the continent.

4.3 The growth of Nigeria

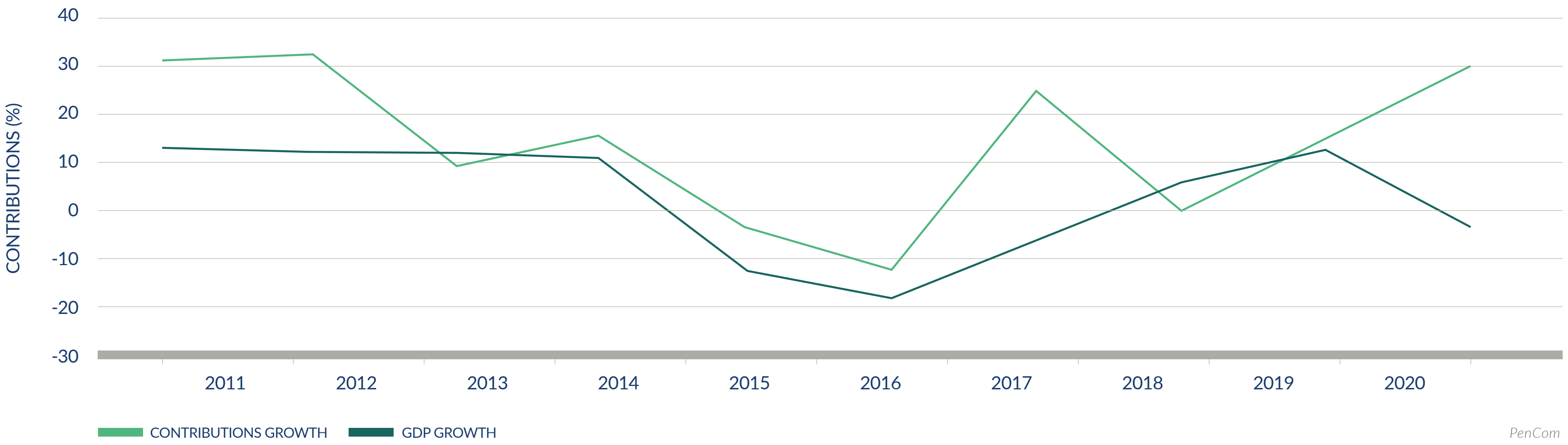
Financial deepening measured through Africa's pensions system continues to show steady progress. Nigeria remains Africa's largest economy, despite foreign currency repatriation problems which have resulted in the divergence between the official and parallel market rates. Nigeria improved its measure of pension assets to GDP by 1% from 2019 to 2020. It could be argued that this remains paltry for an economy of its size, particularly when compared to peer countries, such as South Africa (which recorded a 68% improvement in 2020) or even smaller economies, like Namibia (with a 116% improvement in 2020). These measures must be appreciated with some context. In the case of Nigeria, the gains from the seismic pension reforms that commenced in 2004 are now showing evidence of market acceptance and trust. The National Pension Commission (PenCom) of Nigeria reported consistent average growth in retirement contributions of 14% from 2011 to 2020, which compares favourably with the average GDP growth of 2% for Nigeria over this period. As of 2020, contributions were USD2.2bn, compared to USD0.6bn in 2010.

The consistent and positive contributions to growth can be partly attributed to the simplified framework that the regulator in Nigeria created – specifically, providing choice to contributors.

The primary outcome of the 2004 reforms was the creation of a multi-fund structure for managing pensions, which essentially enshrined default life stages for the entire pension system in Nigeria, broadly in line with Aggressive, Moderate and Conservative life stages.

Contributors can therefore decide which life stage they wish to make contributions to. The multi-fund framework affords differentiated return outcomes due to each underlying fund following a specific investment strategy and being informed by risk budget and strategic asset allocation for each fund.

Nigeria: Contributions Growth vs. GDP Growth



PenCom

Nigeria Pension Fund Multi-Fund Structure

Fund	Description	Asset Value (USD) millions	%
Fund I [Aggressive]	Choice Fund: For contributors who are 49 years old and younger. This also serves as an optional fund for all contributors.	USD117m	0.5
Fund II [Moderate]	Default Fund: For all active contributors who are 49 years old and younger.	USD14,163m	56.5
Fund III [Conservative]	Default Fund: Strictly for active contributors who are 50 years old and older.	USD8,594m	32.9
Fund IV [Conservative]	Retiree Fund	USD2,337m	10.1
Fund V	Micro-Pension Fund	USD2.6m	-
**Fund VI	Non-Interest Fund: For active investors and retirees.	USD35.1m	-
Total		**USD25,249m**	**100**

*Above data as of 31 December 2021

** Fund VI was introduced in 2021. The Non-Interest Fund complies with the provisions of Islamic Commercial Jurisprudence (with non-interest) defined under Shari'ah finance principles.

Source: PenCom

5. Conclusion

It is encouraging to witness the spirit of African innovation colliding with the conundrum of financial inclusion for enhanced long-term African savings. Africa's youth has proven to be a critical factor in transforming the medium and channels of savings through accelerated technology adoption. Pension savings on the continent are growing, but this growth can be accelerated through paradigm shifts around pension policy, regulation, incentives and mediums to enable greater participation rates.

Bright Africa Pensions Report Highlights

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Technology adoption

In sub-Saharan Africa there are more unique mobile subscribers and mobile internet users than active pension contributors.

1 : 8
Active pension contributor : Unique mobile subscribers

1 : 5
Active pension contributor : Mobile internet users

Pension assets to GDP

For OECD countries, pension assets have increased faster than GDP (in nominal terms) over the last decade, rising from 64% in 2010 to 103% in 2020.

64% 2010 → 103% 2020

Africa's pension fund assets

Assets in pension funds continued to grow during Covid-19.

2020
11% growth in pension fund assets
2019

USD 56 TRILLION

Population ageing

Africa must find a way of providing pensions for a rapidly ageing population.

2050
53
number of people older than 65 per 100 people of working age
Median age =46.8

1990
24
number of people older than 65 per 100 people of working age
Median age = 32.5

Pension assets to GDP (% as at 2021)

SOUTH AFRICA 68%

NIGERIA 7%

KENYA 13%

MAURITIUS 29%

NAMIBIA 116%

The ratio for most African countries' pension assets to GDP remains below the 60% OECD average. In our Africa sample, Namibia consistently achieved the highest ratio, now at about 116%.

Mobile telephony

The fibre optic network around Africa is estimated to increase by 300 000km over the next 5 years.

2010 global users 4%

2020 global users 7%

1 300 000 km next 5 years

1 000 000 km