CAPITAL MARKETS

Capital Formation in Africa: A Case for Private Markets

An Examination of Capital Formation Issues in Sub-Saharan Africa and How Private Markets Can Play a Part in the Funding of Structural Investment Needs in the Region

Editors

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CONTENTS

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FOREWORD BY DR. PHUMZILE MLAMBO-NGCUKA

A New Dawn for Africa's Capital Markets

As the global economy continues to evolve, Africa finds itself at a pivotal crossroads—one that presents both immense opportunity and distinctive challenges. The continent is brimming with potential, fuelled by a dynamic population and a rising tide of economic mobility. To fully harness this potential, however, it is imperative for Africa to navigate the complexities and to lead in a way that

- meets its developmental imperatives,
- reverses financial exclusion through financial deepening, and
- strengthens global financial integration.

Capital markets are instrumental in this journey, serving as the backbone for providing access to finance, fostering innovation, and enhancing productivity factors. Yet, Africa faces unique challenges in the formation of its capital markets, characterised by

- nascent market integration, both intracontinental and global,
- low liquidity levels on public bourses, and
- high risk premiums attached to public and private entities.

As we embark on this transformative journey, multilateral efforts are underway to enhance the integration of African capital markets head-on. Such initiatives as the African Union's Treaty Establishing the African Economic Community (commonly known as the Abuja Treaty), the East African Monetary Union, and the Southern African Development Community's Protocol on Finance and Investment exemplify these collaborative endeavours. The November 2023 Africa Investment Forum further underscored the vital role that integrated capital markets will play in Africa's growth trajectory.

This volume marks the second publication in the CFA Institute research series on Africa's diverse financial landscape. It builds on the remarks presented in the 2019 CFA Institute publication *African Capital Markets: Challenges and Opportunities*, which introduced the leading African capital markets (see footnote 5).

In the current report, set against the backdrop of a global slowdown in IPOs, attention is given to the handover between public and private capital markets. Recent trends suggest that private markets are poised to take centre stage in capital allocation, potentially displacing traditional public exchanges. This work illuminates a crucial juncture: The paradigm shift from public to private capital markets carries with it inherent risks that must be managed with prudence.

The readjustment could result in disruptive outcomes, including the spectre of capital flight, the threat of exchange closures, and a prolonged decline in transparency. Such developments are not merely theoretical—they have real-world implications that affect investors, companies, and the broader economy. Furthermore, because public exchanges play a role in the risk management of derivative transactions, the viability of futures exchanges is intricately tied to the functionality and stability of public markets. This dynamic ought to be a cause of concern for the capital market, given the fundamental role that derivative exchanges play in managing market risk and enhancing liquidity.

In this volume, analysts from across the continent share their insights into the dynamics of public and private capital raising in their respective locales. Markets profiled include Botswana, Ethiopia, Kenya, Mauritius, Nigeria, South Africa, Uganda, West Africa (Côte d'Ivoire and Senegal), Zambia, and Zimbabwe. As you immerse yourself in this research, I encourage you to reflect on both the impacts of these market-specific findings and the wider connections among them.

The realignment of markets presents a unique set of opportunities for Africa. Small-capitalisation IPOs have migrated towards emerging markets, a trend from which Asia has significantly benefitted. If Africa can achieve an optimal mix of public and private capital sources, we can envision a future where the trend for outbound listings is not only tempered but potentially reversed. A strategic realignment, complemented by innovation in technology and design, creates opportunities for enhanced efficiency and eventually a lower cost of capital.

During my time as the deputy president of South Africa, I witnessed firsthand the transformative power of effective capital formation. The economic linkages between market efficiency and growth are well established, and reconfigured capital markets have the power to promote the well-being of Africans—in particular, the underrepresented groups.

The insights presented herein not only illuminate the current state of Africa's capital markets but also serve as a call for stakeholders to engage thoughtfully with these evolving dynamics. It is my hope that this work will inspire policy reform and innovative solutions that navigate the complexities of capital formation with investor protection and strategic foresight. In doing so, we can shape the future of finance and drive the socioeconomic development of Africa.

Dr. Phumzile Mlambo-Ngcuka
Former Deputy President, Republic of South Africa

Dr. Phumzile Mlambo-Ngcuka served as deputy president of South Africa from 2004 to 2008. She is the first woman to hold the position and at that time was the highest-ranking woman in South African history. During her tenure, Dr. Mlambo-Ngcuka oversaw programmes to combat poverty and ensure that the poor benefit from the advantages of a growing economy. She is also a former United Nations official, having served as the executive director of UN Women with the rank of under-secretary-general of the United Nations.

FOREWORD BY AHMED RASHAD ATTOUT

The Engine of Transformation: Driving African Development Through Capital Markets

Africa remains the second-fastest-growing region globally, with real GDP growth expected to rise to 3.2% in 2024 and 4.1% in 2025, and 17 African economies were projected to grow by more than 5% in 2024.[1] These statistics speak to Africa's resilience in the face of multiple global and regional shocks as well as the vast investment potential the continent offers investors, both domestic and foreign.

Efficient, resilient, and robust domestic financial markets are essential to transform this potential into concrete projects and strengthen Africa's resilience. When the financial sector mobilises domestic resources and allocates them efficiently, everyone benefits. Individuals have several options for savings and investments and to manage risks, and the private sector and governments can fund their own investment needs. We know from experience that economies that rely mainly on local-currency (rather than foreign-currency) financing, such as Japan, the United States, and the United Kingdom, fare better in economic development and are more resilient to global shocks, such as the COVID-19 pandemic.

African financial systems improved significantly following reforms (including interest rate liberalisation, reform of state-owned financial intermediaries, removal of many barriers to entry and exit in the sector, and strengthened supervisory and regulatory frameworks) in the 1990s and early 2000s. Positive disruption caused by migration to digital financial services has stimulated innovation in the banking sector, and the percentage of Africans with access to an account increased from 34% in 2014 to 55% in 2021.[2] Despite this progress, the lack of access to finance remains a binding constraint to private sector development in Africa, especially for micro, small, and medium-sized enterprises, which face an estimated funding gap of USD331 billion.

The African financial sector must be strengthened to better serve the needs of the real economy, including traditionally disadvantaged sectors, such as agricultural businesses; micro, small, and medium-sized enterprises; and women-owned businesses. Building deep, liquid, and competitive capital markets in Africa is intrinsically linked to the attainment of the UN's Sustainable Development Goals (SDGs) and the commitments made on climate change. It also resonates with the African Union's Agenda 2063 call to action to

[1]African Development Bank, "African Economic Outlook 2024" (2024).

[2]The World Bank's Global Findex Database (2021).

"build continental capital markets [and] double the contribution of African capital markets in development."[3]

It is for these reasons that capital market development is a key priority for the African Development Bank. Our work aims to achieve the following:

- *Strengthen capital market institutions and create an enabling environment for financial market growth* by strengthening capital market structures, policy and regulatory frameworks, integration, and alignment with international best practices and standards. Through our Capital Market Supervision and Market Rules Capacity Building Project in Ghana, we are helping the Securities and Exchange Commission Ghana to strengthen its risk-based approach to market supervision and to improve the regulatory environment that will deepen local capital markets in Ghana. Market rules for new products, such as for securities borrowing, lending, and asset-backed securities, are being developed under this project.
- *Broaden market participants and deepen instruments* by promoting more diversified savings mobilisation, a broader range of market participants, product liquidity and deepened markets, innovative and alternative products, and increased access to long-term funding through domestic markets.

  Through an equity investment of up to USD10 million to Dhamana Guarantee Company Limited, we are supporting long-term local-currency corporate and infrastructure financing in Kenya, Rwanda, Tanzania, and Uganda. Dhamana is expected to mobilise USD300 million of new financing through debt capital markets by credit-enhancing issuances in the target countries, thereby attracting domestic institutional investors. This equity investment builds on and replicates our earlier investment in InfraCredit Nigeria, which has supported the mobilisation of more than USD200 million for projects in the renewable energy, information and communication technology (ICT), and transport sectors.

  We have also deployed our Partial Credit Guarantee (PCG) instrument to support our regional member countries to raise more than USD2 billion in financing for their development needs in international markets. We are now exploring ways to use PCGs to support African corporates to raise long-term local-currency funding in domestic markets.
- *Ensure effective knowledge management and build capacity* by promoting cross-cutting interventions to build a pool of knowledge to inform current and future operations. We supported the development of the first Capital Markets Masterplan in Cabo Verde, providing a prioritized approach to capital market development with a time-bound and sequenced capital market roadmap, which is now being implemented with support from other partners.

[3]African Union, "Agenda 2063: The Africa We Want" (April 2015), www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Agenda2063_Popular_Version_English.pdf, p. 18.

We also focus on the following:

- *Regional integration through such projects as the Africa Exchanges Linkage Project (AELP):* We partnered with the African Securities Exchanges Association to link seven major African securities exchanges covering 14 African countries to encourage liquidity, diversify product offerings, and provide access to deeper pools of capital. Following the successful conclusion of Phase 1, a second phase will expand the AELP to eight more exchanges, bringing the total number to 15. AELP is aligned with the African Continental Free Trade Area Agreement objectives of establishing a liberalised market with free movement of capital, facilitating intra-African investment, and deepening the continent's economic integration.
- *Promoting green, social, and sustainable finance* by working with African countries to effectively promote, host, and monitor green, social, and sustainable capital market issuances. We played a key role in introducing SDG bonds on the Johannesburg Stock Exchange in 2020, when Nedbank Group issued and listed South Africa's first SDG bond on the exchange.

Building deep, liquid, and competitive capital markets also requires strong partnerships. For example, our flagship Capital Markets Development Trust Fund is supported by Luxembourg, the Netherlands, and Sweden, and the AELP was made possible with support from the government of South Korea.

At the African Development Bank, we are committed to building enduring partnerships with governments, the private sector, and all stakeholders who share our vision of a "prosperous, inclusive, resilient, and integrated Africa," as outlined in our Ten-Year Strategy.[4] It is in that spirit that we welcome this important research from CFA Institute on capital formation in Africa. The publication provides a much-needed local perspective on capital market development in Africa. Its conclusions and recommendations provide a basis for advancing the development of the investment solutions needed to build the efficient, dynamic, and integrated capital markets that Africa needs to drive its development agenda.

We look forward to working with CFA Institute and all stakeholders to drive the implementation of these conclusions.

Ahmed Rashad Attout
Director of the Financial Sector Development Department,
African Development Bank Group

Ahmed Rashad Attout, director of the Financial Sector Development Department at African Development Bank Group, has extensive experience in financial sector development and sovereign and corporate finance in Africa and the Middle East. He has spearheaded several initiatives to develop Africa's capital markets,

[4]African Development Bank Group, "Ten-Year Strategy 2024–2033" (2024), www.afdb.org/en/documents/ten-year-strategy-african-development-bank-group-2024-2033, p. v.

including the Capital Markets Development Trust Fund and the Africa Exchange Linkage Project, which aims to integrate Africa's Stock Exchanges. His work also includes leading sovereign and non-sovereign financial market transactions, broadening funding sources for various African financial entities, and structuring liquidity schemes to address funding challenges.

INTRODUCTION

With this research, CFA Institute is interested in identifying and analysing the necessary policy catalysts that will facilitate capital formation in sub-Saharan Africa. We believe the formation of local capital is the key to socioeconomic development in the region.

Through a collaborative effort with our network of local societies, CFA® charterholders, and expert partners in the region, we have set out to identify and analyse the main barriers that continue to hinder capital market development in sub-Saharan Africa. We propose a series of policy recommendations for regulators, policymakers, and international institutions involved in the region's development to consider.

In this report, we cover the following markets, illustrated geographically in **Exhibit 1**:

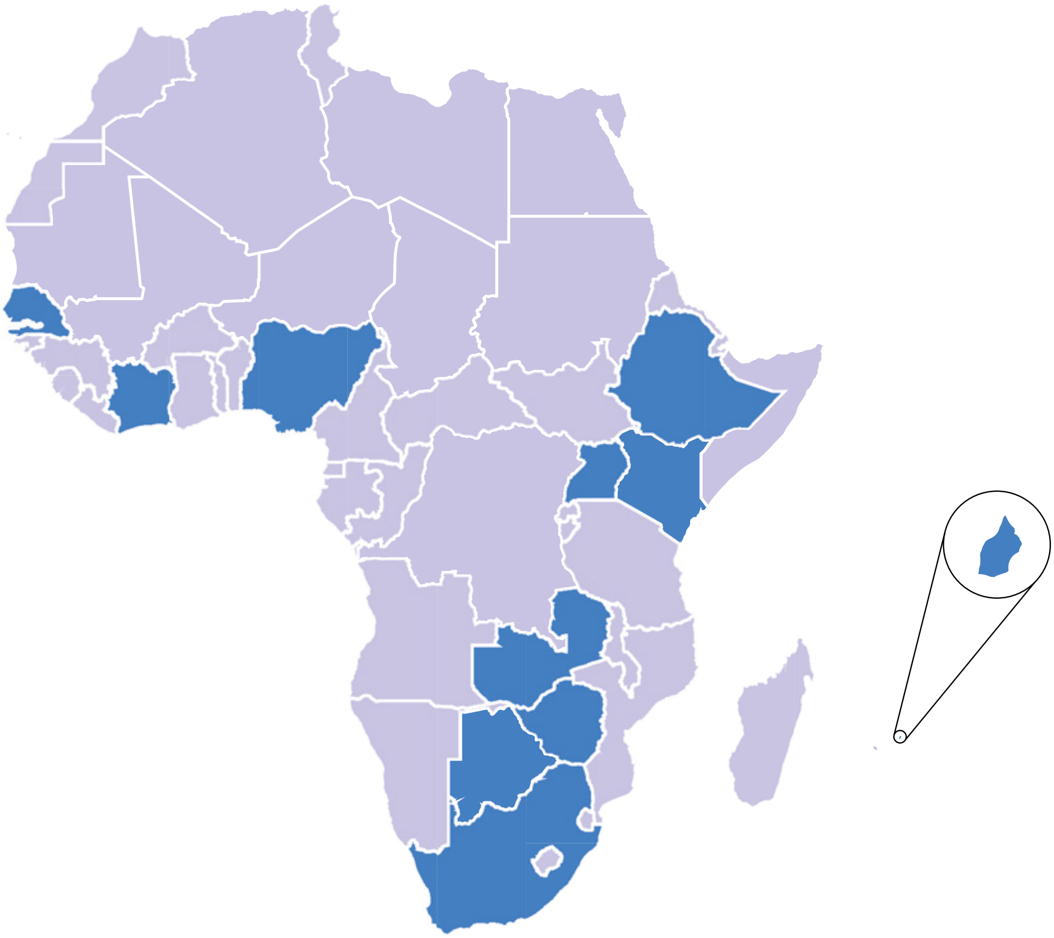
- Botswana
- Ethiopia
- Kenya
- Mauritius
- Nigeria
- South Africa
- Uganda
- West Africa, with a focus on Côte d'Ivoire and Senegal
- Zambia
- Zimbabwe

A particular focus of this work has been to determine whether the rise of private markets observed globally—specifically, private equity and private debt—could provide solutions or avenues to accelerate the formation of local capital in the region, either on a standalone basis or in the form of partnerships with governmental authorities. We sought to analyse whether private markets can propel wider capital market development at a local and regional level.

This work has therefore been undertaken as a follow-on to the 2019 CFA Institute Research Foundation brief titled *African Capital Markets: Challenges and Opportunities*.[5] The focus of this new report is the role that private markets may play.

[5]Heidi Raubenheimer, ed., *African Capital Markets: Challenges and Opportunities* (Charlottesville, VA: CFA Institute Research Foundation, November 2019). https://rpc.cfainstitute.org/en/research/foundation/2019/african-capital-markets.

Exhibit 1. Map of Markets Covered



This map is for illustrative purposes only. The boundaries and designations presented do not represent or imply the opinion or endorsement of CFA Institute regarding the legal status of any country, territory, or area.

In the April 2024 edition of the World Bank report "Africa's Pulse,"[6] the two primary focuses for Africa are to

- tackle structural equality to revitalize growth and
- accelerate poverty reduction.

From the same report, we can extract the following observations about sub-Saharan Africa's economy that are worth considering as we attempt to find structural policy solutions to the issue of capital formation in the region:

[6]World Bank, "Africa's Pulse: Tackling Inequality to Revitalize Growth and Reduce Poverty in Africa," vol. 29 (April 2024). https://openknowledge.worldbank.org/server/api/core/bitstreams/11e850d1-50ca-4d49-b4bf-f717d3ad47a8/content.

- The growth in per capita income continues to be inadequately small to have an impact on the aforementioned two primary goals.
- Economic development is not homogeneous or coordinated among the various jurisdictions and clusters in the broader sub-Saharan region.
- The region suffers from a structural slowdown in investment growth, observed as early as a decade prior to the COVID-19 pandemic, which acts as a natural drag on economic output and per capita income.
- Inflationary pressures remain stubbornly high across the region, primarily driven by higher food and energy prices, as well as weaker currencies, all of which tend to exacerbate uncertainty related to consumption and investments. The region is also facing slightly longer and larger recessions relative to other regions. The capacity of governments to intervene and support the economy and the people is being curtailed by the compounding effect of slowing growth, high inflation, substantial financing needs, limited fiscal capacity, and rising borrowing costs. Therefore, financial pressures related to government debt and deficits are forcing a contraction of government investments, which is also having a negative effect on private investments.
- Overall public (government) debt has tripled in sub-Saharan Africa since 2010, and the general level of debt distress risk remains high.
- Although a general tightening of financial conditions has resulted in limited access to external funds, the natural tendency for governments to resort to domestic debt buildup is putting upward pressure on domestic interest rates, which, in turn, negatively impacts investment levels.
- Interestingly, one-third of the total reported accumulated wealth in Africa takes the form of natural capital, including natural resources (both renewable and nonrenewable) and land. The development potential of these resources is evidently high. As a source of growth, however, factor accumulation—as opposed to total factor productivity (TFP)—tends to be less viable in the long term and is less likely to be inclusive.[7]
- The development of Africa's human capital is also notable. By 2025, half of sub-Saharan Africa's population will be under 25 years of age,[8] potentially giving the region an opportunity to capitalise on a diverse and youthful workforce.

These observations naturally point to the potential role of the private sector in capital formation and the efficient deployment of this capital for productive purposes—specifically, driving the contribution of TFP to long-term growth, which, in turn, effectively reduces dependency on natural capital.

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[7]Factor accumulation refers to the increase in the quantity of inputs used in production, such as labour, capital, and land. TFP, in contrast, measures the efficiency with which all inputs are used to produce output.

[8]World Bank Group, "The World Bank in Africa": www.worldbank.org/en/region/afr/overview.

In 2019, CFA Institute Research Foundation reported that "despite such encouraging success stories, African exchanges are still characterized as being illiquid and highly fragmented and as operating under weak regulatory environments. This categorization is supported by dismal activities on the stock exchanges and shrinking foreign investor participation across the markets."[9] The report further pointed to structural investment deficits related to infrastructure needs.

Initiatives aimed at further integrating African economies and capital markets have been launched, and others are being considered, with the major objectives of boosting trade and reducing structural frictions in the system. In particular, we note the following:

- **The African Continental Free Trade Area (AfCFTA):**[10] This free trade area effectively started operating in January 2021 and brings together 55 economies into a single, competitive megamarket of the African Union, with the objective of reducing trade barriers and advancing intra-Africa trade. The AfCFTA is the largest free trade area in terms of the number of participating countries since the formation of the World Trade Organization, given Africa's current population of 1.5 billion people, which is expected to grow to 2.5 billion by 2050.
- **The African Exchanges Linkage Project (AELP):**[11] Still in development, this project was initiated by the African Securities Exchanges Association (ASEA) and the African Development Bank (AfDB) to facilitate cross-border trading of securities in Africa. AELP aims to improve the depth and liquidity of Africa's capital markets and facilitate investment flows among the participating exchanges. Again, this is an initiative that points towards the clear need for capital formation in the region.
- **Regional Economic Communities (RECs):** Various RECs are working to deepen regional integration by abating trade barriers, harmonising regulations, and promoting cross-border investment.
    - The Economic Community of West African States (ECOWAS), established in 1975, is a regional political and economic union of 15 countries in West Africa. The organisation has contributed significantly to regional cooperation and economic convergence in West Africa.
    - The East African Community (EAC), relaunched in 2000, is an intergovernmental organisation consisting of eight countries in East Africa—specifically, around the African Great Lakes region. Again, the announced objective is to launch a common currency for the members.

[9]Raubenheimer (2019, p. xi).

[10]See https://au-afcfta.org/.

[11]See https://africanexchangeslink.com/.

- **The Pan-African Payment and Settlement System (PAPSS):**[12] This single payment infrastructure effectively launched in 2022 and allows instant money transfers and currency convertibility across the member jurisdictions. Its network currently includes 10 central banks in the continent. In October 2023, the 15 countries of the Caribbean Community (CARICOM) also joined the PAPSS network. This initiative is directly related to a common understanding across the region that intra-Africa trade needs to be increased by way of reducing structural frictions that typically impede or constrain transactional activities, including currency convertibility complexities and a lack of currency swap facilities offered by central banks.

Meanwhile, the growth of private markets has continued unabated on a global basis, in a context of tight monetary conditions, increasingly popular low-cost investment funds (including passive strategies), and accelerating compression of profit margins in general asset management activities.[13] According to consultancy group McKinsey & Company, global assets under management in the private market sector totalled USD13.1 trillion in 2023 and have grown nearly 20% per annum since 2018.[14]

In this report, we are specifically interested in the segments related to private equity and private debt, which are forms particularly suited to the structural investment needs identified in the region, including infrastructure investments and small and medium-sized enterprise (SME) funding. They are the fastest-growing segments of the alternatives sector and arguably work in tandem to offer comprehensive financing solutions. Their long-term focus is evidently aligned with structural financing needs in Africa.

With its Capital Formation research series initiated in 2018,[15] CFA Institute wanted to shed light on this rise of private markets as a new channel of choice for funding and financing needs in an economy that was also rapidly changing. In so doing, we exposed a secular and concurrent downtrend in traditional IPOs as a preferred method for raising capital, especially in developed economies. We pointed to the following factors as structurally favouring private markets for entrepreneurs wishing to fund the growth of their business:

- Easier regulation of private investments
- A growing pool of capital looking away from traditional investments for higher yields

[12]See https://papss.com/.

[13]Chris McIntyre, Sultan Alsubaihin, Simon Bartletta, Philip Bianchi, Joe Carrubba, Peter Czerepak, Dean Frankle, et al., "Global Asset Management 2023—21st Edition: The Tide Has Turned," BCG (May 2023). www.bcg.com/publications/2023/the-tide-has-changed-for-asset-managers.

[14]McKinsey & Company, "Global Private Markets Report 2024: Private Markets in a Slower Era" (28 March 2024). www.mckinsey.com/industries/private-capital/our-insights/global-private-markets-report-2024#/.

[15]See Sviatoslav Rosov, "Capital Formation: The Evolving Role of Public and Private Markets," CFA Institute (November 2018). https://rpc.cfainstitute.org/policy/positions/capital-formation. See also Sviatoslav Rosov, "Capital Formation: Investing Pension Contributions in Private Markets Responsibly," CFA Institute (March 2020). https://rpc.cfainstitute.org/policy/positions/capital-formation-investing-pension-contributions-in-private-markets.

- New business models based on intangible assets that require less capital to grow
- A preference to deal with fewer but larger investors to retain ownership and control over intangible assets

There are obvious converging factors to note between the foregoing analysis and the rise of digital services, also observed in Africa, where the financial technology (fintech) sector is growing rapidly. According to McKinsey & Company,[16] growth in financial services in the region is largely related to fintech development, which, in turn, is benefitting from "increasing smartphone ownership, declining internet costs, expanding network coverage, and a rapidly urbanising young population."

In such a context, we are interested in analysing how private markets can be a catalyst for capital formation and broader capital market development for the economies of sub-Saharan Africa.

Finally, our research seeks to expose the potential offered by mixed-finance projects, combining public forms of funding alongside the private sector. The importance of engaging the private sector in Africa's development process is clearly emphasized in a recent World Bank article titled "Mobilizing the Private Sector to Drive Development in Africa."[17] The private sector—both foreign investment and domestic firms—is seen as critical in several key areas—namely, infrastructure development, support for SMEs, and job creation.

In this research piece, we analyse the systemic and policy barriers to capital formation in several markets of sub-Saharan Africa. We seek to offer policy solutions that unlock new investment opportunities and discuss these ideas for capital market development with local regulators and the investment industry.

We structured the project as a series of market chapters for each jurisdiction in sub-Saharan Africa interested in participating. Selected authors have been tasked with producing the chapter corresponding to their jurisdiction, for which they have a recognised expertise.

[16]See Max Flötotto, Eitan Gold, Uzayr Jeenah, Mayowa Kuyoro, and Tunde Olanrewaju, "Fintech in Africa: The End of the Beginning," McKinsey & Company (August 2022). www.mckinsey.com/industries/financial-services/our-insights/fintech-in-africa-the-end-of-the-beginning.

[17]World Bank, "Mobilizing the Private Sector to Drive Development in Africa" (1 December 2023). www.worldbank.org/en/results/2023/12/01/mobilizing-the-private-sector-to-drive-development-in-africa.

COMPENDIUM REVIEW OF BARRIERS TO CAPITAL FORMATION AND OUR POLICY RECOMMENDATIONS

We have structured this research report as a series of chapters for each market covered by our analysis. We seek to avoid excessive amalgamation of issues facing the sub-Saharan Africa region and recognise that each market has its own unique cultural, social, economic, and geographical contexts that impact the formation of capital markets. Nonetheless, from an analysis of barriers across markets included in this study, we aimed to identify common challenges to capital formation among markets. These barriers were broadly applicable to markets included in the study, although to varying degrees.

From this overall analysis, we wished to extract important trends, messages, and policy views that resonate across the region. These are the most important points that CFA Institute wants to raise with institutional stakeholders, regulators, and policymakers.

Each research team for this report ranked market barriers based on the specific situation of their market. **Exhibit 2** presents the rankings assigned to the barriers considered for each market.

In turn, **Exhibit 3** summarises and organises the principal barriers to capital formation, as expressed by the authors in their respective chapters. Exhibit 3 presents the top six identified barriers, organised by market, with a description of the observed problems.

Throughout the following chapter, we raise a number of issues used to explain the barriers to capital formation mentioned in Exhibits 2 and 3. **Exhibit 4** provides a granular view of these issues, organised by key themes.

Based on these findings, we summarise in **Exhibit 5** the main policy recommendations we believe should be considered on a cross-regional basis.

Exhibit 2. Overview of Market Barriers, Ranked by Each Market Team, from 1 (most significant) to 5 (least significant)

Barrier	Botswana	Ethiopia	Kenya	Mauritius	Nigeria	South Africa	Uganda	West Africa (focus on Côte d'Ivoire and Senegal)	Zambia	Zimbabwe
Primary product dependency	3	1	5	5	2	5	3	4	1	5
Lack of investor education	3	1	1	3	2	5	1	2	3	3
Policy issues	2	3	5	3	1	5	1	2	1	1
Regulatory gaps	3	3	5	2	1	5	1	2	2	4
Weak governance	3	1	5	4	1	5	2	3	2	5
Corruption	3	1	5	4	1	5	1	5	4	5
Hyperinflation	5	1	5	5	2	5	4	5	5	1
High interest rates	5	1	2	3	1	3	1	4	1	1
Dominance of institutional investors	2	3	5	5	2	5	2	4	3	5
Monopoly of banking institutions	4	3	5	3	1	5	1	2	3	4
Dominance of government sources of funding and few sources of private capital	1	1	3	5	2	2	2	2	1	2
Limited capital market infrastructure	5	3	5	5	1	5	3	2	1	4
Limited range of financial instruments and models	3	1	5	2	3	4	2	1	1	4
Limited human capital and skills deficits	2	1	5	3	2	5	3	2	2	4

(continued)

Exhibit 2. Overview of Market Barriers, Ranked by Each Market Team, from 1 (most significant) to 5 (least significant) (*continued*)

Barrier	Botswana	Ethiopia	Kenya	Mauritius	Nigeria	South Africa	Uganda	West Africa (focus on Côte d'Ivoire and Senegal)	Zambia	Zimbabwe
Underexploitation of natural capital	4	1	5	4	1	5	2	5	5	2
Limited access to capital for SMEs	1	1	4	2	1	1	1	1	1	1
Low levels of disposable income	2	1	5	1	3	5	1	3	5	1
Digital divide	1	3	5	2	3	5	2	4	2	2
Underdeveloped retail markets and low levels of retail participation	3	1	5	2	2	5	1	2	1	2
Low liquidity	2	1	5	3	2	5	2	2	1	2
Market volatility	5	4	5	4	3	5	3	2	3	1
Lack of private market transparency and information asymmetry	2	1	5	1	1	5	1	3	3	1
Low investor trust	3	2	5	4	1	5	2	3	2	2
Limited exit routes for private investors	3	1	5	4	2	5	2	3	2	2
Currency issues	5	1	5	2	1	5	4	4	4	1
Cultural and religious preferences	5	1	5	5	2	5	4	4	5	5
High government debt and cost of servicing	5	1	5	3	1	5	2	5	1	1

Exhibit 3. Top Six Most Prevalent Barriers to Capital Formation Across Markets

Barriers to Capital Formation	Markets Most Impacted	Problem Description
Limited structural support for SMEs, despite being the backbone of the economy	Botswana, Ethiopia, Nigeria, South Africa, Uganda, West Africa, Zambia, Zimbabwe	• Funding opportunities and market information are often improperly communicated • Training and technological support are scarce, although these enterprises account for the majority of jobs created • Bureaucratic red tape can deter entrepreneurship and innovations
Constraints in fundraising/access to finance	Nigeria, Zambia	• Prevailing high interest rates, driven by both external shocks and perceived country risk (reflected by a significant risk premium) • Crowding out of the private sector, resulting from dominance of government sources of funding and an absence of alternative sources of private capital
Insufficient range of financial products and funding sources available	Ethiopia, Mauritius, Uganda, West Africa, Zambia	Private market options and product innovations are constrained, as a result of: • Insufficient institutional support and low levels of retail participation • Lack of transparency giving rise to information asymmetry • Unfavourable tax regimes stifling growth • Inadequate protections for investors resulting in scepticism
Inconsistency of policies and bureaucracy	Nigeria, Uganda, Zambia, Zimbabwe	This limits investors' ability to explore new market opportunities and plan for future scenarios, leading to a lack of predictability in regimes for market participants and, overall, undermines investor confidence. Inconsistency in policies often stems from: • Breakdowns in governance, which can lead to slow and disjointed implementation of policy • Unclear regulations and excessively bureaucratic processes • Situations of mismatch or contradiction between fiscal and monetary policies • Protectionist investment policies that are not conducive to the development of capital markets • A lack of clarity around regulatory treatment of private assets, particularly in relation to prudential rules, which disincentivises investment by public and private institutions

(*continued*)

Exhibit 3. Top Six Most Prevalent Barriers to Capital Formation Across Markets (*continued*)

Barriers to Capital Formation	Markets Most Impacted	Problem Description
Limited investor education	Ethiopia, Kenya, Uganda, Zambia	Low levels of financial literacy were identified as a barrier at three main levels of the investment chain: • Retail investors—displayed by low awareness of capital markets and how they function • SMEs—typified by low awareness of an albeit limited range of existing funding options available to drive business growth • Advisory firms—characterised by skills deficits in investment firms focused on advisory services.
Underdeveloped infrastructure	Nigeria, West Africa, Zambia	• Limited capacity of stock exchanges, low fintech integration, and inadequate capacity of the banking sector to support growth • Insufficient integration of stock markets across the region, limiting the depth and breadth of market liquidity

Exhibit 4. Issues and Headwinds Facing Capital Markets in Sub-Saharan Africa

Macroeconomic Context	Policy, Regulation, and Governance	Market Microstructure	Social and Societal Considerations
Enduring levels of high inflation Elevated interest rates Low market liquidity Volatility and high perceived country risk Economic dependency on primary products, resulting in a lack of economic diversification	Inconsistent policies across the region Regulatory gaps Structural lack of transparency in private markets Bureaucracy and corruption Skill shortages in firms resulting in poor governance Weak governance standards of public and government institutions	Insufficient depth and breadth of financial infrastructure Fragmented stock exchanges and dismal market activities Limited exit routes for investors in private market funds Excessive or outsized share of institutional investors in capital provision Unequal access to capital for SMEs Limited range of financial products available Technological exclusion—barriers to accessing online investing platforms	Generally low investor trust in capital markets Low levels of financial literacy and investor education Low levels of disposable income

Exhibit 5. Main Policy Recommendations on a Cross-Regional Basis

Regulators and Policymakers
Regulatory clarity and predictability: Regulators should firmly establish clear roadmaps when implementing new policies and communicate plans with market participants in a timely manner. Regulators should continue to issue policy consultations when making significant changes to existing legislation or implementing new regulations, and they should take into account relevant viewpoints when developing policies.
Private asset regulation needed: Issuing guidance on the regulatory treatment of private assets can also offer clear instructions to individuals and entities that may otherwise be deterred from investing in unlisted assets.
Stronger and standardised corporate governance rules needed: Regulators should also attempt to better understand and improve corporate governance practices, which are the bedrock of investor confidence.
Governments
Use of public–private partnerships (PPPs): Governments should consider forming public–private partnerships to stimulate the growth of financial infrastructure.
Government-sponsored educational programmes: Governments should collaborate with local firms to execute investor education campaigns and offer grants and scholarships to students and early-career professionals pursuing accredited professional licensing designations, such as the CFA® Program.
Government-sponsored endowment funds: Governments should also consider initiating projects to create endowment-like funds with the specific purpose of investing in private sector initiatives aimed at generating economic growth in various sectors of the economy.
Coordination between public authorities and the private sector: Government and public authorities should make it clearer that they wish to initiate an efficient integration of capital markets within the economic fabric of their society. Positive signalling would go a long way in building trust between the various strata of society, which would be conducive to longer-term investments.
Investment Firms and Institutional Investors
Upskilling of investment advisers: Firms should allocate resources and provide incentives for their professionals, especially those in advisory roles who serve SMEs, to upskill. Firms should also proactively identify areas of skill deficits and recruit talent to address gaps in the provision of targeted services for a diverse set of client bases with sophisticated financing needs.
A necessary focus on SMEs: Firms should also consider targeting SMEs in marketing campaigns that highlight the availability of funding and capital raising options available to them. Generally, the SME sector has been identified as a key source of economic growth and employment creation in most sub-Saharan Africa markets under consideration. Yet this sector has also been characterised as suffering from insufficient financial advice and ill-adapted financing channels.
Develop the private markets channel by aligning long-term and stable financing needs of SMEs and startups with private markets' long-term investment horizon: Venture capital and private equity can address the funding gap for SMEs by providing long-term financing required for SMEs to grow. Private investors may also offer expertise and industry knowledge to help overcome low levels of awareness of the funding options available to SMEs.
Leverage local institutional investors (local pension funds, insurance firms, and sovereign wealth funds) as long-term anchor investors in the capital markets: Such investors can act as a trustworthy springboard for other investors to follow. Regulation, education, and sophistication will be required to encourage and permit a broadening of their asset allocation frameworks.

ON THE HISTORICAL LINKAGES AMONG CAPITAL FORMATION, SOCIOECONOMIC DEVELOPMENT, AND POPULATION GROWTH: LESSONS FOR AFRICA

The mission statement of CFA Institute clearly establishes as a principle that the development of capital markets should accompany and even propel socioeconomic progress. This tenet has guided our work on capital formation in sub-Saharan Africa.

The proposal is simple in concept, but its practical implementation may vary and may not necessarily occur in the exact order explained here. History has shown that productivity gains and technological advancements may accelerate socioeconomic development, in part thanks to the formation of capital that can be deployed in a productive manner and gradually benefit a growing number of individuals. In turn, this development facilitates and allows for population growth and progress in terms of human capital.

This is the overarching equation that this research work has explored, focusing on the sub-Saharan Africa region.

A number of datapoints and time series can be used to illustrate how this relationship has functioned over the course of human history in various parts of the world. One key historical inflection point was the Industrial Revolution, including the mechanisation of agriculture, which started in Europe and North America at the turn of the eighteenth century. Interestingly, up until that point, economic and human progress at an individual or collective level had been in essence stagnant for millennia around the globe.[18] **Exhibits 6 and 7** illustrate this historical shift.

As previously mentioned, a sudden, sharp upturn took place during the Industrial Revolution, in both total real GDP terms and per capita terms. What ensued was a concurrent and commensurate rise in life expectancy and thus living conditions, as depicted in **Exhibit 8**.

As shown in **Exhibit 9**, however, this development has not had equal effects around the world, although the general trend has been universal.

Of course, the case of the African continent is what we are primarily concerned with in this research piece. The region has not yet reached levels of life expectancy on par with the global average.

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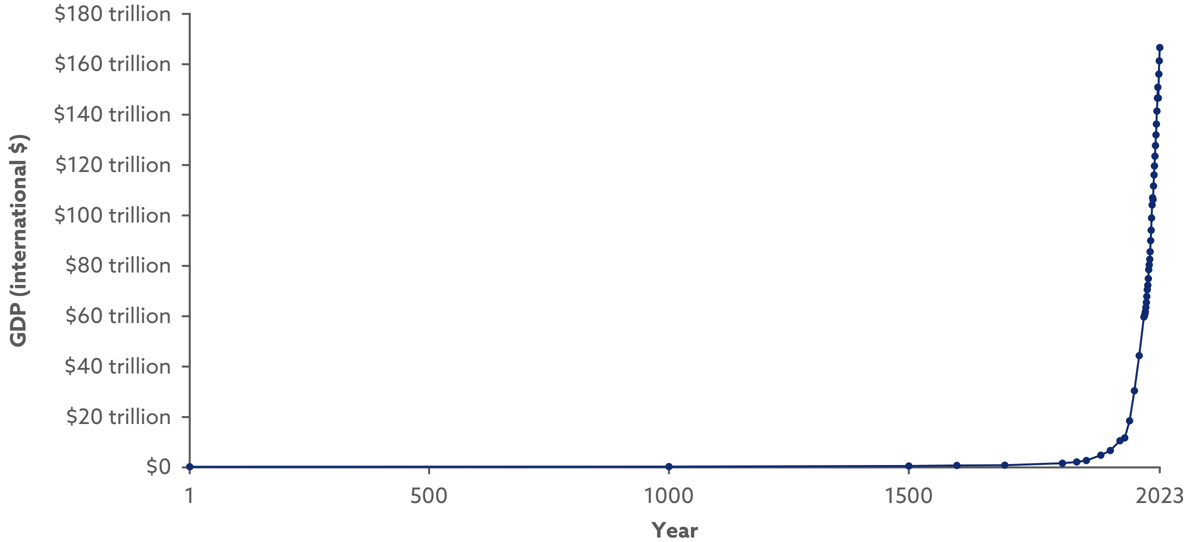
[18]See Derek Thompson, "The Economic History of the Last 2,000 Years in 1 Little Graph," *The Atlantic* (19 June 2012). www.theatlantic.com/business/archive/2012/06/the-economic-history-of-the-last-2-000-years-in-1-little-graph/258676/. Thompson references the work of Michael Cembalest, chairman of market and investment strategy at J.P. Morgan Asset Management. See also detailed data from *The Atlantic* at https://cdn.theatlantic.com/media/mt/business/HS-8_2003.pdf.

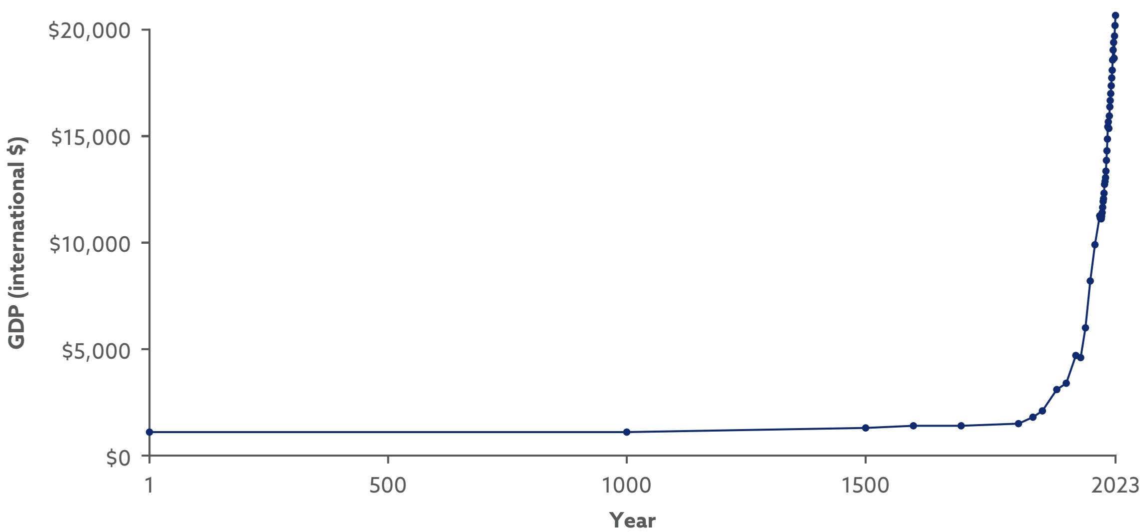
Exhibit 6. World GDP over the Last Two Millennia



Notes: These data are expressed in international dollars at 2021 prices. See www.OurWorldinData.org/economic-growth.

Sources: Data from World Bank (2025), "Global GDP over the Long Run", https://ourworldindata.org/grapher/global-gdp-over-the-long-run; Jutta Bolt and Jan Luiten van Zanden, "Maddison Style Estimates of the Evolution of the World Economy: A New 2023 Update," *Journal of Economic Surveys* 39 (2025): 631–71; Maddison Project Database 2023; Maddison Database 2010.

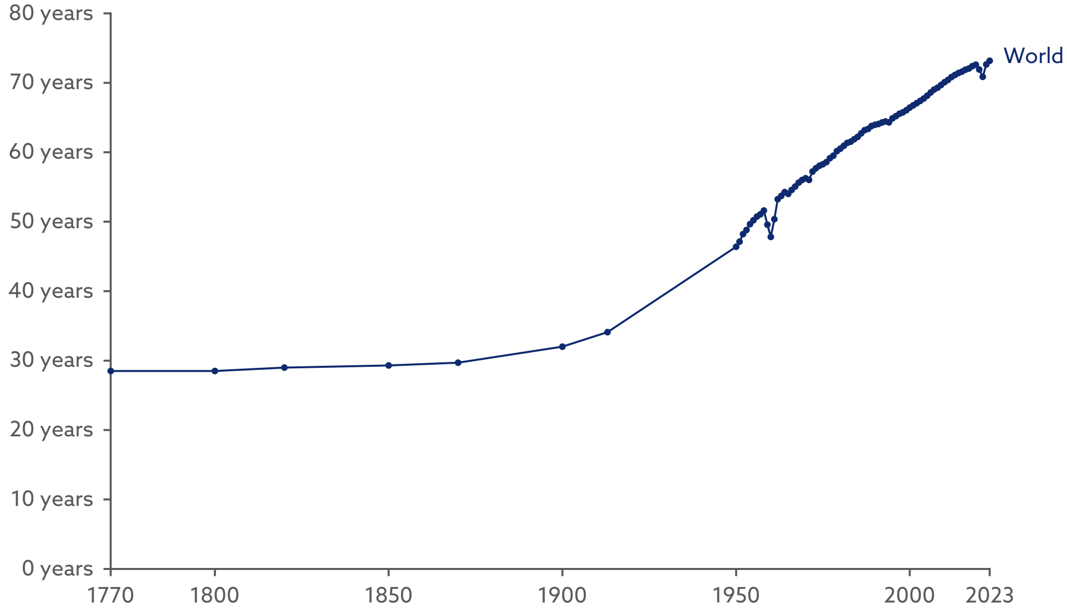
Exhibit 7. World GDP per Capita (in 2021 international dollars)



Notes: These data are expressed in international dollars at 2021 prices. See www.OurWorldinData.org/economic-growth.

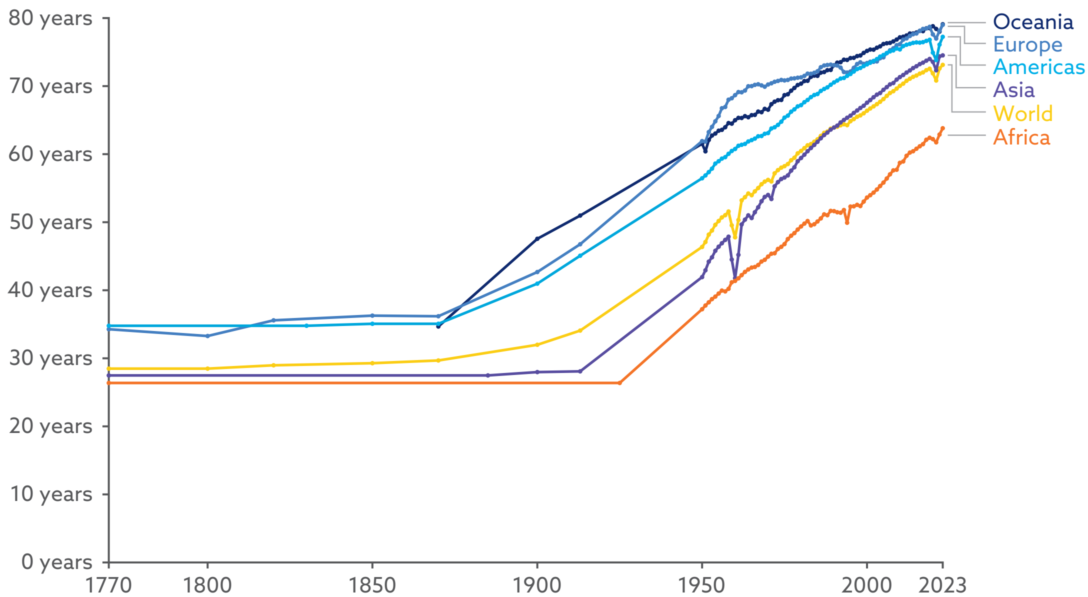
Sources: Data from World Bank (2025), "Global Average GDP Per Capita over the Long Run," https://ourworldindata.org/grapher/global-average-gdp-per-capita-over-the-long-run; Jutta Bolt and Jan Luiten van Zanden, "Maddison Style Estimates of the Evolution of the World Economy: A New 2023 Update," *Journal of Economic Surveys* 39 (2025): 631–71; Maddison Project Database 2023; Maddison Database 2010; "Statistics on World Population, GDP, and Per Capita GDP, 1–2008 AD," Angus Maddison; International Monetary Fund (IMF).

Exhibit 8. World Life Expectancy



Source: Our World in Data, "Life Expectancy" (https://ourworldindata.org/life-expectancy); United Nations Department of Economic and Social Affairs, Population Division, "World Population Prospects 2024" (UN WPP 2024); Human Mortality Database (2024); Richard Zijdeman and Filipa Ribeira da Silva, "Life Expectancy at Birth 2" (2015); J. C. Riley, "Estimates of Regional and Global Life Expectancy, 1800–2001," *Population and Development Review* 31 (2005): 537–43.

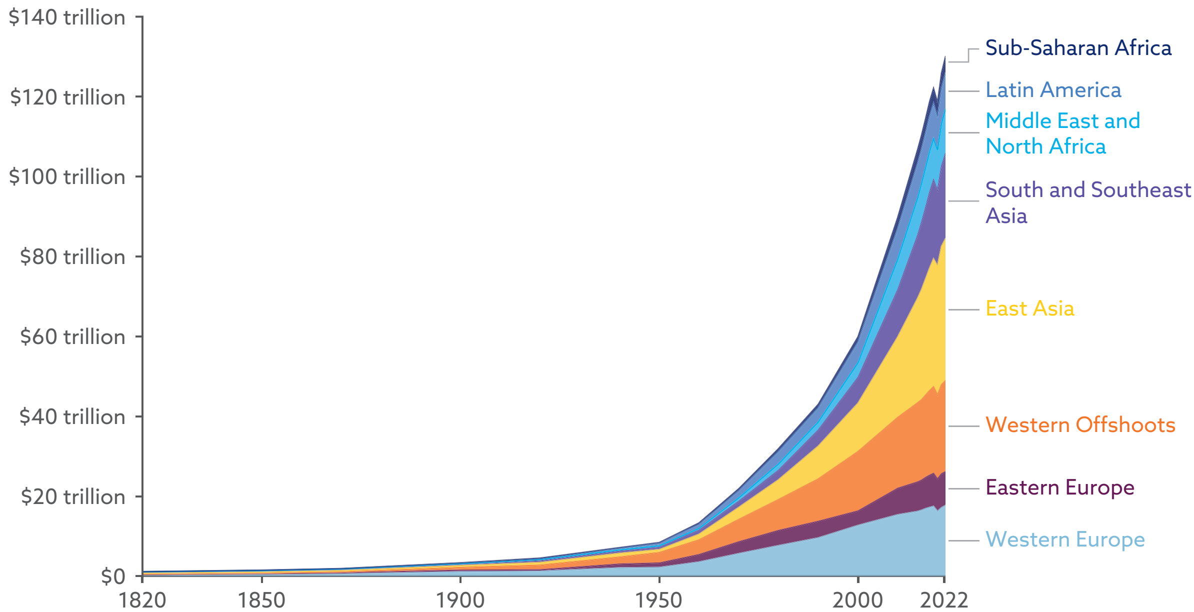
Exhibit 9. Life Expectancy by Region, 1770–2023



Note: The exhibit shows the "period life expectancy," the average number of years a newborn would live if age-specific mortality rates in the current year were to stay the same throughout the newborn's life.

Sources: Our World in Data, "Life Expectancy" (https://ourworldindata.org/life-expectancy); UN WPP (2024); Human Mortality Database (2024); Richard Zijdeman and Filipa Ribeira da Silva, "Life Expectancy at Birth 2" (2015); J. C. Riley, "Estimates of Regional and Global Life Expectancy, 1800–2001," *Population and Development Review* 31 (2005): 537–43.

Exhibit 10. Gross Domestic Product by World Region



Notes: These data are adjusted for inflation and differences in cost of living between countries. They also are expressed in international dollars at 2011 prices.

Sources: Our World in Data, "Economic Growth" (https://ourworldindata.org/economic-growth); Jutta Bolt and Jan Luiten van Zanden, "Maddison Style Estimates of the Evolution of the World Economy: A New 2023 Update," *Journal of Economic Surveys* 39 (2025): 631–71; Maddison Project Database 2023.

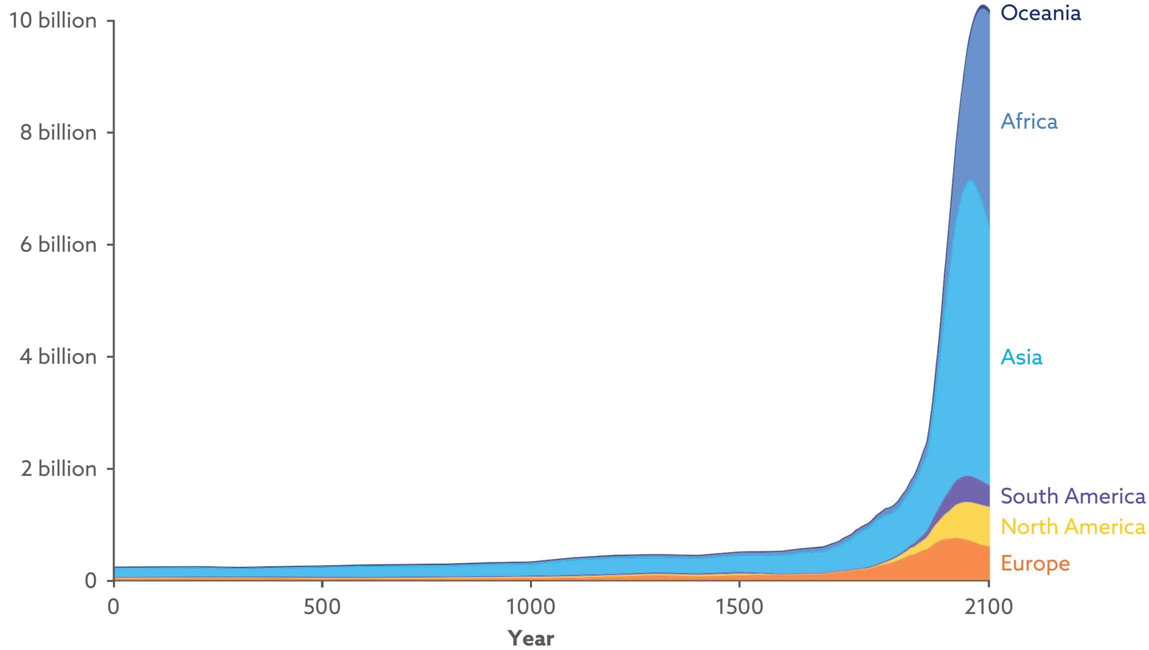
This finding also has to be put in perspective with the historical breakdown of the world's gross domestic product by region. In this regard, **Exhibit 10** provides a visual representation of the contributions to GDP by world regions. It highlights the persistent disparity in which sub-Saharan Africa continues to capture a disproportionately small share of global wealth relative to its substantial share of the world's population, despite shifts in economic dynamics having occurred over the centuries and decades. This trend underscores ongoing structural challenges for growth within the continent.

In contrast, **Exhibit 11** shows that the population of the African continent as a whole is expected to become the second most populous continent by the end of the twenty-first century, from about 7% of the world's population 2,000 years ago to 8% early in the twentieth century, 18% in 2023, and a projection of 35% in 2100 (according to the United Nations World Population Prospects 2024).

Ultimately, in this research, we are focused primarily on exploring the connection between capital formation and effective socioeconomic development. In this regard, it is interesting to consider the work of Ivo Šlaus and Garry Jacobs on the interplay among per capita GDP, population growth, and human capital.[19] Their analysis highlights the "self-augmenting" nature

[19]Ivo Šlaus and Garry Jacobs, "Human Capital and Sustainability," *Sustainability* 3 (2011): 97–154.

Exhibit 11. Population by World Region



Notes: Historical country data are shown based on today's geographical borders. Future projections are based on the UN medium scenario. The UN World Population Prospects provides a range of projected scenarios for population changes, which rely on varying assumptions about fertility, mortality, and/or migration patterns to explore different demographic futures.

Source: Data from UN WPP (2024) – processed by Our World in Data. "Population, total – UN WPP."

of human capital, which refers to its ability to continuously advance itself through learning, research, and development activities and the accumulation of knowledge and skills. This concept is vividly illustrated by the historical trends:

> The self-augmenting character of human capital is dramatically illustrated by the growth of per capita GDP in recent centuries. In spite of a 22-fold rise in world population over the last 1,000 years—a surge that could have strained resources and limited economic progress—per capita GDP has grown 13-fold during the same period.[20]

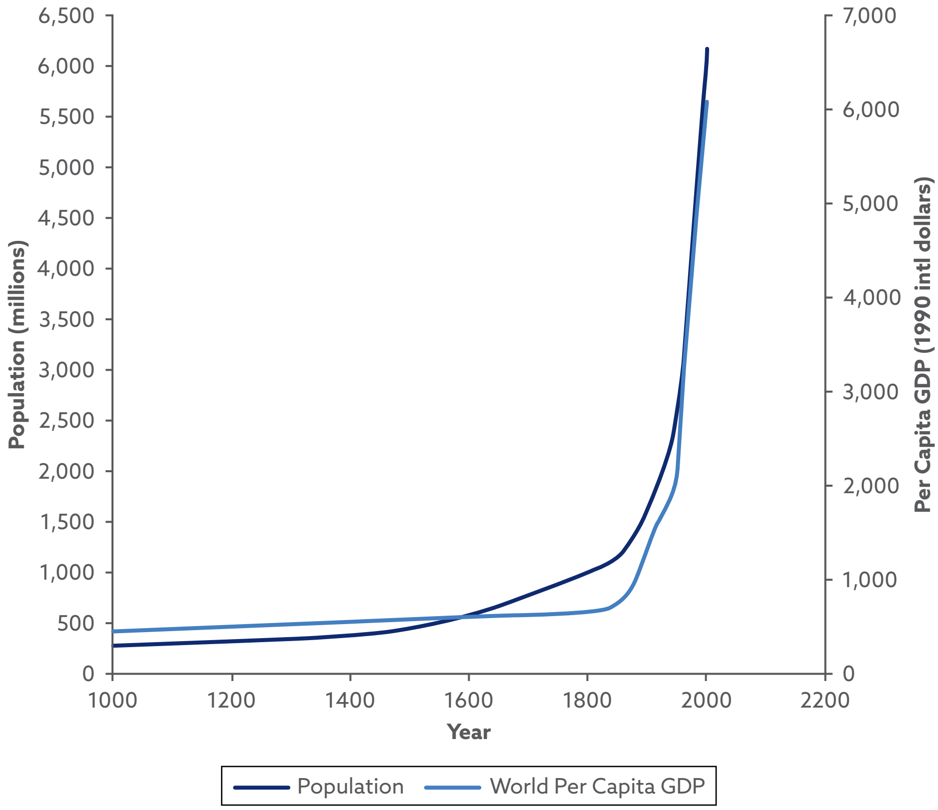
This indicates that human ingenuity and the development of human capital could outpace the challenges posed by population growth.

> Since the advent of the Industrial Revolution, both population and per capita GDP have increased six-fold, signifying a 36-fold rise in productive capacity in two centuries.[21]

[20]Šlaus and Jacobs, "Human Capital and Sustainability," p. 13.

[21]Šlaus and Jacobs, "Human Capital and Sustainability," p. 13.

Exhibit 12. World Population and Per Capita GDP (purchasing power parity), AD 1000 to 2001



Sources: Ivo Šlaus and Garry Jacobs, "Human Capital and Sustainability," *Sustainability* 3 (2011): 97–154; A. Maddison, *The World Economy: A Millennial Perspective* (2001, Development Centre Studies, OECD Publishing, Paris) https://doi.org/10.1787/9789264189980-en. https://www.researchgate.net/publication/49599352_Human_Capital_and_Sustainability.

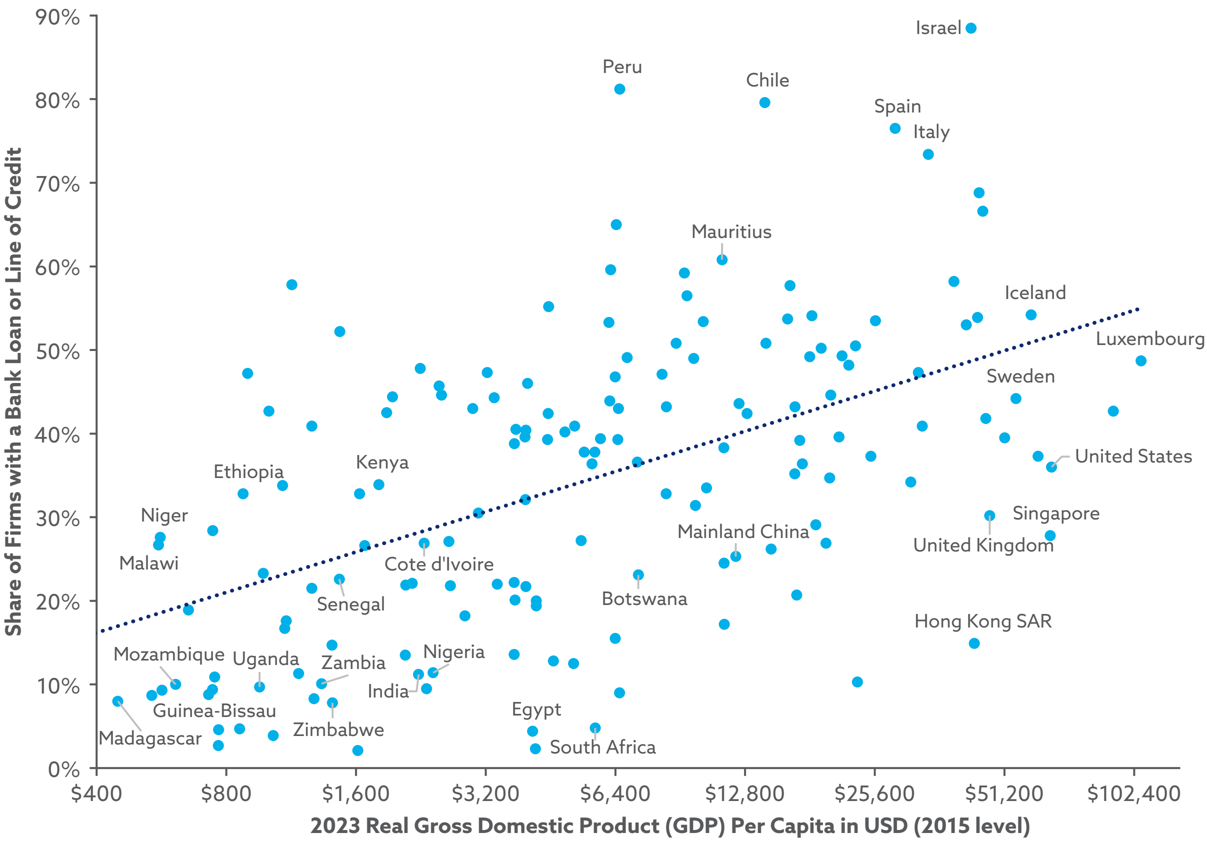
This transformation highlights how advancements in education, technology, and societal organisation have amplified the collective economic potential of human capital.

Exhibit 12 attempts to graphically depict the correlation between growth in per capita GDP (akin to capital formation) and growth in population numbers.

Finally, the way to connect all these points is to determine or analyse the nature of the relation between economic development and the access local firms have to capital markets—or, at minimum, some form of financing. In this regard, we can refer to the research work carried out at the Federal Reserve Bank of St. Louis,[22] using World Bank data, on the search for a statistical relationship between access to credit and real GDP per capita. **Exhibit 13** shows the result

[22]See Matthew Famiglietti and Fernando Leibovici, "Finance and Development: Evidence from Firm-Level Data," Federal Reserve Bank of St. Louis (September 2019). www.stlouisfed.org/publications/regional-economist/third-quarter-2019/finance-development-evidence-firm-data.

Exhibit 13. The Relationship Between Access to Credit and Real GDP per Capita by Country and Region



Note: The exhibit is modified from the study by Matthew Famiglietti and Fernando Leibovici, "Finance and Development: Evidence from Firm-Level Data," Federal Reserve Bank of St. Louis (September 2019).

Sources: World Bank Enterprise Surveys; Penn World Tables.

of this analysis, plotting real GDP per capita in various countries and regions against a proxy metric used to infer access to financing—in this case, the share of manufacturing firms in each country and region with a line of credit or some form of loan from a financial institution.

GDP per capita data are scaled logarithmically. Real GDP is measured in constant 2015 US dollars. Identified countries were selected to illustrate geographic diversity and the covered markets in this report.

Exhibit 13 shows a positive correlation between real GDP per capita and local firms' access to external capital and financing. This relationship is particularly relevant to our research on sub-Saharan Africa, where the development of SMEs plays a critical role for job creation and, in turn, the naturally more difficult access to financing channels that burgeoning business ventures are facing. Indeed, by definition, SME ventures have a lower capacity to fund their development using their own funds. For this reason, these enterprises would benefit from better access to external channels for sourcing working capital or fixed investment capital in order to realise their potential.

We dedicate the following sections of this report to a detailed analysis of capital formation potential and issues in various markets across sub-Saharan Africa. In particular, we set our sights on making policy recommendations that we believe authorities and policymakers should consider, with a view to favouring the growth and access to productive capital in the region.

THE RISE OF "AFRICAN LIONS": IMPORTANT LESSONS FROM THE "ASIAN TIGERS" ECONOMIES

The term "African Lions" emerged in the 2000s and 2010s as an analogy to the "Asian Tigers" of the 1960s and 1970s, referring to a select group of African nations experiencing rapid economic growth alongside rising living standards. The African Lions generally include South Africa, Morocco, Botswana, Egypt, Mauritius and, more recently, Ghana—although the group is fluid and subject to change.

Lessons from the Asian Tigers

In effect, the African Lions aspire to emulate the remarkable successes achieved by the Asian Tigers—namely, South Korea, Taiwan, Hong Kong SAR, and Singapore—which are now among the top contributors to the global economy. Their swift economic ascent offers valuable lessons for African economies, as reflected by an extensive body of literature that presents comparative historical analyses with development strategy implications for Africa.

Despite initially lagging behind developed Western markets in industrialisation, these four Asian economies rapidly transitioned from third-world status to becoming some of the world's wealthiest economies. Notably, Hong Kong SAR and Singapore evolved into prominent international financial centres, while South Korea and Taiwan emerged as global manufacturing and production powerhouses.

The article "Asia's Economic Transformation: Lessons for Africa,"[23] published by Brookings in 2020, sheds light on two key lessons that resonate with Africa:

- **Embrace diversification and dynamic learning.** The Asian experience underscores the importance of diversification in growth trajectories and dynamic learning: There is no singular, universal formula for success, nor any "one-size-fits-all" model to follow. Instead, African nations should strive to reveal their own economic characteristics and development paths based on their specific circumstances, allowing each country to leverage its distinct comparative advantages.
- **Sustained technological capability.** The article discusses how Deepak Nayyar, in his book *Resurgent Asia: Diversity in Development*,[24] emphasizes the critical role of sustained technological capability and learning in Asia's transformation towards industrialisation. Effective government and public

[23]Arkebe Oqubay, "Asia's Economic Transformation: Lessons for Africa," Brookings (12 March 2020). https://www.brookings.edu/articles/asias-economic-transformation-lessons-for-africa/.

[24]Deepak Nayyar, *Resurgent Asia: Diversity in Development* (Oxford, UK: Oxford University Press, 2019).

policy act as pivotal catalysts for long-term changes, albeit with different roles in different contexts. To realize their ambitions to industrialise, governments in Africa should serve as enablers, facilitating the conditions necessary for development. This is a point that appears throughout the various country chapters of our research.

Malaysia: A Cautionary Tale for the African Lions

Malaysia, a nation endowed with abundant natural resources and strategically located next to Singapore, once held the promise of joining the ranks of the Asian Tigers. Despite significant strides in industrialisation, however, Malaysia ultimately fell short of transforming into a high-growth, high-income economy as its neighbouring counterparts did. An analysis of Malaysia's economic pathway contextualizes its relative underperformance and reveals several counterlessons that African nations can reference to avoid similar pitfalls in their development efforts. The following recommendations are based on Malaysia's experience:

- Diversification beyond primary commodities
- Supporting local SMEs and building domestic capabilities
- Investing in R&D and a skilled labour pool for restructuring to high-end industries in the long run
- Formulating effective government policies for long-term economic dynamism

Finally, the legacy of the Asian Tigers illustrates the enduring impact of regional market integration, coupled with strategic actions and industrial policy frameworks. History shows that capital market development often requires or necessitates a degree of institutional and commercial openness as a precondition. Take Singapore as an example: The country has retained its position as the world's best business environment for 15 consecutive years, according to a report published by the Economist Intelligence Unit in 2023.[25] This success is attributed to the country's supportive business environment, global connectivity, and emphasis on promoting international trade.

Opportunities Ahead

Even as latecomers, the African Lions have the opportunity to bridge the developmental gap and reshape their economic futures. The legacies of the Asian Tigers serve as valuable lessons that can be adapted to unique contexts. The timing of entry into the global economic landscape should not necessarily

[25]Economist Intelligence Unit, "Singapore Retains Its Position As the World's Best Business Environment for 15 Consecutive Years" (13 April 2023). www.eiu.com/n/eius-business-environment-rankings/.

hinder Africa's ability to develop according to its own comparative advantages. The region should embrace a strategic approach to economic integration, capital market policymaking, and proactive state leadership.

The rest of this report provides material descriptions and evidence of what such policies may entail.

INDIVIDUAL MARKET REVIEWS

CFA Institute has partnered with local CFA charterholders and subject matter experts to produce market-specific reviews of individual jurisdictions in the wider sub-Saharan Africa region.

Each chapter follows a similar structure, for ease of comparison:

- Key Data Points
- 1. Introduction and Context

  The positioning of the market within a historical context of economic development and capital market strength. Comparison may be drawn with other markets in the region.
- 2. Raising Funds in the Public Markets

  A review and analysis of how existing public markets and exchanges work and the relative ease of raising capital. This analysis will also include consideration for government fundraising capacity.
- 3. Debt

  A review of the state of debt markets, including government and corporate debt.
- 4. Raising Funds in the Private Markets

  A review and analysis of how private equity and private debt markets have developed and whether they offer a valid alternative for fundraising. Given the stages of individual market development, this section may mix purely private markets and the market activity that takes place on public exchanges, whether for debt or equity.
- 5. The Challenges to Capital Market Formation

  A review of the main barriers to capital formation in the jurisdiction, whether systemic or related to policy orientations.
- 6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

  The view expressed by the authors on possible and recommended policy actions to improve capital formation conditions in the jurisdiction.
- Bibliography

  Useful resources and references for the jurisdiction.

Important Notes on the Vocabulary Used in This Research

For this work, the vocabulary used to describe various markets requires a high-level explanation in order to avoid confusion that would distract from the points we are trying to make. The following list provides the general meaning for specific terms used:

Public markets	To be understood as the market infrastructure allowing investors and participants to trade the stocks or equity shares of publicly traded (publicly listed) companies on organised markets, including trading venues and stock exchanges. This will also include free-floating corporate debt issued or traded in the jurisdiction.
Private markets	To be understood as investment activity that generally takes place outside of public markets, also known as alternative investments, including private equity, venture capital, private debt, hedge funds, commodity funds, infrastructure investments, and real estate investments. At times, private markets or private investments may be related more generally to all investment or trading activity that is not related to government investments or funding sources. We attempt to use language that distinguishes between the two concepts. The reason for this possible confusion is related at times to the stage of economic or market development in particular jurisdictions. If traditional stock exchange activity is only fledgling, the distinction with purely private markets can be blurred.
Government debt or public debt	The debt contracted by various levels of the government authorities in the jurisdiction.
Public sector	The economic activity consisting of both public services and public enterprises (related to the government), including state-owned enterprises (SOEs).
Private sector	The economic activity that takes place and the businesses and SMEs that operate outside of government scope or SOEs.

UGANDA

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Investment Director, Pearl Capital Partners

Key Data Points (as at end-December 2023, unless otherwise stated)	
Total population	46.5 million (estimated)
National currency and exchange rate	Ugandan shilling, UGX3,890 per USD
GDP and growth rate	USD44.2 billion, 5.5%
SME proportion of GDP	70%
Annual average inflation	3.3%
Unemployment rate	2.9%
Total government debt outstanding	UGX96.1 trillion (USD25.3 billion)
Public debt to GDP ratio	52%
Primary stock exchange	Uganda Securities Exchange (USE)
Number of publicly listed companies	17 (9 local issuers)
Equity market capitalisation (total and % of GDP)	USD6.28 billion, 14% of GDP
Mutual fund assets under management	USD1.3 billion
Estimated debt market, including bank loans (total and % of GDP)	USD5.82 billion (1.3% of GDP)
Examples of domestic private market investment firms	TLG Capital, Inua Capital, Pearl Capital Partners

Sources: Uganda Bureau of Statistics; Bank of Uganda; Ministry of Finance, Planning and Economic Development; Uganda Securities Exchange; Capital Markets Authority of Uganda.

1. Introduction and Context

Over the past two decades, Uganda's efforts to establish itself as a competitive regional capital market, comparable to Mauritius, Rwanda, and Kenya, have faced significant challenges. In particular, a crowding-out effect persists when legal provisions require government-affiliated and local pension funds to allocate 80%–90% of their assets to domestic government bonds, limiting liquidity for private and alternative investments.

This legal framework has resulted in an overreliance on government bonds, limiting liquidity for such asset classes as private equity, real estate, and venture capital. The problem of liquidity is further worsened by Uganda's predominantly cash-based economy, subsistence livelihoods among its youthful population, and a growing informal economy.

The high yields on government bonds, although attractive to investors, create a barrier for higher-risk, low-liquidity investments in private markets. This situation has led to a low level of capital formation and limited growth in private and alternative investments. Consequently, strategic asset allocation decisions are constrained by the uneven distribution of risk and reward across Uganda's investment landscape, impeding the development of a vibrant and diverse capital market.

2. Raising Funds in the Public Markets

Since the mid-1990s, Uganda's capital markets have gradually developed, influenced by low domestic savings relative to GDP, high yields on government securities, and elevated domestic interest rates. The primary policy objective was to facilitate capital raising, institutionalize capital intermediation, and increase access to domestic financing for the government, corporations, and micro, small, and medium-sized enterprises (MSMEs).

Challenges in Capital Formation

Government borrowing at high yields has created a crowding-out effect, limiting affordable financing for the private sector. Investors prefer low-risk, high-yield government securities over private sector investments. This situation, coupled with low domestic savings and a preference for public debt, has hampered policy efforts toward tax, capital markets, and pension sector reforms necessary to build a robust private market ecosystem.

Regulatory Environment

The regulatory framework in Uganda heavily favours government debt. Local institutional investors, such as pension schemes and insurance firms, are mandated to allocate significant assets to domestic government debt, creating a clear home bias.

Historical Context

Uganda's current fundraising policy framework is rooted in a social development agenda and follows on from the IMF-driven macrostructural reforms from the mid-1990s. Uganda's participation in the Heavily Indebted Poor Countries debt initiative in the mid-1990s led to a shift from a socialist-driven economic model to a quasi-capitalist economic model that is in place today.

Public Fundraising

Uganda finances its government expenditures through tax revenue, donor support, and borrowing, both domestically and internationally. Although the government prioritizes concessional loans from multilateral and bilateral lenders, it also issues treasury securities in the domestic debt market and occasionally borrows on commercial terms from various development finance institutions.

Infrastructure Financing

To finance infrastructure development, Uganda relies on concessional loans, treasury securities and, increasingly, public–private partnerships. PPPs are earmarked to be used for such projects as expressways, hydropower dams, airports, and oil and gas infrastructure.

Financing MSMEs and Early-Stage Companies

Uganda supports MSMEs and early-stage companies through the Uganda Development Bank (UDB) and other government credit facilities. The UDB raises financing from global capital markets, donor agencies, and development finance institutions. Additionally, the Agriculture Credit Facility (ACF) finances agriculture-related projects at subsidized interest rates.

Foreign Direct Investment (FDI)

FDI is a vital source of financing for Uganda's capital-intensive projects. The country attracts multinational entities and global capital for such sectors as agriculture, oil and gas, mineral extraction, tourism, education, and health care. Incentives supporting import-substitution strategies have increased domestic light manufacturing, further attracting FDI.

3. Debt

Public Fundraising Framework

Uganda's fiscal fundraising process is guided by the Medium-Term Debt Management Strategy (MTDS), prepared annually by the Ministry of Finance, Planning, and Economic Development. The MTDS is a three-year plan designed to manage public debt prudently, balancing cost and risk to meet the government's financing needs at the lowest possible cost. This framework is mandated by Section 13(10)(a)(iv) of Uganda's Public Finance Management Act, 2015.

The key objectives of the MTDS (2022/23–2025/26) are as follows:

- Manage refinancing risk by issuing longer-dated securities.
- Optimize the borrowing mix to reduce debt costs and interest rate risks.
- Align borrowing with government financing needs to minimize debt costs.

Outstanding Debt Stock[26]

As of December 2021, Uganda's total debt stock was USD20.7 billion, up from USD18.0 billion in December 2020. The increase was caused by borrowing related to COVID-19. The debt composition was 37.8% domestic (USD7.8 billion) and 62.2% external (USD12.9 billion).

Debt Terms and Maturity Profile

Uganda's borrowing strategy focuses on concessional interest terms and local-currency debt. Occasionally, the country incurs commercial or nonconcessional debt, increasing interest payments as a percentage of GDP. The domestic debt stock includes a significant portion of long-term instruments, with 10-year and 15-year treasury bonds making up 25.9% and 18.4% of the total domestic debt, respectively. This strategy aims to lengthen the average time to maturity as of December 2021.

Interest Rate Types and Currency Composition

As of December 2021, 86.5% of Uganda's debt was fixed-rate debt, down slightly from 87.5% in December 2020, while variable-rate debt increased. The debt is primarily denominated in local currency (37%), US dollars (30.2%), and euros (19.4%).

Challenges

Uganda faces several challenges in its fiscal fundraising process:

- High cost of debt
- Refinancing risks of near-term maturing debt
- Fluctuations in foreign-currency-denominated debt
- Adverse impacts from repricing variable interest rate debt

[26]Unless otherwise stated, the data reported in the Debt section of this chapter are from Briter Bridges, I&M Burbidge Capital, and EAVCA (2023) and AVCA (2024).

4. Raising Funds in the Private Markets

Private Markets Overview

Private Capital Inflows

Africa receives an average of USD5 billion in private capital annually. Of this amount, 12% (USD600 million) is allocated to East Africa, with Uganda attracting approximately USD259 million. This figure includes direct development finance institution (DFI) investments, which play a major role (70%) in Uganda by way of investment capital contribution. Key investment sectors in Uganda include energy, financial services, technology, agribusiness, manufacturing, education, and health services.

Challenges

Uganda's private markets face several challenges:

- Low participation from local institutional investors because of unfamiliarity with the asset class
- Low levels of investment skill among asset owners and professionals
- Delay in implementing suggested reforms to the tax regime
- Lack of regulation to implement suggested reforms
- Weak investor protection

Growth Trends

Despite these challenges, Uganda's private market ecosystem is growing. Increased global focus on East Africa, particularly for alternative investments, has contributed to this growth. Kenya remains the dominant destination for East Africa–focused funds, but Uganda is increasingly attracting investor interest, ranking second in the region.

Investment Activity

Investment activity in East Africa continues to grow. More than 427 private equity and direct DFI investment deals valued at about USD7.3 billion were reported between 2013 and 2023. The financial services sector has attracted the most investment activity (20%), followed by the agribusiness, energy, and ICT sectors, which each contribute on average 12% to activity. During the same period, Uganda made 57 investments in both private equity and direct DFI, with a value of USD2.5 billion and in an almost similar sector profile as the rest of the region.

Exits

Uganda experienced a slow pace of investment exits between 2013 and 2023, with only 11 reported transactions, none of which disclosed their financial value. These exits were exclusively from private equity investments facilitated through intermediaries; direct DFI investment strategy had no exits during this period.

Given the scarcity of comprehensively reported exit data specifically for Uganda over this decade, the subsequent analysis will draw upon broader trends from the wider East Africa region. This regional perspective offers context for understanding the dynamics at play, which are likely to influence Uganda's investment landscape.

In the East Africa region, the average holding period is about seven years, a duration that naturally fluctuates with economic conditions. As an example, the exit market tapered off between 2020 and 2022, with almost no exit activity recorded. Signs of recent recovery have arisen, especially as funds that were established and made investments in the last 7–10 years are being actively prepared for exit opportunities.

The primary mechanisms for achieving exits from East Africa are predominantly trade sales (strategic acquisitions), followed by secondary buyouts and, lastly, management buyouts. This finding is supported by the East Africa Venture Capital Association's research throughout the 2013–2023 period. Notably, the IPO route for exiting investments remains an untapped avenue in East Africa.

Investment Strategies

Private capital managers in Uganda use various strategies, including equity, mezzanine, and debt. Impact investing remains a distinct strategy because of the influence of DFIs. Mezzanine instruments are often used to balance risk and reward.

The Impact of COVID-19

The impact of COVID-19 in East Africa was felt across investment, portfolio management, and exit strategies for different portfolio managers. In the region, private equity (excluding direct DFI) investment activity fell from an average of USD530 million annually over 2013–2019 to USD430 million annually from 2020 to 2023.

The opposite occurred in Uganda, where private equity (excluding direct DFI) investment activity accelerated from an average of USD70 million over 2014–2019 to USD125 million annually from 2020 to 2023.

In general, the COVID-19 period in Uganda was characterised by a drop in portfolio performance leading to valuation write-downs. Fund managers took on operational roles in portfolio companies, supported by business development grants. Smaller funds and those targeting midsized companies were hit hardest, while larger, more experienced managers fared better.

DFI support has been crucial for recovery, providing long-term capital and mobilising third-party investments. Indeed, direct DFI investments in Uganda were representative of a significant percentage (70%) of investments in East Africa.

5. The Challenges to Capital Market Formation

An Outdated Regulatory Framework

Uganda's current regulatory framework for private capital markets is not up to date, recognising only venture capital and corporate entities. This framework conflicts with international best practices, where private capital vehicles are registered as partnerships, offering better investment, management, exit, and tax efficiency.

An EU policy brief by the International Fund for Agricultural Development (2021) elaborated on the problems brought about by the rigid regulatory framework. This disconnect between local regulations and global norms presents challenges for mobilising private capital and aligning with preferred investment structures. According to the International Fund for Agricultural Development (2021, p. 2),

> The Ugandan Partnership Act remains untested, . . . and commercial funds are not willing to incur the cost of checking whether the Act creates appropriate vehicles for private equity funds.

Because of the lack of proven application of the Partnership Act, funds are reluctant to commit resources towards navigating the uncertainty.

Shortage of Local Talent

Uganda faces a significant shortage of skilled fund managers, competent management teams, and adherence to corporate governance standards. This scarcity hampers the effective management of investment portfolios.

Low-Quality Investment Pipeline

The quality of potential investments is often low, partly because of a weak macroeconomic environment. Such factors as unstable economic policies, insufficient infrastructure, and limited access to critical resources contribute to an investment landscape that often lacks viable opportunities.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

Reform Efforts

Regulators, policymakers, fund managers, enterprises, and DFIs are collaborating to reform these regulations. The goal is to align with international standards, making Uganda an attractive destination for both foreign and local capital.

Recent progress has occurred in the form of tax reforms—namely, the Income Tax Amendment Act and the Stamp Duty Amendment Act—which will improve the efficiency of private capital formation in Uganda. The reforms mainly address the issues of double taxation on incomes derived from private equity investment through intermediaries (funds). In the past, Ugandan private equity funds were taxed as normal corporate entities; this additional layer of taxation disincentivized their use.

These amendments address specific exemptions on incomes derived through intermediaries in private equity, at the fund level, on

- withholding tax on dividends and interest,
- capital gains tax on the disposal of equity interests,
- corporate tax at the fund level, and
- stamp duty on registration of securities.

Finally, the Capital Markets Authority will need to update the regulation so that the implementation of these reforms in tax incentives can take effect. Only funds duly recognised by the Capital Markets Authority can benefit from the tax incentives.

Business Development Services (BDSs)

Investment capital is often deployed alongside BDSs to address these weaknesses. BDSs must be subsidized to be effective because improvements are not immediately visible.

Solutions must therefore focus on the following:

- *Regulatory reforms:* Update the regulatory framework to allow local domiciliation of private capital vehicles as partnerships, aligning with international best practices.
- *Skill development:* Invest in training and development programs to enhance local fund management skills and improve corporate governance standards.

- *Enhanced BDS support:* Provide subsidized BDSs to help businesses improve their operations and investment readiness.

Exhibit 14 summarises the solutions and policy recommendations we believe should be considered by policymakers and regulators.

Exhibit 14. Possible Solutions and Policy Recommendations for Uganda

Area of Focus	Policy Recommendations
Capital formation	**Vehicle structure:** Revise capital market rules to permit the registration of private market vehicles as limited partnerships instead of limited companies.
	Fund structure: Extend fund registration requirements to permit GP/LP structures instead of LLC structures.
Talent development	**Investor and manager skills:** Invest in skill development programs for angel investors, investment specialists, alternative investment managers, and private equity/venture capital managers.
	Trustee training: Conduct investment trustee training to deepen knowledge of alternative investment principles and practices.
Business support	**Financial assistance:** Provide subsidized or grant-based financing to enhance support for improved resilience and investment readiness of small businesses, startups, and emerging companies.
Investor protection and transparency	**Central registry:** Establish a central private market registry for transactions, contracts, and deals to reduce information asymmetry and increase investor protection.
	Standardized contracts: Foster a culture of investor protection by establishing standardized private market contracts.
Pension funds	**Asset allocation reform:** Reform rules and limits on strategic asset allocations and the investment universe within pension regulations to permit alternative and private market investments.
Taxation	**Investor incentives:** Provide tax incentives on capital gains, dividend income, profit-sharing, and interest earned on general partner/limited partner (GP/LP) and angel investor to foster risk taking.
Ecosystem development	**Startup support:** Provide incentives to support the launch and resilience of small businesses, startups, and emerging companies.
	National strategy: Establish Uganda as an international finance centre to attract global capital.
Legal framework	**Regulatory reform:** Align existing capital market regulations with international best practices for alternative investment funds, venture capital, and private markets.
	Dispute resolution: Establish a court arrangement to handle private market contract and transaction disputes.

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ZAMBIA

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Key Data Points (as at end-December 2023, unless otherwise stated)	
Total Population	20.72 million
Equity market capitalisation (total billions and % of GDP)	ZMW80.7 (USD4.12), 16%
Mutual fund assets under management (millions)	USD68
Estimated debt market, including bank loans (billions)	ZMW288.62 (USD14.95)
Estimated debt market (% of GDP)	57.2%
Number of publicly listed companies	23
Number of marketable corporate debt issuers	2
Annual average inflation	11%
Nominal GDP (billions) and annual growth rate	ZMW504.4 (USD29.8), 4.7%

Sources: World Bank; Lusaka Securities Exchange; Zambia Statistics Agency; Ministry of Finance and National Planning; Securities and Exchange Commission – Zambia.

1. Introduction and Context

Introduction

Zambia's modern capital market stems from economic and structural reforms initiated during the 1990s under the IMF's Structural Adjustment Program. These reforms resulted in the establishment of the Lusaka Securities Exchange (LuSE) in 1993 and the revision of the Securities Act, facilitating the creation of the Securities and Exchange Commission (SEC) in 1994 for market regulation. These reforms aimed to establish a versatile platform for government, corporations, and SMEs to access both domestic and international capital markets. Despite more than two decades of development, Zambia's capital markets still

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significantly lag behind its emerging market peers. Notably, as of December 2022, the LSE's market capitalisation amounted to only 16% of GDP, compared with the 62% average for emerging market counterparts (Ministry of Finance and National Planning 2023).

Zambia's capital market growth, especially in the private sector, is constrained by many challenges. Like other African countries, Zambia faces crowding out caused by government borrowing in the domestic market, which has driven up interest rates and thereby elevated borrowing costs for private enterprises. For Zambia, this situation is compounded by its sovereign default, which has hampered access to international capital markets. Additionally, unclear regulations; elevated sovereign risk, which deters offshore investors; and increased illiquidity risk in secondary markets, particularly for equities and long-term securities, impede capital market growth. Despite a substantial national savings rate of 35.5% of GDP (compared with sub-Saharan Africa's overall average rate of 24%), MSMEs face restricted access to capital markets. To tackle these issues, Zambian authorities mooted the Capital Markets Master Plan (CMMP) in early 2023, aiming to stimulate the growth of Zambia's capital markets.

In this chapter, we discuss the role of capital markets, especially private capital, in capital formation in Zambia, focusing on the challenges and solutions that could help unlock the potential of capital markets.

Historical Context

Government capital market fundraising policies have evolved with the prevailing political and economic ideologies. After Zambia's 1964 independence, David Kaunda's UNIP regime adopted a Soviet-style socialist approach, involving extensive state intervention. Fundraising focused on enabling state access to capital markets for public infrastructure and state-owned enterprises. This situation changed, however, with the Soviet Union's collapse in 1991. By then, Zambia's debt exceeded 200% of GDP, leading to failed attempts to seek financial assistance and debt relief with Bretton Woods institutions in the mid-1980s (Andersson, Bigsten, and Persson 2000). These economic challenges ultimately led to the UNIP government's downfall in 1991.

Under Fredrick Chiluba's MMD government, Zambia addressed the debt crisis by engaging the IMF, leading to a Structural Adjustment Program. This initiative aimed to transition to a private sector–driven economy. Fundraising policies shifted from solely government financing to creating opportunities for the private sector to raise capital. Recognising the need for further capital market growth, the government is now proposing additional reforms through the CMMP to improve private sector access to financing, particularly for SMEs.

2. Raising Funds in the Public Markets

Government dominates public fundraising, particularly in debt markets, with a 73.4% share of the ZMW288.62 billion (approximately USD14.95 billion) total outstanding local-currency debt, while the private sector accounts for the rest. To finance its funding needs, the government taps both private and public capital markets, using commercial bank loans and tradable instruments. Domestically, it regularly issues treasury securities to meet financing needs. Additionally, the government seeks foreign-currency debt in international capital markets through issuance of securities and commercial loans despite its stated objective of borrowing concessionally.

The private sector plays a minor role in public fundraising. High-quality corporations occasionally raise funds through debt and equity offerings on the LuSE, although equity offerings have been minimal. Only one rights issue occurred, by ZAFFICO Ltd., which raised ZMW299.1 million (USD16.2 million), in 2020, and since then, no new IPOs have taken place. Meanwhile, private entities, such as Bayport Financial Services Group, continue to leverage the public debt market.

Infrastructure Financing

Zambia's inadequate infrastructure is a serious drag on growth and economic diversification. Foster and Dominguez (2013) estimated that Zambia needs USD600 million to close the infrastructure gap so as to boost annual GDP growth by at least 2%. To address this need, in 2011 the Zambian government initiated an ambitious plan to close this gap. Funding was diversified, including accessing commercial debt markets alongside concessional borrowing from bilateral and multilateral lenders. During the last decade and a half, Zambia issued three Eurobonds (in October 2012, April 2014, and July 2015) worth USD750 million, USD1.25 billion, and USD1 billion, respectively, to finance infrastructure development. Additional funding sources have included donors and government appropriations.

Lately, the government has promoted public–private partnerships for greenfield projects in energy, transportation, and border infrastructure. Additionally, most public roads have toll stations to fund maintenance. However, noneconomic prices remain a hindrance to PPPs in the energy sector.

MSMEs and Early-Stage Company Financing

According to the 2017 annual report of Financial Sector Deepening Zambia, micro, small, and medium-sized enterprises are crucial to Zambia's economy, contributing 70% of GDP while employing 88% of the workforce and making up 97% of businesses. Despite their economic significance, MSMEs in Zambia lack access to formal lending institutions and capital markets. Hence, most MSMEs rely on personal savings, family, and friends to initiate and sustain their operations. This reliance on informal funding can constrain their growth potential.

To assist MSMEs, the government has over the years established funding opportunities through the National Technology Business Centre (NTBC), the Zambia Development Agency (ZDA), and the Citizens Economic Empowerment Commission (CEEC). It has also created the Development Bank of Zambia (DBZ) for cost-effective long-term financing. Unfortunately, these initiatives faced issues of adverse selection and moral hazard, leading to low levels of repayment. As a result, on 17 July 2023, the government placed DBZ under receivership because of its longstanding credit portfolio underperformance.

In addition to government-led funding arrangements, increasingly many MSME startups are now accessing initial funding from the capital market through debt or private equity. There is growing hope that this direct access to capital, driven by market forces, will provide more effective assistance to these burgeoning businesses, fostering greater economic dynamism.

Private Foreign Direct Investment Flows and Trends

As part of IMF reforms in the mid-1990s, Zambia liberalised its capital account to attract foreign capital into its newly privatized state-owned enterprises. Recently, the focus has been to attract capital into agriculture, mining, energy, and tourism. Despite these efforts, although FDI flows peaked at USD2 billion in 2013, they have since experienced a notable decline, hitting a 10-year low of –USD122.1 million in 2022 because of mining sector debt repayments (Balance of Payments Statistical Committee 2022). In our view, in addition to the outflow-side factor, the sustained drop in FDI is also linked to concerns about Zambia's high debt burden, which led to a sovereign default in October 2021. This default raised concerns among investors about the country's economic stability and fiscal sustainability, leading to a more cautious approach towards investment.

In terms of sectoral allocation, natural resources—primarily copper mining—dominate private FDI, accounting for 49.5% of total inflows. Manufacturing follows at a distant 11.2%, while agriculture and trading represent only 2.3% each. Private FDI inflows are a form of debt—primarily from foreign associates—and equity investment.

The concentration of private FDI in the primary sector underscores Zambia's heavy dependency on primary products. This reliance exposes the country to the inherent volatility of commodity markets and limits its potential for broader economic development. The barrier matrix (Exhibit 2), presented in the earlier section of this report, illustrates the severity and interconnectedness of these challenges. Deliberate efforts towards economic diversification are needed for Zambia.

This reliance emphasizes the need for diversification.

3. Debt

Government Fundraising Framework

The Zambian government uses both public and private markets to finance its excess expenditure needs, guided by the national budget deficit financing needs. The Medium-Term Debt Strategy (MTDS) outlines the mix of instruments (public and private) for annual fundraising and adheres to the Public Debt Management Act No. 15 of 2022.

The current MTDS (covering 2023–2026) aims to curtail debt accumulation, extend maturities of existing debt, and reduce debt service costs by favouring concessional borrowing from multilateral lenders over the more expensive commercial debt. Other key documents governing the fundraising framework include a white paper on a medium-term budget plan (Ministry of Finance and National Planning 2025) that solidifies the budget for a year and provides fiscal forecasts for the following two years. According to the 2022 Public Debt Management Act, the director overseeing debt management is tasked with creating an annual borrowing plan (ABP) by considering the MTDS, debt sustainability, and financial forecasts from the annual budget.

The ABP consists of total borrowing needs for the next financial year, the purpose of the loans to be contracted, the debt instruments to be used, the broad terms of the borrowings, the maximum limit that government wants to borrow in that year, and timing of the borrowings. It clearly outlines government fundraising in public and private markets, requiring parliamentary approval before any decisions are executed.

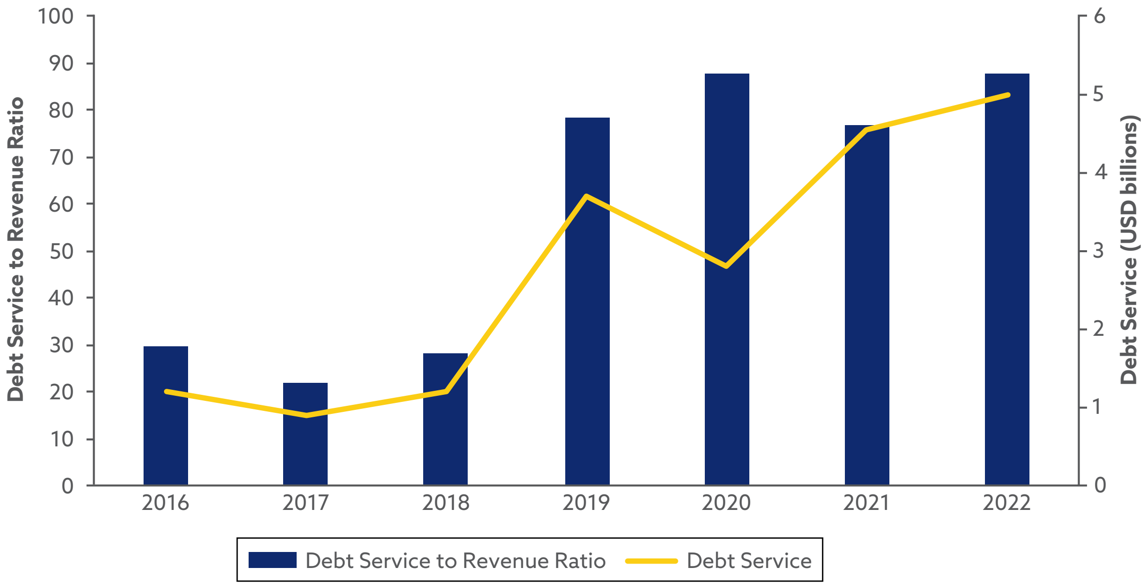
Government Debt

After the Heavily Indebted Poor Countries debt forgiveness in 2005, Zambia's debt dropped below USD2.7 billion (32.4% of GDP). Expansionary fiscal policies created significant financing gaps, however, often funded mostly by expensive commercial debt. By the end of 2020, Zambia's debt surged to more than 150% of GDP, while debt service was consuming 88% of government revenue (see **Exhibits 15 and 16**). These rising debt levels underscore serious financing risks, exacerbated by policy shortcomings that failed to address fiscal sustainability.

As a result of elevated debt service pressure, the government placed a moratorium on external commercial debt payments in October 2021, becoming the first sub-Saharan Africa sovereign defaulter. This situation is likely to have negative consequences, including a loss of credibility, contagion risk, and broader sovereign ramifications.

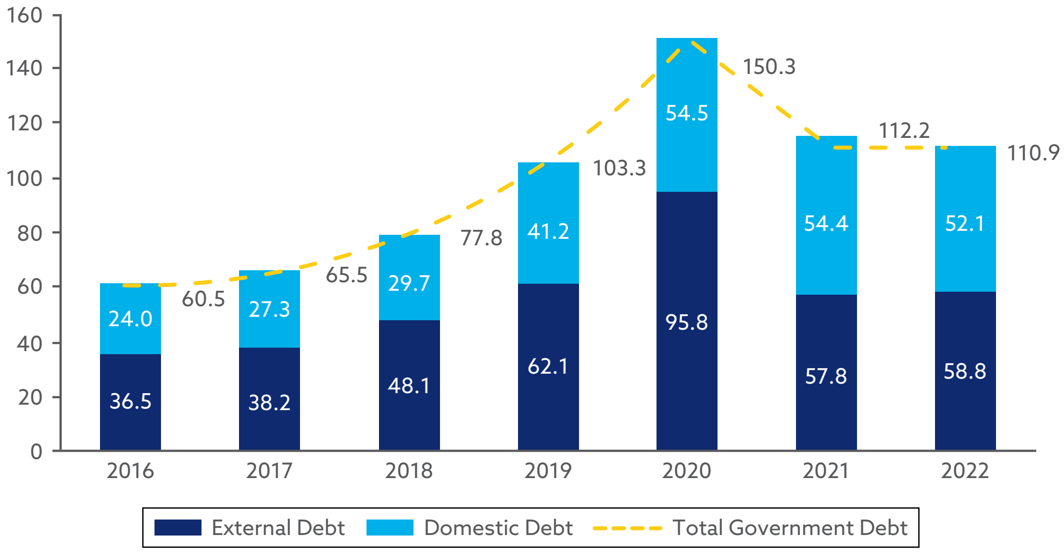
At the end of December 2022, Zambia's total public debt, including arrears, stood at USD30.68 billion (110.9% of GDP). External debt accounted for USD15.65 billion, while domestic debt reached USD15.03 billion (52.1% of GDP).

Exhibit 15. Debt Service as a Percentage of Revenue and Total Debt Service (USD billions)



Source: Author compilation using data from Ministry of Finance and National Planning, *Debt Sustainability Analysis Report July 2023* (2023), www.mofnp.gov.zm/?wpdmpro=debt-sustainability-analysis-dsa-report-july-2023.

Exhibit 16. Central Government Debt as a Percentage of GDP



Source: Author compilation using data from Ministry of Finance and National Planning. *Debt Sustainability Analysis Report July 2023*. 2023. https://www.mofnp.gov.zm/?wpdmpro=debt-sustainability-analysis-dsa-report-july-2023.

High levels of indebtedness and sovereign default in 2021 led the IMF and the World Bank to categorize Zambia's debt profile as unsustainable and in a state of debt distress. As a result of this classification and the associated risks, Zambia has found it increasingly difficult to tap into international capital markets. This withdrawal from the international financial scene has forced Zambia to rely increasingly on domestic markets for fundraising, which may limit its ability to meet significant funding needs and could exacerbate financial pressures in the economy.

Debt Terms

The Zambian government mostly borrowed on commercial terms, and hence, its debt is nonconcessional because interest significantly exceeds 3%. At the end of December 2022, Zambia's nonconcessional debt accounted for 63.6% of total debt, while the rest was concessional loans from the IMF, the World Bank, and AfDB and other multilateral debt. All domestic debt (comprising treasury bills, treasury notes, and bank loans) is nonconcessional. In fact, the recent debt rise was caused by domestic borrowing, with average yield rates in excess of 24%. As indicated earlier in the barrier matrix (Exhibit 2), high interest rates have been a major barrier for Zambia.

Maturity Profile

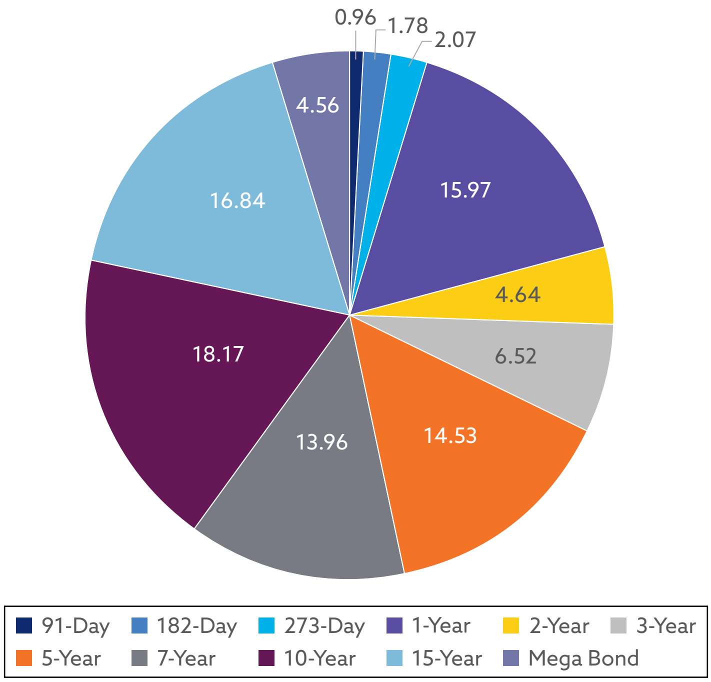
At the end of March 2023, considering the tenor at issuance, 76% of Zambia's debt had a long-term tenor, but much of it has become short term as it nears maturity. Specifically, 58.7% of the debt was due in less than one year, indicating upcoming pressure to repay nearly USD17.4 billion in the coming year (see **Exhibits 17 and 18**).

For domestic debt, maturity at original tenor indicates that Zambia's debt profile consists largely of long-term securities, such as treasury notes (with tenor at issue of two years or more), accounting for 72.2%, while short-term treasury notes accounted for 28.8% at the end of March 2023. In terms of instruments, the 10-year treasury note accounts for 18.2%; the 15-year note, 16.8%; the 5-year bond, 14.5%; 7-year notes, 14.0%; and the 1-year treasury bill, 16.0% (see Exhibit 17).

Interest Rate Type

A significant portion of Zambia's public debt consists of fixed interest rate loans. As of March 2023, government debt with fixed interest rates made up 78.7%, while variable interest debt constituted 21.3%. In the domestic debt category, most debt consisted of fixed-rate tradable instruments, such as treasury notes or bills, with only a small portion being commercial bank loans with variable interest rates. Notably, the weighted average yield rate for domestic tradable debt was 13.4% for treasury bills and 24.2% for treasury bonds, indicating high financing costs. In terms of external debt, 63.75% was fixed-rate debt and

Exhibit 17. Domestic Maturity Profile of Debt at Issuance



Sources: Compiled by author using Ministry of Finance and National Planning data.

Exhibit 18. Actual Debt Maturity Profile, Q1 2022–Q1 2023

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Gross Central Government Debt (USD billions)	29.49	30.13	31.93	30.68	29.58
By Maturity and Type of Debt Instrument (USD billions)					
Short-term by original maturity (less than 1 year)	6.74	6.73	7.46	6.77	7.11
Long-term by original maturity	22.19	22.83	23.91	23.32	21.88
Due within one year	1.98	1.33	1.33	10.78	10.25
Due in more than one year	20.21	21.5	22.58	12.54	11.64
% of Debt Due in One Year and More Than One Year					
Due within one year	29.6	26.7	27.5	57.2	58.7
Due in more than one year	70.4	73.3	72.5	42.8	41.3

Sources: Compiled by author using Ministry of Finance and National Planning data.

Exhibit 19. Government External Debt by Interest Rate Type

	Q1 2022 (USD bn)	Q2 2022 (USD bn)	Q3 2022 (USD bn)	Q4 2022 (USD bn)	Q1 2023 (USD bn)	Percentage of Total Outstanding Debt
Variable rates	4.59	4.57	4.64	5.06	5.11	36.25
Basis adjustment	0.00	0.00	0.00	0.40	0.44	3.09
LIBOR 6-month plus margin	4.00	4.00	4.08	4.09	4.10	29.08
LIBOR 3-month plus margin	0.44	0.44	0.44	0.44	0.44	3.14
EURIBOR	0.14	0.13	0.12	0.13	0.13	0.93
Fixed rates	8.63	8.68	8.73	8.90	8.99	63.75
0%–0.75%	2.09	2.03	2.11	2.17	2.18	15.49
0.76%–2.49%	2.90	3.03	2.97	3.05	3.11	22.04
2.5%–4.99%	0.55	0.52	0.56	0.59	0.61	4.31
5%–9.99%	3.09	3.09	3.09	3.09	3.09	21.92
10%+	0.00	0.00	0.00	0.00	0.00	0.00

Source: Ministry of Finance and National Planning.

36.25% had variable interest rates, as shown in **Exhibit 19**. This high prevalence of fixed interest rate loans in Zambia's debt mix minimizes the impact of interest rate fluctuations on the country's debt servicing capacity.

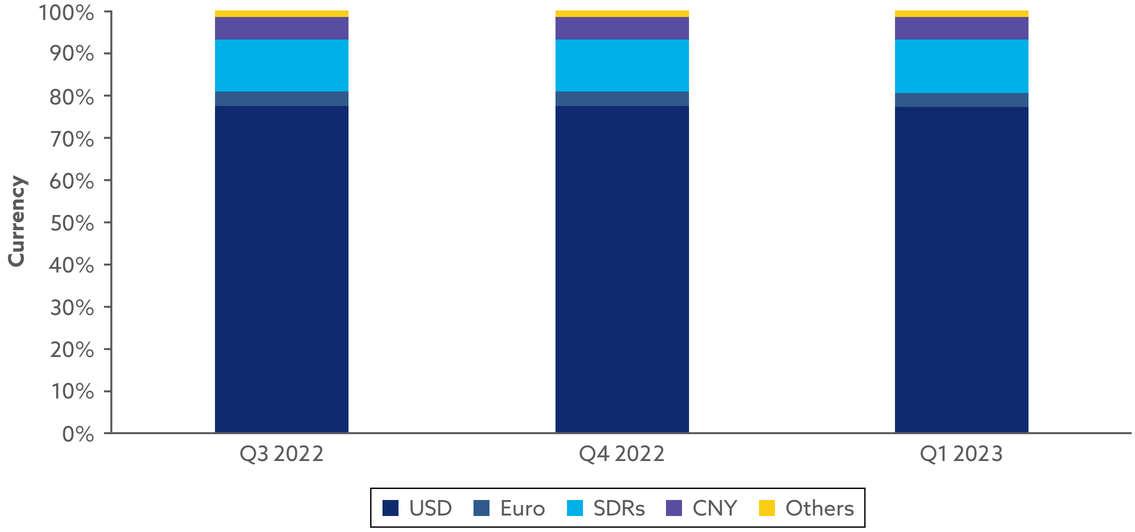
Currency Composition

At the end of March 2023, 53% of public debt was denominated in foreign currency. Of the external debt, 77.2% was denominated in US dollars, followed by special drawing rights (SDRs; 12.6%), Chinese yuan (5.3%), and euros (3.5%; see **Exhibit 20**). Significant exposure to the US dollar exposes the country's debt service capacity to dollar fluctuations.

Corporate Debt

It is difficult to estimate the amount of private corporate debt in Zambia. Data from the Bank of Zambia show that at the end of September 2023, domestic commercial bank credit to the private sector stood at USD4.1 billion (13.74% of GDP). At the same time, private sector debt owed to external lenders amounted to USD3.3 billion (11% of GDP; see **Exhibit 21**).

Exhibit 20. Currency Composition of Zambia's External Debt



Source: Ministry of Finance and National Planning.

Challenges of Fundraising in the Debt Market

Fundraising in the debt market comes with challenges. First, heightened sovereign credit risk following the country's October 2020 default has made fundraising difficult for both the government and private institutions. Other factors include a lack of liquidity in the secondary market for both

Exhibit 21. Trends in Commercial Bank Credit and External Debt

	2019		2020		2021		2022		As at End-Sep. 2023	
	USD bn	% of GDP	USD bn	% of GDP	USD bn	% of GDP	USD bn	% of GDP	USD bn	% of GDP
Private domestic credit	4.03	17.30	3.31	17.09	3.08	14.56	4.28	14.34	4.10	13.74
Loans and advances to government	0.02	0.08	0.34	1.74	0.86	4.05	0.44	1.48	0.21	0.72
Total commercial loans and advances	4.05	17.39	3.65	18.83	3.94	18.61	4.72	15.82	4.32	14.46
GDP	23.27		19.38		21.16		29.85		29.87	
Domestic commercial bank credit	4.03	17.30	3.31	17.09	3.08	14.56	4.28	14.34	4.10	13.74
External private debt		12.50		12.30		8.90		10.00		11.00

Source: Bank of Zambia.

corporate and government-issued debt; discouraging broader participation; a limited range of debt instrument issued by tenor, with the longest being a 15-year tenor, as well as an absence of inflation-protected notes; and a low per capita income level (USD1,400 as of 2022), which limits savings and, consequently, the government's fundraising capacity. Corporate borrowers also face a significant challenge associated with the crowding-out effect of public sector borrowing on the domestic market, which has, in turn, elevated the cost of debt.

4. Raising Funds in the Private Markets

Zambia's private capital market exhibited limited activity between 2012 and 2022, recording a total of only 50 deals. This figure underscores the nascent stage of private market development within the country. It's important to acknowledge that data on Zambia's private capital market are limited and challenging to verify. Consequently, insights provided in this chapter rely on surveys by the Zambia National Advisory Board for Impact Investment (NABII). According to NABII's 2022 impact investing report, an estimated 124 impact deals worth USD508 million closed between 2015 and 2021 (NABII 2022). According to the CMMP (Ministry of Finance and National Planning 2023), 35 private equity/venture deals valued at USD350 million closed between 2016 and 2021. Furthermore, NABII (2022) reveals that private capital primarily targeted the agriculture, energy, financial services, environment, tourism, health, and education sectors over the years.

Over time, Zambia's private capital market has evolved. It now features a diverse investor mix that includes private equity funds, venture capital funds, development finance institutions, pension funds, and high-net-worth individuals. Many of these investors originate from outside Zambia, with limited participation from local investors, especially pension funds. Challenges affecting the private capital market include limited options for exiting investments, low involvement by pension funds and local investors, high regulatory costs associated with fundraising, and a lack of financial literacy among investors—all of which hinder the development of collective investment schemes.

Investment Activity

Southern Africa ranks as Africa's second-largest recipient of private capital investments, behind West Africa. AVCA (2023) data reveal that between 2012 and 2022, Southern Africa attracted a total of 687 private capital investment deals, amounting to USD9.01 billion. After South Africa, Zambia emerged as the second-largest recipient, with 50 deals, followed by Mauritius, with 34 deals.

Detailed and granular data on Zambia's private capital market are limited, relying on aggregated information from NABII. According to NABII (2022), between 2015 and 2021, there were 124 deals completed, totalling USD580 million, with an average deal size of USD5 million. Much of these investments were directed towards renewable energy, agriculture, and financial services.

NABII (2022) also highlights that most private market investors have a long-term investment horizon, with more than 84% willing to commit capital for more than five years. Although the proportion of investors willing to invest beyond three years decreased between 2021 and 2022, more than 50% remained open to investments exceeding five years. This long-term commitment makes private capital a favourable source for startups and early-stage firms in need of lasting financial support.

Survey results further indicate that private investors predominantly target growth firms (44%), followed by startups (23%), early-stage ventures (20%), and mature firms (15%). This suggests a preference for less risky investments (mature/growth), although the 23% interest in startups demonstrates investors' willingness to undertake more risk.

Investment Exits

From 2012 through 2022, the Southern Africa subregion witnessed the highest number of investor exits on the continent, totalling 187 exits. These exits were prevalent in such sectors as industrials (38), consumer discretionary (29), materials (26), and financials (24). The most common exit method during this period was trade sales, followed by financial buyers, management buyouts (MBOs), IPOs, and capital markets.

In the case of Zambia, NABII (2022) revealed that 38% of private capital investors had successfully exited their portfolios, while the remaining 62% were either still involved in their current investments or in the process of exiting. The primary exit route for Zambian private investors was through strategic M&As, accounting for 43% of exits. Other methods included payouts by investee companies or MBOs (29%), asset sales (14%), and alternative means (14%). Notably, the report mentioned that IPOs were not a preferred exit method because of cost considerations.

Main Investment Forms and Strategies

Key players in Zambia's private capital market include private equity funds, development finance institutions (DFIs), fund managers, and high-net-worth individuals (HNWIs) or family offices. NABII (2022) indicates that private equity funds and DFIs represent 29% and 17% of the private market, respectively, with HNWIs/family offices and collective investment schemes making up the rest. Notably, 33% of investors source their funds from Europe, 29% from other African regions, 13% from North America, and 25% from Zambia. This suggests a significant reliance on foreign markets, possibly because of limited pension fund involvement. The report highlights that the most common strategy is private equity, accounting for 48% in 2021, followed by private debt (23%). In 2022, however, allocations to equity investments decreased to 29%, mainly because of difficulties associated with exiting such investments, as well as challenges with fundraising experienced globally.

Although investors prefer mature firms, they have a long-term investment horizon. In 2022, 84% of private capital investors aimed for a five-year investment horizon, making them attractive for early-stage and startup firms that have a longer maturity period. The survey also revealed that the average deal size was relatively small, with 43% of investors allocating USD1 million or less, 35% allocating between USD1 million and USD5 million, and the remainder allocating ticket sizes of USD5 million and above.

The Impact of COVID-19 on the Capital Markets

The global COVID-19 pandemic initially caused significant uncertainties across major asset classes on major exchanges, leading to asset devaluations. For instance, in early February 2020, as the pandemic unfolded, both the Dow Jones Industrial Average and the S&P 500 Index lost 4.4%. Global debt markets also faced uncertainty, resulting in higher yields and capital losses because of reduced investor demand.

Although Zambia's integration into global financial markets is limited, its financial markets were not immune to the pandemic's effects. In 2020, the LuSE All Share Index lost 8.2% of its value, while the weighted average yield rate surged by 280 bps to reach 34.3%. In the private capital markets, the pandemic impacted firms' fundraising ability because of investor pessimism about asset valuations. For Africa as a whole, the value of private capital deals dropped by 17.1%, and Zambia saw a 63.7% decline in foreign equity inflows in 2020. Prior to the pandemic, Zambia had experienced a rising trend in foreign direct investment flows, which has disappeared in the post-COVID-19 era.

Lockdowns to curb COVID-19 led to a global economic recession caused by supply chain disruptions and reduced demand. These factors caused the price of copper, Zambia's major export, to plummet, thereby impacting earnings. Investor pessimism led to capital flight from emerging economies, totalling USD59 billion in February and March 2020, which surpassed the level experienced during the 2007–09 financial crisis. Consequently, the Zambian kwacha depreciated by 50.6% in 2020. Exchange rate volatility may have also hindered private equity fund fundraising.

5. The Challenges to Capital Market Formation

Unclear Regulatory and Policy Regime

The regulatory environment has been repeatedly cited in various investor surveys as a significant obstacle to capital formation. Key challenges include poor coordination among regulators (Securities and Exchange Commission, Pensions and Insurance Authority, and Bank of Zambia) in the financial services industry, leading to increased fundraising costs. Additionally, such issues as policy harmonisation gaps across sectors, pricing inconsistencies in vital areas such as agriculture and energy, unfavourable labour laws, export policy disparities for certain products, and protracted approval processes have been identified (NABII 2022). These challenges collectively impact asset valuation and the overall attractiveness of investment opportunities in Zambia. Moreover, existing legislation does not provide for the creation of limited partnerships, which would support capital formation.

Stringent regulatory asset allocation rules have limited pension funds' capacity to invest in higher-risk assets, such as private equity, particularly in early-stage companies. Instead, the pension funds tend to favour public debt, equities, and large infrastructure projects.

Illiquidity of Investments

Zambia's securities market is relatively illiquid compared with its peers in Africa. For instance, in October 2022, the market turnover ratio on the Lusaka Stock Exchange for equities stood at 3.3%, while the Nairobi Stock Exchange and the Mauritius Stock Exchange each had a 6% ratio and the Namibian Stock Exchange boasted a 35% ratio. This illiquidity extends to private capital markets. High illiquidity not only increases the cost of capital because of greater liquidity premiums but also deters international investment firms from allocating capital to Zambian investments.

Limited Exit Routes for Private Investors

NABII surveys have consistently shown that there has never been an investor exiting through an IPO in Zambia. Exits mainly involve strategic sales and management buyouts, potentially limiting investor returns and deterring investor interest. The high cost and stringent listing rules associated with IPOs may explain this trend, given that meeting these requirements can take years. Difficulty in exiting private equity investments has led many investors to avoid equity capital investments (NABII 2022).

Limited Investment Products for Retail Investors

Compared with its counterparts, the Zambian market lacks accessible investment products for retail investors. Notably, the LuSE has no exchange-traded funds (ETFs) or real estate investment trusts (REITs). The CMMP aims to introduce an ETF market by 2027, initially with USD50 million in assets under management. The absence of diverse investment options hinders the aggregation of savings for investment in various businesses.

Skills Gap

Zambia has a serious skills gap in the market. This gap could explain the limited range of investment products available, especially those accessible to retail investors.

Limited Participation of Retail Investors

Compared with its peers in Africa, Zambia has a smaller retail investor participation in the capital markets. At the end of December 2022, mutual fund assets under management stood at USD68 million, compared with Kenya's USD1.31 billion. This disparity could be attributed to a number of factors, including lack of financial literacy among investors and limited financial products targeted for the retail investor market.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

The Securities and Exchange Commission, alongside the Bank of Zambia and the Pensions and Insurance Authority, has collaborated to develop the Capital Markets Master Plan, aimed at addressing challenges impeding the growth of Zambia's capital markets. The CMMP highlights key policy issues, including regulatory harmonisation challenges leading to increased service costs for market access. To foster sector growth, the role played by CMMP policy interventions will be critical, rectifying legal and regulatory challenges that hinder capital market progress in Zambia. Accelerating the legislation that creates a framework for limited partnerships as investment vehicles would be especially beneficial.

Reforming rules and regulations governing asset allocations for pension funds is necessary to expand their investment exposure to private equity, particularly in startups and early-stage ventures. Presently, such entities as the National Pension Scheme Authority and other pension funds concentrate on major infrastructure projects or investments in established companies, complying with stringent asset allocation rules that restrict capital allocation to startups and early-stage businesses that need affordable long-term financing. To address this limitation, minimum private equity exposure requirements should be mandated, with specific allocations specified for startups and early-stage enterprises.

Enhance the Liquidity of Capital Markets

A significant investor concern is the lack of market liquidity, hindering easy position exits. We believe the policy interventions of the CMMP will help boost liquidity. Additionally, we propose introducing a legal mandate for state-owned holding firms (such as Industrial Development Corporation and ZCCM Investments Holdings) to set exit time frames for investee companies through IPOs or alternative methods.

Closing the Skills Gap

The skills gap is among the challenges that the CMMP and earlier surveys identified as impeding Zambia's capital market growth. To close this gap, a need exists for partnerships between providers of professional investment programs, such as CFA Institute; the CAIA Association; and GARP, which awards the Financial Risk Manager Certification, to create a long-term pipeline of future investment professionals. Further, a fund manager incubator program needs to be created to connect junior investment professionals with more senior investment professionals.

Provide Tax Incentives for Personal Retirement Accounts

The Zambian government offers tax incentives for employer-managed pension schemes, exempting contributions from taxes, but no such incentives are provided for personal retirement accounts. We believe extending these incentives to personal accounts would promote private savings, foster retail market growth, and enhance securities market liquidity by attracting more investors. Additionally, we need to reform the pension laws to make a provision for personal retirement savings.

Accelerate the Introduction of REITs and ETFs on the LuSE

The Zambian retail market offers limited investment options, mainly consisting of mutual funds. Although mutual funds provide access to the securities market for small investors, they may not attract risk-averse investors because of liquidity constraints. Accelerating the introduction of tradable retail products, such as REITs and ETFs, would broaden investment choices, attract more retail investors, and encourage savings. The CMMP calls for their introduction by 2027; however, prioritising a more expedited implementation timeline would be advantageous.[27]

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[27]For more information on the topics discussed in this chapter, we refer readers to the annual reports of Financial Sector Deepening Zambia (www.fsdzambia.org/), the Ministry of Finance and National Planning's debt summary reports (www.mofnp.gov.zm/?page_id=3475), and the Ministry of Finance and National Planning's quarterly economic review reports for 2017–2022 (www.mofnp.gov.zm/?page_id=3308).

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NIGERIA

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Key Data Points (as at end-December 2023, unless otherwise stated)	
Total population	223,804,632
National currency and exchange rate	Naira, NGN881.53/USD1
GDP and growth rate	NGN234.42 trillion, 3.46%
SME proportion of GDP	48%
Annual average inflation	28.92%
Unemployment rate	5%
Total government debt outstanding	NGN97.34 trillion
Public debt to GDP ratio	29.7%
Primary stock exchange	Nigerian Exchange
Number of publicly listed companies	173
Equity market capitalisation (% of GDP)	22.9%
Mutual fund assets under management	NGN2.3 trillion
Estimated debt market, including bank loans	NGN34.28 trillion
Number of marketable corporate debt issuers	25
Examples of domestic private market investment firms	The Abraaj Group, Verod Capital Management, Synergy Capital Managers, Sahel Capital, Africa Capital Alliance

Sources: National Bureau of Statistics – Nigeria; Central Bank of Nigeria; Debt Management Office – Nigeria; Nigerian Exchange Limited; Securities and Exchange Commission – Nigeria.

1. Introduction and Context

Nigeria's economy, valued at USD265 billion, was until recently the largest in Africa, with a GDP of more than USD400 billion. Its GDP growth rate was 3.1% in 2022 and 2.31% in Q1 2023. One of the world's largest exporters of crude oil, Nigeria depends on the commodity for most of its foreign exchange earnings. With a population of more than 200 million, the country has the largest market in Africa. Its capital market, however, is small relative to the size of the economy.

The Nigerian capital market had a market capitalisation of about USD100 billion in September 2023 and contributes to the country's economy by providing a platform for financing government and corporates. Financial instruments, such as equities, bonds, ETFs, commodities, and derivatives, are traded on the Nigerian capital market, and the market competes with the banking industry to provide financing to entities in need of such financing.

2. Raising Funds in the Public Markets

Overview

Nigeria has a vibrant, well-regulated capital market that over time has played an important role in financing business expansion, financing government deficits, and supporting infrastructural development (Uwaleke 2022). Governments and companies have frequently turned to the Nigerian capital market to raise funds by offering long-term securities in the form of shares and bonds. Foreign issuers can also issue securities (i.e., sell them, as well as offer them for sale or subscription) to the public through the Nigerian capital market.

In 2022, a combined value of NGN777.28 billion was raised through a total of 27 new issuances. These included five equity issuances valued at NGN26.20 billion and 22 bonds valued at NGN751.08 billion. The equity issuances consisted of one IPO, one private placement, and three rights issues. Additionally, there were 30 allotments totalling NGN898.17 billion, which included six equity issuances valued at NGN104.70 billion and 24 bond issuances valued at NGN793.47 billion (Securities and Exchange Commission 2022a). Furthermore, the Nigerian Securities and Exchange Commission (SEC) registered 11 shelf programmes worth NGN1.43 trillion, which included 10 debt issuance programmes valued at NGN1.13 trillion and 1 sukuk programme valued at NGN300.00 billion.

Exhibit 22 shows the growth rate of gross fixed capital formation (GFCF), GDP, total savings, total pension savings, foreign direct investment as a percentage of GDP (FDI % of GDP), and personal remittances over time. The average GFCF growth rate dropped from 27.8% in 1990–1994 to 8.0% in 2010–2014 and rose significantly to 22.8% and 28% in 2015–2019 and 2020–2021, respectively. Throughout the same period, GDP grew at a declining rate, driven by several factors, including higher bases of growth complications, recessions, and the COVID-19 pandemic.

Exhibit 22. Five-Year Average Growth Rate of GFCF and Associated Variables, 1990–2021

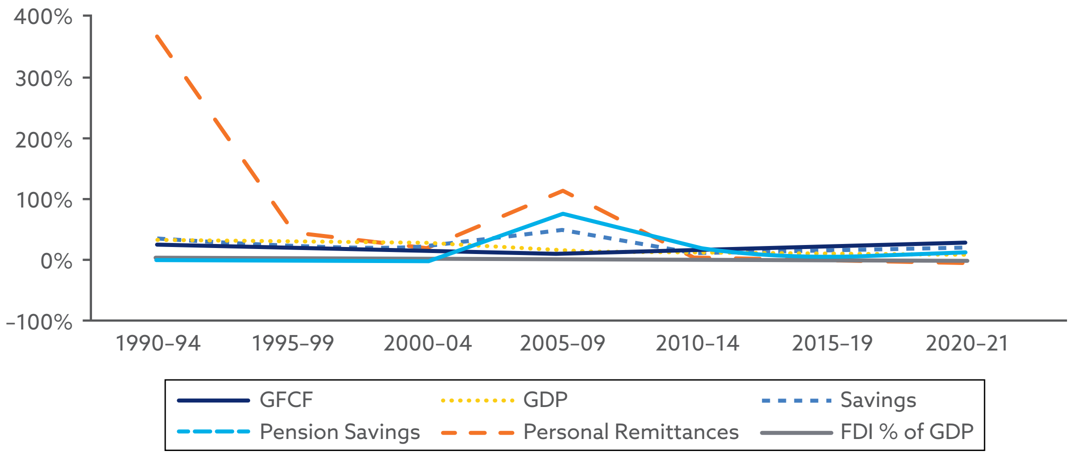
Years	1990-1994	1995-1999	2000-2004	2005-2009	2010-2014	2015-2019	2020-2021
GFCF (%)	27.8	23.80	17.60	15.20	8.0	22.8	28.00
GDP (%)	34.08	27.40	26.80	17.60	11.40	9.8	9.5
Savings (%)	36.54	21.05	23.82	48.83	15.16	9.9	18.6
Pension savings (%)	1.89	−0.69	0.00	76.53	20.91	4.68	13.30
Personal remittances (%)	362.7	45.64	19.23	113.7	2.75	2.77	−2.24
FDI % of GDP (%)	3.10	0.96	1.70	2.47	1.43	0.56	0.42

Sources: Computed by the authors from the Central Bank of Nigeria's Statistical Bulletin for 2021 (https://www.cbn.gov.ng/documents/Statbulletin.html). Total savings, pension savings (total pension contributions), personal remittances, and FDI % to GDP were computed from the World Development Indicators (WDI), https://data.worldbank.org, from 30 August 2023.

Total savings and pension savings share similar growth trends (see **Exhibit 23**). Total savings and pension savings were highest between 2005 and 2009 (48.83% and 76.53%, respectively); declined during the 2015–2019 period (9.9% and 4.86%, respectively); and then increased to 18.6% and 13.3%, respectively. The decline in performance between 2015 and 2019 may be a consequence of the recession during the period.

Personal remittances as a source of capital formation were highest between 1990 and 1994, at 362.7%; declined to 19.23% between 2000 and 2004; rose to 113.7% between 2005 and 2009; and declined thereafter to 2.75% (2010–2014), 2.77% (2015–2019), and –2.24% (2020–2021; see Exhibit 23).

Exhibit 23. Gross Fixed Capital Formation Variables



Source: Compiled by author Patrick Eke, based on data from the Central Bank of Nigeria's Annual Statistical Bulletins (https://www.cbn.gov.ng/documents/Statbulletin.html).

Foreign direct investment inflow has been unstable. Its ratio to GDP was highest between 1990 and 2004, at 3.10%, and between 2005 and 2009, at 2.47%. Subsequently, it declined consistently, down to 0.42% between 2020 and 2021.

Overall, the years between 1990 and 1994 and between 2005 and 2009 seemed to witness the strongest capital formation, judging by total savings, pension contributions, remittances, and FDI.

Accessing the capital market is essential for entities seeking to raise funds for their growth and financial needs. Common methods of accessing the capital market include offers for subscription, offers for sale by tender, private placements, listing by introduction, and rights issues (See **Exhibit 24**). Each method offers unique advantages and caters to specific circumstances (Ujunwa 2020; Uwaleke 2022).

Despite the potential advantages and opportunities provided by the capital market, a sizable percentage of companies have not properly used it to raise the money required to support their expansion ambitions. These companies have been missing out on a chance to realize their potential and unlock growth (Onuba 2019).

Lack of knowledge or comprehension among firms about the numerous fundraising options is one of the key causes of this capital market underutilisation.

Exhibit 24. Methods of Raising Funds from Capital Markets in Nigeria

Source: Patil (2013).

Many organisations may not fully understand the wide range of alternatives provided by the capital market, including IPOs, rights issues, private placements, and even listing by introduction.

To address these challenges and promote a more robust fundraising environment, stakeholders in the Nigerian capital market—including regulatory bodies and market operators—have been collaborating through a Capital Market Committee (CMC) to implement certain strategies. Several initiatives have been executed to enhance market liquidity, improve investor confidence, streamline regulatory processes, and reduce the cost of capital raising towards fostering a more conducive fundraising landscape (Securities and Exchange Commission 2022b; Uwaleke 2022).

Funding for Infrastructure and SMEs

Funding infrastructure projects and promoting the development of SMEs can be achieved through various channels, including sovereign funding, public financing, and private sector participation. Each channel has its own characteristics and benefits, and a combination of these approaches can be effective in supporting infrastructure development and SME growth.

Traditionally, capital markets have served as a bridge between savers and those in need of capital, thus supporting economic growth. To address the financing challenges faced by SMEs, these businesses are increasingly embracing capital market solutions, which offer alternatives to bank lending and enable SMEs to raise funds from the capital markets (Peterhoff, Romeo, and Calvey 2014).

The SME sector can benefit from the opportunities presented by the capital market for financing. Accessing capital through the issuance of equity or debt securities, however, entails significant transaction costs, demanding listing requirements, and navigating complex legal and regulatory frameworks. As a result, it has predominantly been large firms that have accessed the capital market in the past (Peterhoff, Romeo, and Calvey 2014). SME equity platforms offer an alternative to the main listing boards on national stock exchanges and cater to well-established SMEs. They serve as a second-tier listing option, featuring less strict listing requirements and lower costs compared with the main board. SME equity platforms are most suitable for larger SMEs—those in the medium-sized segment—because of the initial costs and ongoing listing requirements associated with most platforms.

An example of such a platform board within the Nigerian Stock Exchange (NGX) is the Alternative Securities Market (ASeM), which is specifically designed for emerging enterprises with high growth potential. ASeM provides small companies with an avenue to access the capital market and raise long-term financing. It offers less stringent listing rules and requirements, in line with regulatory requirements of the Corporate Affairs Commission and the Nigerian SEC.

Other financing mechanisms that support infrastructure projects and SME development include venture capital, angel investment, crowdfunding, and development finance institutions. Venture capital and angel investment provide equity financing to SMEs, enabling them to grow and expand. Crowdfunding platforms allow individuals to contribute small amounts of capital to specific projects or businesses. The SEC regulates the crowdfunding space in Nigeria and registers crowdfunding platforms. DFIs, such as the World Bank or regional development banks, provide long-term financing and technical assistance to support infrastructure projects and SMEs in developing countries.

It is important to note that a combination of these funding channels is often necessary to address the diverse needs of infrastructure projects and SMEs. Governments play a crucial role in creating an enabling environment, establishing regulatory frameworks, and providing support for private sector involvement. Collaboration between the public and private sectors, as well as effective risk allocation and project structuring, are key to attracting investments and ensuring the successful implementation of infrastructure projects as well as the growth of SMEs.

The Impact of COVID-19 on Fundraising

The COVID-19 pandemic had extensive consequences for the global economy. It resulted in the second-largest recession in history, as businesses worldwide experienced significant closures and reduced productivity because of lost work hours (Ibn-Mohammed et al. 2021). The pandemic triggered widespread economic uncertainty, leading to market volatility and a decrease in investor confidence. This uncertainty made it challenging for businesses and organisations to raise funds as investors became cautious and risk averse.

The COVID-19 pandemic also had a profound impact on the fundraising process in various sectors and markets, introducing a range of challenges and disruptions. Some IPO markets were significantly affected by the negative consequences of the COVID-19 pandemic (Baig and Chen 2022). Nigeria was one such market that saw a dip in issuances. **Exhibits 25 and 26** show issuances during the period 2018–2022 by value and number of issues, respectively.

Globally, however, according to EY (2021), in Q4 2020, a total of 490 initial public offerings raised a combined USD101.4 billion in funds. This total represented a 30% increase in the number of deals compared with Q4 2019 and a 9% rise in total proceeds. Notably, Q4 2020 marked the highest level of proceeds raised since Q4 2010, when 480 IPOs generated USD130.3 billion (EY 2021).

The Role of Foreign Direct Investment in Fundraising

Foreign investments play a crucial role in the fundraising process, providing significant capital inflows and other benefits to the host country. Foreign investments may be direct (foreign direct investment, or FDI) or portfolio (foreign portfolio investment, or FPI), and they bring in substantial financial resources from foreign investors, contributing to the fundraising efforts of businesses and projects. These investments can take the form of primary and

Exhibit 25. Value of New Issues by Offer Type

Type	Value of Issues (NGN millions)				
	2022	2021	2020	2019	2018
IPO	10,000.00	0	0	245,535.72	1,888.24
Private placement	11,283.96	12,986.88	0	—	12.50
Public offer/offer for sale	0	98,245.01	3,010.80	1,302.45	—
Rights	4,924.14	7,573.33	31,388.71	27,654.62	68,224.50
Total equity issues	26,208.10	118,805.22	34,399.51	198,642.66	140,963.87
Corporate bond	751,080.22	338,785.00	362,590.00	473,135.45	211,089.11
FGN bond	2,475,000.00	2,316,010.00	0	168,721.25	323,593.61
Subnational bond	0	137,328.00	1,879,400.00	114,800.00	—
Total debt issues	3,226,080.22	2,792,123.00	2,241,990.00	1,742,462.46	918,940.00
Grand total	3,252,288.32	2,910,928.22	2,276,389.51	2,025,983.71	1,242,533.61

Note: FGN stands for Federal Government of Nigeria.

Sources: SEC; Debt Management Office (DMO).

Exhibit 26. Number of New Issues by Offer Type

Type	Number of Issues				
	2022	2021	2020	2019	2018
IPO	1	0	0	1	1
Private placement	1	3	0	—	1
Public offer/offer for sale	0	2	1	1	—
Rights	3	2	6	3	5
Total equity issues	5	7	7	8	5
Corporate bond	22	19	21	13	12
FGN bond	33	35	0	12	23
Subnational bond	0	1	36	2	—
Total debt issues	55	55	57	36	34
Grand total	60	62	64	50	57

Sources: SEC; DMO.

secondary market securities transactions, equity, mergers and acquisitions, or greenfield investments.

Foreign capital infusion helps bridge financing gaps and supports the development of key sectors in the host country. The capital markets play a critical role in attracting foreign investments by providing investment opportunities through IPOs and private placements.

Foreign capital has played a crucial role in fundraising in Nigeria. **Exhibit 27** shows foreign investment into Nigeria over the 10-year period from 2013 through 2022.

As shown in **Exhibit 28**, foreign investments into Nigeria have been somewhat volatile. According to the World Bank, net inflows decreased from USD5.56 billion in 2013 to USD0.78 billion in 2018, then rose to USD3.31 billion in 2021, and fell again to –USD1.87 billion in 2022. The movements reflect the state of the Nigerian economy at these times as foreign investors, especially portfolio investors, tended to come and go according to economic changes.

3. Debt

Public debt figures and information are obtained from the Debt Management Office (DMO) of Nigeria and the Securities and Exchange Commission of Nigeria. Total public debt in Nigeria as of December 2022 was NGN46.2 trillion. Of that amount, 59.56% was domestic and 40.44% was external debt.

Nigeria's domestic debt is segmented into federal government debt and state and Federal Capital Territory (FCT) debt. As of December 2022, the federal government had NGN22.2 trillion outstanding (80.62% of domestic debt), while state and the FCT debt accounted for NGN5.34 trillion (the remaining 19.38%).

In terms of external debt at that time, the federal government accounted for NGN16.70 trillion, or 89.31% of all external debt. State governments had NGN1.998 trillion, or 10.68% of external debt.

Further investigation into the domestic debt stock shows that as of December 2022, 73.94% was held in FGN (Federal Government of Nigeria) bonds, valued at NGN16.42 trillion. The second major category of domestic debt was Nigerian treasury bills, valued at NGN4.42 trillion, representing 19.91% of domestic debt. FGN sukuk, promissory notes, Nigerian treasury bonds, FGN savings bonds, and green bonds totalled NGN747 billion (3.34%), NGN530 billion (2.39%), NGN50.98 billion (0.23%), NGN27.50 billion (0.12%), and NGN15 billion (0.07%), respectively.

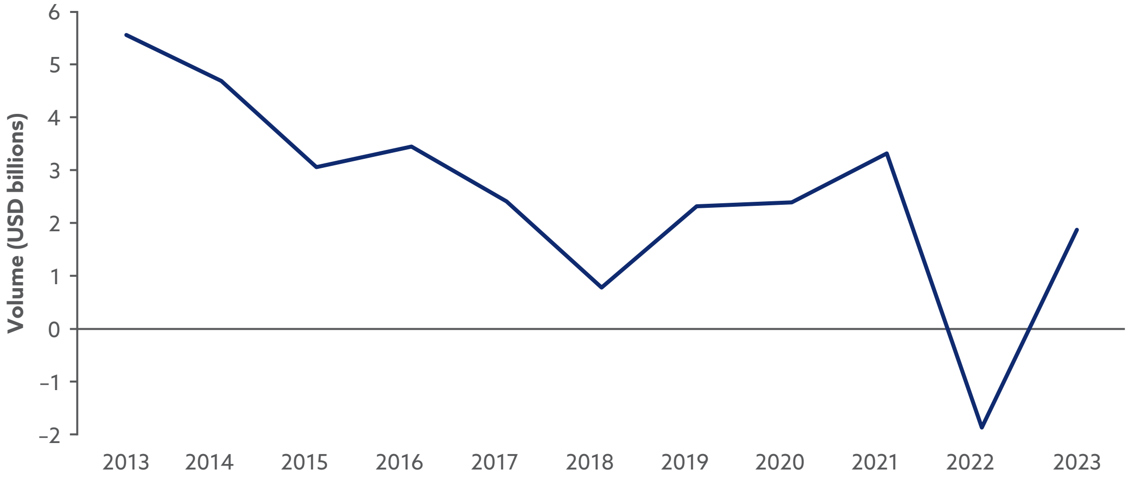
For the external positions, multilateral debt made up most of the debt, at 48.45%, which amounts to NGN20.20 trillion. Within this multilateral debt, the World Bank Group accounted for 68.97%, or USD13.93 billion. Other significant amounts are USD1.59 billion debt for the African Development Bank Group and USD955 million for the African Development Fund.

Exhibit 27. Capital Importation by Type of Investment (USD millions), 2013–2022

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Foreign direct investment	2,277.04	1,446.62	1,044.02	981.75	1,194.67	934.34	1,027.68	698.78	468.08
Equity	2,264.01	1,442.41	1,043.15	979.44	1,189.03	922.24	1,024.73	692.58	462.91
Other capital	13.03	4.21	0.88	2.32	5.64	12.10	2.95	6.20	5.16
Portfolio investment	14,917.17	6,005.43	1,812.88	7,329.06	11,802.27	16,365.46	5,137.20	3,385.59	2,442.24
Equity	11,448.16	4,657.55	859.06	3,637.31	2,362.73	1,893.19	755.12	206.54	56.57
Bonds	2,443.99	776.28	395.90	482.84	966.82	1,022.39	231.22	564.11	980.34
Money market instruments	1,025.02	571.59	557.92	3,208.90	8,472.72	13,449.88	4,150.86	2,614.95	1,405.34
Other investment	3,556.54	2,190.97	2,267.24	3,917.75	3,815.53	6,690.25	3,491.25	2,616.14	2,418.56
Trade credits	22.03	—	0.16	10.00	6.92	0.11	0.05	2.05	3.01
Loans	1,414.33	1,655.28	2,240.11	3,164.63	3,522.83	5,078.78	2,555.77	2,378.51	2,311.23
Currency deposits	—	8.10	0.03	3.52	1.03	2.96	0.82	6.60	9.32
Other claims	2,120.18	527.59	26.93	739.60	284.75	1,608.40	934.62	228.99	95.00
Total	20,750.76	9,643.00	5,124.14	12,228.57	16,812.47	23,990.05	9,656.13	6,700.51	5,328.88

Source: National Bureau of Statistics.

Exhibit 28. Volume of Foreign Investment in Nigeria, Net Inflows, 2013–2023



Sources: Foreign direct investment, net inflows (Balance of Payments, current USD) chart from the World Bank Group. Datasets from International Monetary Fund, Balance of Payments database, supplemented by data from the United Nations Conference on Trade and Development and official national sources. Retrieved from https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2023&locations=NG&start=2013.

Bilateral debt of Nigeria accounted for 12.15%, or USD5 billion, with the bulk of that debt from the Export–Import Bank of China (84.73%) and the French Development Agency (10.57%). Commercial debt consisted of eurobonds issued with a value of USD15.62 million, accounting for 37.46% of external debt.

We also present the service of government debt based on domestic and external debt positions. For domestic debt service, the total amount in 2022 was NGN2.56 trillion, with NGN317 billion in principal payments and NGN2.24 trillion in interest payments.

For the external debt service, the total amount paid was NGN1.02 trillion. The largest components were NGN689.49 billion in deferred interest payments, NGN583.74 billion interest payments, and NGN383.24 billion in principal payments. Major payments made were interest payments to existing eurobonds and multilateral and bilateral payments. Furthermore, principal payments were mainly for a eurobond maturing in 2022 and other debt from the International Development Association and the Export–Import Bank of China (China Eximbank), among others. The debt servicing figures from the 2022 Nigerian federal budget indicated a debt servicing vote of NGN3.68 trillion, based on a budget of NGN18.14 trillion. This translates to more than 20% of the budget for 2022.

Corporate debt figures from the market were obtained from listed issues on both the NGX and the FMDQ Exchange. As of December 2022, listed corporate debt was valued at NGN1.058 trillion, which represents a significant increase of 47.36% from NGN718 billion in 2021. On the FMDQ Exchange, listed corporate bonds were valued at NGN1.037 trillion in 2022, representing a significant increase of 35% from NGN767 billion in 2021.

Some of the major issuers of corporate debt in Nigeria during 2022 include Dangote Industries Funding Plc, with about NGN300 billion in bonds issued; Dangote Cement Plc, with more than NGN111 billion issued; MTN Nigeria, with more than NGN104 billion; and Lagos Free Zone Company, at NGN25 billion. In summary, about NGN780 billion of corporate bonds were issued in 2022.

4. Raising Funds in the Private Markets

Private markets in Nigeria serve as platforms for raising capital outside traditional public markets. Companies seeking funding typically approach private investors, including angel investors, venture capital firms, private equity funds, and high-net-worth individuals. The process involves such steps as business evaluation, investor due diligence, negotiation and deal structuring, and investment and monitoring.

Although private markets offer capital-raising opportunities, they also present challenges. These challenges include a limited investor base compared with more-developed markets, complexities and compliance requirements within the regulatory framework, limited availability of information on private companies, challenges in exiting investments and realising returns because of a lack of developed secondary markets, and exposure to economic, political, and regulatory risks.

The key participants in these markets include angel investors, venture capital firms, private equity funds, high-net-worth individuals, development finance institutions, and institutional investors, such as pension funds and insurance companies. Various forms of private market investments are prevalent, such as equity investments, debt financing, venture capital and angel investments, private equity investments, infrastructure investments, and impact investments targeting social and environmental outcomes alongside financial returns.

Following the Nigerian SEC's approval of FMDQ OTC Plc. in 2017 to list private bonds on its platform, there has been an increase in both the growth and frequency of private bond issuances. The market has since developed in ways that promote a circumvention of the existing securities laws and raise concerns about the potential of this unregulated market to create a serious systemic risk if left unchecked.

For a private company/entity to be eligible to issue debt securities under the specified rules, certain conditions must be met. These include issuing the securities exclusively through private placement without constituting a public offer; limiting the types of debt instruments to plain vanilla bonds/debentures and others determined by the Commission; adhering to specific aggregate issuance amounts (not exceeding NGN5 billion for one-off offers or NGN10 billion for shelf programs lasting up to two years); ensuring that the securities are not listed or traded on any SEC-registered securities exchange or platform; and refraining from advertising or publishing the private placement in any print or electronic media.

An issuer that plans to offer debt securities to be listed on a private market platform must submit a filing to the Nigerian SEC through an approved securities exchange. This filing should consist of a notice of offer containing the necessary information and a completed SEC Form, to be submitted at least five working days before the offer opens. The notification should include such details as the amount being offered, minimum subscription requirements (if applicable), opening and closing dates of the offer, settlement dates, and other relevant information.

Despite a dearth of information from the private market segment of Nigeria's capital market, several issuers, including corporates and subnationals, have approached that market for funding, and estimates put the size at more than NGN3 trillion. The Nigerian SEC may soon bring the market into regulation.

5. The Challenges to Capital Market Formation

The capital market in Nigeria is well formed and continues to grow. The size of the market has consistently increased in terms of number of securities, types of securities, market capitalisation, and number of participants in the market. Given the size of Nigeria's economy, however, the market should be larger. The fact that it is not may be the result of several challenges, including poor investor awareness of opportunities that exist in the market, cultural factors, high unemployment in the country, government policies, and the general state of the Nigerian economy.

Across the country, there is not enough public awareness of the investment and wealth creation opportunities in the capital market. To address this issue, the capital market community in Nigeria organizes events in schools, in public places, and at organisations where they educate the public on the capital market. The CMC's Capital Market Literacy Committee, which spearheads this work, is presently attempting to include capital market studies in school curricula throughout Nigeria. This project is at an advanced stage.

Cultural factors keep many Nigerians from participating in the market. Certain cultures and religions do not support trade in equities, do not take on debt, and do not allow interest. These restrictions present a challenge to capital market growth. To address this issue, products are being developed that suit the specialised investment needs of such people. One example is the non-interest capital market, which has such products as sukuk that get around the question of interest in debt.

High unemployment and underemployment present another challenge for Nigeria's capital market. Most people invest disposable income, and those with little or no income may have nothing to invest. Improvements in employment would have a positive effect on the market.

Some government policies also pose challenges and deny the market opportunities for growth. One such policy is the consistent refusal of the government to sell national assets through the capital market. This was the case during the unbundling of the national electricity company and consequent sale of the resulting companies. The market is now trying to ensure that the sale of companies resulting from the unbundling of the national oil company takes place through the capital market.

Certain policies of government agencies also affect market growth. One instance is the Central Bank of Nigeria's ban on bank participation in margin lending. This ban has impeded efforts to increase liquidity in the market, a necessity for market growth. Limited depth and liquidity of the market are problems. The NGX has a smaller number of listed companies compared with other global exchanges, which restricts the pool of potential investors and constrains the availability of capital (Ujunwa 2020).

Crowding out of corporates from the debt market by government is another factor that poses a challenge. Corporates that should be issuing debt in the market are forced to resort to the banks for financing.

The general state of the economy is also a challenge. Presently, the economy is experiencing a phase of high inflation and scarcity of foreign exchange. High inflation has led to negative real returns, and scarcity of foreign exchange has discouraged foreign investment.

Market volatility and unpredictability also pose challenges for fundraising. Such factors as macroeconomic conditions, political instability, and regulatory changes can significantly impact investor sentiment and overall market performance. This volatility creates uncertainty for companies planning to raise funds because it may affect their ability to attract investors and meet their fundraising targets (Ujunwa 2020).

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

Capital market formation can be accelerated by following these recommendations:

- Simplifying procedures and reducing bureaucratic hurdles are essential for creating a more accessible capital market. Ensuring transparency and robust investor protection will build trust among potential investors. This can involve clear guidelines and efficient processes for capital raising, which would encourage more companies, especially SMEs, to participate in the market.
- Expand the range of financial instruments available in the capital market. This could include introducing new asset classes, such as derivatives or

ETFs, and promoting the issuance of corporate bonds or securitisation products. Diversification can attract a broader investor base with varying risk preferences.

- Regulators should prioritize reducing disclosure requirements that hold less significance for SMEs. This would enable relevant information about SMEs to be more easily accessible, empowering investors to make informed decisions.
- Additionally, certain requirements, such as minimum paid-up capital, years of operation, free float, revenue, market capitalisation, number of public shareholders, shareholders, equity, and profitability, should be scaled down to alleviate burdens on SMEs.
- To promote the affordability of capital, regulators must also consider reducing registration and listing fees for SMEs. By lowering these costs, SMEs can access the capital market more easily and at lower expense.
- Another critical aspect is enhancing financial literacy and public awareness regarding the importance of SME financing. Regulators and policymakers should organize promotional campaigns, public seminars, and conferences to educate the public about the benefits and necessity of SME financing.
- The central bank should support market liquidity by lifting the ban on banks participating in margin lending.
- The government should conduct its asset sales through the market and also consider the effects of its fundraising activities on corporates.
- Efforts at investor education and improving awareness of the market should continue. Such initiatives as including capital market studies in school curricula will ensure that more people consider the capital market as a viable option for wealth creation.

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ZIMBABWE

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Key Data Points (as at end-December 2023, unless otherwise stated)	
Total population	15.2 million
National currency and exchange rate	The Zimbabwean dollar and the US dollar are widely used and legally recognised (USD1 = ZWL610.4)
GDP and growth rate	5.3%[28] growth to ZWL133.7 trillion
SME proportion of GDP	48%[29]
Annual average inflation	26.5%
Unemployment rate	20.7%
Total government debt outstanding	ZWL129.3 trillion
Public debt to GDP ratio	96.7%
Primary stock exchange	ZSE
Number of publicly listed companies	59 for all 3 stock exchanges
Equity market capitalisation (% of GDP)	18%[30]
Estimated debt market, including bank loans (% of GDP)	8.4%[31]
Number of marketable corporate debt issuers	1

[28]See: www.afdb.org/en/countries/southern-africa/zimbabwe.

[29]USD8.6 billion divided by USD18.1 billion.

[30]ZWL24.2 trillion divided by ZWL133.7 trillion.

[31]Banking sector loans and advances were ZWL11.26 trillion for 2023 (per RBZ Banking Sector Report, 2023, https://www.rbz.co.zw/documents/bank_sup/BANKING_SECTOR_QUARTERLY_INDUSTRY_REPORT/2023/Banking_Sector_Industry_Report_-_31_December_2023.pdf).

Key Data Points (as at end-December 2023, unless otherwise stated)	
Examples of domestic private market investment firms	Takura Capital, Spear Capital, Sub-Sahara Capital, Nurture Invest, Mangwana Capital, Vakayi Capital, Lamcent Capital, Anotida Capital, DBF Capital

Sources: Zimbabwe National Statistics Agency (ZIMSTAT); Finscope (2022); Zimbabwe Public Debt Management Office (2023); World Data; Reserve Bank of Zimbabwe (RBZ).

1. Introduction and Context

The Zimbabwean economy has a pronounced demand for capital and financing. Key sectors and areas that have been identified as priorities include infrastructure development and rehabilitation, energy production, agriculture (mainly to reduce effects of climate-induced shocks), extractive industries, and related manufacturing or processing industries. Addressing these needs is essential for enhancing resilience against various economic challenges and fostering sustainable growth in the long run.

Capital markets play a central role in bringing together capital providers and capital seekers, which together constitute capital formation. In Zimbabwe, however, we believe that inconsistency in policymaking (IMF 2022), combined with sudden and marked changes in regulation, has resulted in an unstable environment and low levels of confidence expressed by market participants. A corollary effect has been for investors to focus on short-term tactics, a scenario that is not conducive to strategic development and effective functioning of capital markets.

The periods 2000–2008 and 2019–2023 were characterised by high inflation and currency volatility that had far-reaching effects. Zimbabwe is classified as in debt distress by the IMF, with "unsustainable external and longstanding arrears to external creditors" (IMF 2022). These issues have acted as barriers to capital formation and impeded investments in various industry sectors that are in dire need of capital. This chapter focuses on alleviating such barriers in order to facilitate the buildup of trust and predictability, which are necessary for sustained economic development.

2. Raising Funds in the Public Markets

Fundraising and Challenges

Zimbabwe's public markets, notably the Zimbabwe Stock Exchange (ZSE), which dates back to 1894, have evolved under the regulation of the Securities and Exchange Commission of Zimbabwe (SECZ).[32] SECZ has introduced regulations

[32]For further detail, see the SECZ web page "Capital Markets in Zimbabwe," https://seczim.co.zw/capital-markets-in-zimbabwe/.

that encourage the development of new financial products, such as ETFs and REITs (SECZ 2020).

The following are the main public fundraising markets in Zimbabwe:

- ZSE: A platform for trading shares in Zimbabwean dollars (ZWL). As of June 2023, ZSE had 44 listed companies spanning various sectors. It has expanded to include ETFs and REITs. Companies raise funds through rights issues, private placements, and bank loans.
- Victoria Falls Stock Exchange (VFEX): A subsidiary of ZSE, VFEX trades in US dollars (USD). It was established in 2020 to promote offshore services in Victoria Falls. Currently, 14 counters are listed, with around 64% migrating from ZSE for access to US dollar funding and investor incentives.
- Financial Securities Exchange (FINSEC): An alternative stock exchange created in 2016, it has experienced low activity levels, with just one listed counter.

Challenges in fundraising primarily revolve around currency preferences, with companies favouring US dollar capital despite its limited availability. Although Zimbabwe operates with multiple currencies, the US dollar remains scarce for investments,[33] with pension funds receiving funds in Zimbabwean dollars instead of US dollars.

Because of hyperinflation from 2000 to 2008, the value destruction in financial assets and pensions, and the US dollar cash shortages from 2017 to October 2018, some investors and potential investors now choose to store US dollars at home or on their business premises as a hedge against economic instability.

Additionally, the impending expiration of the multicurrency regime, originally set for 2025 and now extended to 2030,[34] limits long-term US dollar availability, exposing companies to short-term and costly financing. The local currency's instability, however, further complicates its use as a viable long-term funding currency.

The bond market is underdeveloped, hindering effective corporate fundraising. The government issues treasury bills, which have mainly been invested in by pension funds, financial institutions, and insurance companies because of their prescribed assets status.[35] Legislation such as the Insurance Act (Chapter 24:07)

[33]In 2019, through Statutory Instrument (SI) 142 of 2019, the government of Zimbabwe reinstated the Zimbabwean dollar as sole legal tender in Zimbabwe, thus barring the use of a basket of foreign currencies as legal tender in any transactions in Zimbabwe, which had been done since 2009. In 2022, through SI 118A of 2022, the US dollar was reintroduced as a legal tender through the duration of the National Development Strategy that ends in 2025. Therefore, Zimbabwe is currently in a multicurrency system where nationals can use other currencies, such as the US dollar, the South African rand, or the euro, as legal tender in transactions.

[34]Statutory Instrument 218 of 2023 issued on 27 October 2023 extended the multicurrency regime to 31 December 2030.

[35]Prescribed securities are stocks, bonds, or other such securities issued by the state, a statutory body, or a local authority. They include, in relation to non-life insurers and the class of insurance business carried on by them,

and the Pension and Provident Funds Act (Chapter 24:09) dictates that insurers and pension funds should invest a set percentage in prescribed assets.

Treasury bills issued as of the end of December 2022 amounted to ZWL129 billion (1% of GDP), and 90% of them mature in less than two years.[36] Total gross treasury bills issued in 2022 amounted to ZWL83.36 billion, through both private placements (55%) and auctions (45%).

Funding for Infrastructure and SMEs

Sovereign Funding

The Zimbabwean government finances large-scale infrastructure projects through annual budget allocations.[37] The government has also borrowed from development finance institutions, such as China Eximbank, to fund various state-sponsored infrastructure projects (Chingwere 2017).

DFIs and Multilateral Organisations

These entities play a major role in funding infrastructure projects in Zimbabwe through the provisions of long-term financing and technical assistance for infrastructure development initiatives. The Infrastructure Development Bank of Zimbabwe, formed to promote economic development through building infrastructure, has established a Climate Finance Facility that is set to bring in private players in funding mitigation and adaptation projects.

Private Financing

Private involvement in long-term infrastructure projects is limited because of policy uncertainty, inflation, and high risks. Most funding structures are fixed income, and private players lack long-term funding for such projects. Commercial banks, institutional investors, and private equity firms are active in funding housing and renewable energy projects.

SMEs

Small and medium-sized enterprises play an important role in the Zimbabwean economy, with an estimated annual turnover of USD14.2 billion and contributing USD8.6 billion to GDP (Finscope 2022). However, many of the SMEs (59% of which are not borrowing) have challenges in accessing funding necessary for their growth because of lack of proven and structured businesses, creating a barrier to would-be funders.

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treasury bills or similar short-term bills issued by a statutory body or local authority or investments approved by the minister from time to time in terms of the Insurance Act (Chapter 24:07).

[36]Nominal GDP at 2022 market prices: ZWL12.4 trillion (Zimbabwe Public Debt Management Office 2023).

[37]In the 2023 national budget, a total of ZWL1.1 trillion was allocated for infrastructure development, with funding sources such as tax revenue and loan financing.

Various stakeholders in Zimbabwe are actively working to assist SMEs in accessing capital and fostering their growth. The government is involved through such entities as the Small and Medium Enterprise Development Corporation, alongside such organisations as Zimbabwe Women's Microfinance Bank, Empower Bank (with a focus on youth-owned businesses), and the National Venture Capital Fund. Development partners, such as the Culture Fund and YouthConnekt, provide grants, loans, and skill development to support SMEs. Large corporations contribute by establishing incubation hubs that offer debt funding and technical assistance. The private sector also runs such initiatives as the Old Mutual Value Creation Challenge and CBZ's Youth Entrepreneurs Program to encourage and support SMEs in their innovative endeavours. These collaborative efforts aim to empower and facilitate the growth of SMEs in Zimbabwe by providing essential resources and support.

The Role of Foreign Direct Investments in Fundraising

Attracting foreign direct investment has been challenging because of perceived country risk and foreign exchange control issues. Blocked funds amounting to USD1.5 billion as of December 2022 highlight difficulties in repatriating proceeds.[38] Most fundraising efforts target local financial institutions, institutional investors, and high-net-worth individuals, with total investments (consisting of FDIs, domestic direct investments, and reinvestments) made in 2022 of USD2.3 billion (Zimbabwe Investment and Development Agency 2023).

3. Debt

Size of Government Debt

The total stock of public and publicly guaranteed (PPG) debt as of the end of December 2022 amounted to USD18.05 billion (ZWL12.34 trillion), representing 99.6% of GDP. This total PPG debt consists of USD12.85 billion of external debt and USD5.20 billion of domestic debt, representing 70.9% and 28.7% of GDP, respectively (Zimbabwe Public Debt Management Office 2023, p. 3). To put these figures into context, the debt-to-GDP ratios of some Southern African countries are as follows: South Africa, 71.02%; Angola, 67.05%; Botswana, 20.35%; and Mozambique, 104.52%.[39]

Composition and Formation of External Debt

Total PPG external debt as of the end of December 2022 was USD12.83 billion. Of this total, bilateral debt was USD5.89 billion (45.9% of total external PPG debt), multilateral debt was USD2.70 billion (21%), and Reserve Bank of

[38]Blocked funds are any liability that is payable in foreign currency and that was incurred before 22 February 2019 for which the foreign currency incurred as a liability could not be repatriated from Zimbabwe.

[39]IMF DataMapper: www.imf.org/external/datamapper/CG_DEBT_GDP@GDD/CHN/FRA/DEU/ITA/JPN/GBR/US. The source of the DataMapper data is Mbaye, Moreno-Badia, and Chae (2018).

Zimbabwe (RBZ) debt was USD4.24 billion (33%). RBZ debt is debt contracted by the central bank from nonresidents.

An arrears and penalties amount of USD6.67 billion (77.65% of bilateral and multilateral debt) highlights a significantly diminished capacity to service debt historically.

Composition and Formation of Domestic Debt

Total domestic debt as of the end of December 2022 was USD5.26 billion, consisting of treasury bills and bonds (USD188.57 million), blocked funds (USD1.51 billion), arrears to service providers (USD11.69 million), and compensation to former farm owners (USD3.51 billion).

Blocked funds have been reclassified as domestic debt, and their management has been transferred from the Reserve Bank of Zimbabwe to the treasury following Finance Act No.7 of 2021. Settlement of these debts is now conducted by local companies.

Debt Service Payments

The Zimbabwean treasury made total external debt service payments amounting to USD63.97 million from January to December 2022:

- USD51.17 million for active portfolios to unlock disbursements for ongoing projects
- USD12.8 million as token payments to International Financial Institutions (IFIs) and Paris Club creditors to show commitment to the engagement and re-engagement process with the international community

These amounts can be seen as token repayments to demonstrate commitment to repay foreign obligations. The repayments due in terms of interest and principal arrears total USD6.673 billion.

External Loan Disbursements

Disbursements increased from USD35.9 million in 2021 to USD194.3 million in 2022. Major disbursements came from the OPEC Fund for International Development (OFID) and China Eximbank for key projects in Zimbabwe's energy, infrastructure, and ICT sectors.

Notable projects include the Smallholder Agriculture Cluster Project, financed by concessional loans from OFID and the International Fund for Agricultural Development. The project supports smallholder farmers and aims to improve infrastructure and water facilities.

Maturity Profile of Outstanding Treasury Bills and Bonds

Around 90% (USD168.98 million) of the outstanding treasury bills and bonds mature in less than two years, indicating a high refinancing risk for the domestic debt portfolio. The maturity profile of US dollar–denominated treasury bonds issued for blocked funds ranges from 2 to 20 years. Total gross treasury bills issued for budget financing in 2022 amounted to USD122.06 million.

Interest rates increased significantly in 2022, rising fourfold because of rising inflation. Average interest rates for 270-day and 365-day treasury bills (denominated in Zimbabwean dollars) increased from 35.08% and 36.24% in Q1 to 153.58% and 153.84% by the end of Q4, respectively.

The government signed a domestic loan of USD527.10 million with PIM Nominees (Private) Limited in 2022 for the construction and rehabilitation of the 354 km Harare-Kanyemba Road.

4. Raising Funds in the Private Markets

Private capital investments in Zimbabwe by large investors, including insurance companies and pension funds, have gained traction since the late 1990s. These investments are facilitated by private equity, venture capital, and direct investments, offering "patient capital" and various forms of support to target companies.

Private capital investments usually go beyond providing financial capital; they offer valuable operational and financial expertise, access to business networks, and advisory support throughout a company's growth journey. This assistance helps businesses expand, recover from challenges, restructure, unlock value, and provide investors with attractive returns. Although private investments may be less liquid, they offer increased privacy compared with public markets. Private debt sources also provide borrowers with greater flexibility compared with traditional bank loans.

Private Investments by Insurance Companies and Pension Funds

Insurance companies and pension funds in Zimbabwe have increasingly turned to real estate as their second-favourite asset class for investment, following listed equities. This shift is primarily driven by the need to preserve value during periods of high inflation,[40] which the country experienced from 1998 to 2008 and from 2019 to 2023. The Insurance and Pensions Commission (IPEC) regulates all insurance companies and pension funds except for the National Social Security Authority (NSSA).

[40]WorldData.info, "Inflation Rates in Zimbabwe": www.worlddata.info/africa/zimbabwe/inflation-rates.php. The inflation rate was 32% in 1998 and increased to more than 24,000% in 2007 and 2008. Between 2009 and 2017, the inflation rate was less than 4%. It increased to 11% in 2018, 255% in 2019, and 557% in 2020. It fell to 99% in 2021 and rose to 105% in 2022.

As of 31 March 2022, pension funds under IPEC's regulation held a total of ZWL480.3 billion (USD3.4 billion) in investment assets.[41] Notably, 34% of these assets were directly invested in properties, making real estate the second-largest asset class after listed equities, which accounted for 50% of the portfolio. By 31 December 2022, the proportion of investments in properties had increased to 45%, surpassing all other asset classes. Investments in unquoted equities constituted 3%, while investments in fixed-income securities, excluding government securities, were a mere 0.2%.

Investment assets held by insurance companies amounted to ZWL94.1 billion (USD661 million) as of 31 March 2022, with 13% being investments in properties, 8% in unquoted equities, and 72% in listed equities. NSSA, a statutory body that administers the National Pension Scheme and the Accident Prevention and Workers' Compensation Scheme, is one of the largest investors in Zimbabwe, but as of August 2023, no published information was available on its total investment asset balance.[42]

IPEC sets the maximum allowable proportionate investment in any asset class as a percentage of the investment portfolio's total market value. Prior to 2022, pension regulations allowed up to 50% of total investments to be made in real estate, 50% in local listed securities, 45% in cash and the money market, and 10% in unquoted shares/alternative investments, among other set limits. The pension regulator amended the investment asset class limits effective January 2022 as follows: The local listed equity limit was revised upwards to 60%; property investments, downwards to 40%; unquoted shares/alternative investments, upwards to 15%; and cash and money market investments, downwards to 20%. Foreign investments were limited to 15%, whereas prior to January 2022, there was no set limit and no guidance on regulatory approvals and procedures to be followed in making foreign investments.

Some private investment projects for road construction, solar power projects, and agriculture have been conferred with prescribed asset status in the last few years, so as to attract funding from insurance companies and pension funds.

Private Capital Investment Firms and Other Private M&A Transactions

Zimbabwe has fewer than 10 known private capital investment firms—namely, Takura Capital Partners, SPEAR Capital, Sub-Sahara Capital Group, Nurture Invest, Mangwana Capital, Vakayi Capital, Lamcent Capital, Anotida Capital, and DBF Capital Partners.

[41]These balances were converted using the official exchange rate; 3% of the total pension fund assets were officially denominated in US dollars, and this percentage increased towards the end of the year. Because of hyperinflation, a significant percentage of the value of other assets, such as property investments, is linked to the US dollar, even though those assets are not officially denominated or reported in US dollars.

[42]After reaching out directly, NSSA senior management promised to provide the information on the total investment assets balance held, analysed by the broad investment asset classes. We have yet to receive this information.

Exhibit 29. Total Number of PE Acquisitions and M&A Transactions in Zimbabwe, 2017–2022

Year	Private Equity Acquisitions	Total M&A Transactions (including PE)
2017	8[a]	22
2018	1[b]	12
2019	4[c]	13
2020	8	15
2021	4	21
2022	7	20
Total	32	103

Sources: For the 2017–2022 deal numbers: Responses by three private capital investment firms to a questionnaire provided by the authors, alongside British International Investment, *Takura II*, at www.bii.co.uk/en/our-impact/fund-header/takura-ii/, and additional sources as noted for some years. For the total M&A transactions: Competition and Tariff Commission (2018–2023), *Annual Report and Audited Financial Statements for the Period Ended 31 December*.

[a]Source for 2017 deal numbers:

- Vast Resources (2018), *Report & Accounts 2017–2018*. www.vastplc.com/wp-content/uploads/2019/03/annual-report-account-28.09.18-.pdf (Accessed: 1 August 2023).
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- Vakayi Capital press release (2017), "Vakayi Capital Makes First Investment in Zimbabwe." vakayi.com/updates/vakayi-capital-makes-first-investment-in-zimbabwe (Accessed: 1 August 2023).
- Lamcent Capital website, http://lamcentcapital.com/ (Accessed: 1 August 2023).

[b]Source for 2018 deal numbers:

- Lamcent Capital website, http://lamcentcapital.com/ (Accessed: 1 August 2023).

[c]Source for 2019 deal numbers:

- Sunday News (2019), "Eight Mergers of Firms in Third Quarter of 2019." www.sundaynews.co.zw/eight-mergers-of-firms-in-third-quarter-of-2019/ (Accessed: 1 August 2023).
- Fastjet (2020), *Annual Report and Financial Statements 2020*. www.fastjet.com/app/uploads/2022/11/fastjet-Annual-Report-and-Financial-Statements-2020.pdf (Accessed: 1 August 2023).

A review of the Competition and Tariffs Commission's annual reports and responses from private equity (PE) firms to our survey[43] shows that the total number of acquisitions by private equity firms in Zimbabwe from 2017 to 2022 was 32 (see **Exhibit 29**), while M&A transactions, including non-PE acquirers, totalled 103 during the same period. Data collection challenges in private markets complicate accurate reporting.

It is noteworthy that data from the African Private Equity and Venture Capital Association indicate that a total of seven private capital investment deals were made in Zimbabwe from 2017 to 2022, which is different from the 32 that we collated. This disparity reflects the difficulties in collating data relating to private markets.

[43]Because of the difficulties in obtaining private deal information, we directly contacted the known private capital investors. We received responses stating the number of investments made in each year from SPEAR Capital, Mangwana Capital, and Nurture Invest. For Takura Capital, our source is www.bii.co.uk. We also searched for and reviewed press articles and respective firms' websites for deals made by Vakayi Capital, Lamcent Capital, Anotida Capital, and Sub-Sahara Capital.

Private capital investment firms in Zimbabwe obtain their deals through direct outreach, referrals, and traditional networking. Digital platforms for deal sourcing in Africa have begun developing, and they include the AfDB Africa Investment Forum platform;[44] an online platform called Private Deal Network,[45] catering to a wide range of investors and capital seekers; and the Zimbabwe Investment and Development Agency's Mining Claims Matchmaking Platform.[46] The volume and value of deals sourced from these Africa-focused platforms are currently considerably lower than the volume and value of deals originated from similar platforms on other continents because of less developed networks and limited knowledge of the services offered by these investment banking platforms. Privately held businesses, especially SMEs, and the prospective financiers or investors can leverage these platforms to drive and improve capital formation in Africa.

Private Debt Investments

Investors have largely shied away from using private debt investing strategies because of high inflation and government pronouncements indicating that the multicurrency regime will end in 2025.[47] The government pronouncements have resulted in limited debt instruments, with tenures beyond the year 2025 being issued in a stable foreign currency. Because of high inflation, investors would rather not invest in Zimbabwean dollar–denominated debt securities.

5. The Challenges to Capital Market Formation

Fragmented Markets

Africa consists of numerous countries with different laws, government policies, and currencies, resulting in different economic challenges and trade regimes. This situation causes fragmented trade and financial markets, which may make it difficult to achieve considerable scale and achieve the benefits of being able to tackle developmental gaps at a bigger scale for most of the African countries in need.

Capital Outflow Restrictions and Foreign Exchange Shortages

Foreign exchange (FX) restrictions and a shortage of foreign currency in the formal foreign currency market have made it difficult for companies to import capital expenditure items for reinvestment in their businesses, for buying raw materials, and for repatriation of returns and repayment of foreign lenders that

[44] www.africainvestmentforum.com/en/about-us.

[45] www.private-deal-network.com/how-it-works.

[46] https://zidainvest.com/.

[47] See Statutory Instrument 118A of 2022: www.veritaszim.net/sites/veritas_d/files/SI%202022-118A%20Presidential%20Powers%20%28Temporary%20Measures%29%20%28Amendment%20of%20Exchange%20Control%20Act%29%20Regulations%2C%202022.pdf.

extend finance to local industry (IMF 2022). These conditions have decelerated capital formation in the local market.

The formal FX market has not been efficient in meeting the needs of industry timely and efficiently as a result of the government being the main source of foreign currency and private players preferring to hold onto their hard currency rather than be exposed to the weak and rapidly depreciating local currency, which experienced triple-digit inflation in 2019, 2020, and 2022. Those with hard currency prefer selling on the parallel (illegal) market at significant premiums to the rates obtained on the formal FX market.

To satisfy its own foreign-currency demand, the government mandates exporters to surrender a portion of foreign-currency earnings in exchange for local currency at the formal, depressed exchange rate. Government policies necessitating the payment of local taxes and other service fees in foreign currency further exacerbate foreign-currency shortages. Although policy directives issued in June 2023 require local currency payment for 50% of previously foreign-currency-required taxes, some portion of taxes must still be paid in foreign currency without an option to pay the local-currency equivalent.

Reduced Capacity of the Banking Sector to Support Growth

Banks' lending capacity has been hindered by an erosion of real asset values (because of high inflation), negative real lending rates, and an increase in excess reserves at the RBZ. Conversion of banks' assets and liabilities to Zimbabwean dollars at an exchange rate of 1:1 relative to the US dollar in February 2019, after reintroducing the Zimbabwean local currency, also caused a sharp shrinkage in banking sector assets and bank deposits. This situation negatively affects banks' ability to maintain credit lines with foreign banks, to meet the private sector's needs for capital, and to fund the government (IMF 2020).

Policy Inconsistency and Currency Changes

The government's policy direction regarding the currency was uncertain, with a statutory instrument issued in June 2022 indicating the multicurrency system will be in place until 2025, leaving the future of currency pronouncements uncertain. The Zimbabwean dollar, which had been the country's currency, was demonetised following a period of hyperinflation up to the end of 2008, and the multicurrency regime was formally adopted by the Zimbabwean government in February 2009. The economy effectively dollarized thereafter, as companies adopted the US dollar as their functional currency and the default currency for corporate and individual bank accounts. However, there have been significant policy inconsistencies that make business difficult. A timeline of some examples of the policy inconsistencies regarding currency are as follows:

- Zimbabwean dollar "bond notes" were introduced in 2016 at a rate of 1:1 relative to the US dollar. The Zimbabwean dollar bond note could be deposited in the same account as the US dollar, and Real Time Gross

Settlement (RTGS) electronic currency balances were also at par with the US dollar. Exchange premiums between the RTGS balances and US dollar hard currency started emerging in the parallel market.

- In October 2018, the RBZ issued a directive on separation of existing bank accounts into two: (1) the RTGS foreign currency account (FCA) or Zimbabwean dollar account (consisting of RTGS balances, mobile money balances, bond notes, and coins) and (2) the Nostro FCA. This separation was based on the source of funds, but officially, the USD/ZWL rate remained at 1:1 even though the exchange premiums continued to widen on the parallel market.
- Zimbabwe redefined its local currency in February 2019, comprising RTGS, bond notes, and coins issued by the RBZ. Upon its introduction, this composite currency began trading at a rate of 1:2.5 against the US dollar, marking a notable devaluation from the 1:1 peg. Subsequently, in March 2019, the government legislated the exclusive use of this redefined Zimbabwean dollar to settle all domestic transactions.
- With inflation creeping up, continued preference for the US dollar by the public, and the onset of COVID-19, the government brought back the multicurrency system and adopted an unsustainable fixed exchange rate system.
- In June 2022, the government issued a statutory instrument stating that the multicurrency system will be in place until 2025.[48]

Representative Inflation Rates

The government issued the Census and Statistics (General) Notice, Statutory Instrument 27 of 2023 mandating the National Statistics Office to publish a blended rate of inflation only—the general increase in price levels of goods and services measured as a weighted average based on the use of Zimbabwean dollars and US dollars over a given period. This change has made assessing the performance of companies and investment portfolios difficult because each transaction or balance is quoted in a specific currency and with an inflation rate specific to each respective currency.

High Inflation

Hyperinflation and the resulting volatile economic environment have eroded savings, eroded confidence in the financial markets, and made it difficult to achieve positive real returns.

[48]See Statutory Instrument 118A of 2022: www.veritaszim.net/sites/veritas_d/files/SI%202022-118A%20Presidential%20Powers%20%28Temporary%20Measures%29%20%28Amendment%20of%20Exchange%20Control%20Act%29%20Regulations%2C%202022.pdf.

High Interest Rates

High interest rates[49] have discouraged long-term borrowing by companies and individuals for capital investments and mortgages, thus restricting capital formation.

Financing Tenure Mismatch

The combination of high inflation, high interest rates, and policy inconsistencies has resulted in a shortage of long-term financing facilities, especially from banks. This shortage not only impacts companies' capital investments but also affects the mortgage market. Property buyers increasingly opt for cash or short-term payments, with many sellers accepting only US dollar payments and rejecting payments in local currency.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

Dealing with Fragmented Markets

There is a need to bring together various local capital markets in Africa to create regional platforms that attract bigger pools of finance to solve some of the common major developmental problems in African countries. Members of CFA Institute are well placed to play a leading role in the setup or integration of financial markets in Africa and to effectively deal with various financial market instruments that foster domestic and foreign investment. Commendable efforts have come from the African Union member states to set up the African Continental Free Trade Area (AfCFTA), creating a single market for goods and services of almost 1.3 billion people across the continent and deepening the economic integration of Africa. AfCFTA is set to become the world's largest free trade area, and it needs to be supported by strong capital markets and financial products across public, debt, and private capital markets.

Patient Capital Required to Invest in Developing Economies amid Capital Outflow Restrictions

Investors need to take a long-term view when investing in African countries that are still developing economically. For countries with restrictions in capital outflows, usually risk premiums are higher and a significant number of assets are relatively cheaper investment opportunities for potential investors. However, an easing of the restrictions may correspond with lower risk premiums and higher asset values. Patient capital, which includes but is not limited to private

[49]The weighted average lending rates were 110% for year-end 2022, 38% for year-end 2021, 27% for year-end 2020, and 18% for year-end 2019 (www.rbz.co.zw/index.php/research/markets/interest-rates). However, the depreciation in the local currency and increase in US dollar deposits resulted in banks stopping advances of local-currency-denominated loans in 2022, and US dollar–denominated loans increased.

equity investing strategies, is required for investing in such an economy where there are temporary restrictions on capital flows. It is also important to engage regulators when bringing in capital and to negotiate arrangements to repatriate any returns from investment. Note that under the AfCFTA agreement, any restrictive measures imposed by a member state to remedy balance-of-payments difficulties should be equitable, nondiscriminatory, in good faith, and of limited duration.[50]

Necessary Government Policy Reform

The government needs to embark on key reforms that will ultimately result in an efficient FX market and removal of capital restrictions. This will promote efficient access to foreign currency for companies importing capital expenditure items and raw materials for reinvestment, as well as facilitate foreign direct investment (FDI), which includes the repatriation of returns and repayment of foreign lenders financing local industry. As stated by the IMF (2022), the central bank needs to cease its quasi-fiscal operations and align the exchange rate to its fundamentals, supported by tightening monetary policy to stem existing inflationary pressures, eliminating exchange restrictions, and increasing the efficiency of the foreign exchange market.

We believe measures to mop up excess Zimbabwean dollars and increase demand for the local currency—by requiring payments to government, government agencies, and parastatals to be made in Zimbabwean dollars—have been very effective. They have propped up the local currency, reduced demand pressure for the US dollar on the FX market, stabilised the USD/ZWL exchange rate, and reduced inflationary pressures from mid-June 2023 to the time of this writing in August 2023. It is important, however, for the government to ensure that all major economic fundamentals are aligned; that there is long-term policy consistency, especially regarding the currency; and that reserves are built up to support the local currency. Long-term policy consistency that is entrenched in law will facilitate long-term planning by businesses and improve capital formation.

Increasing Access to Finance by SMEs

There is a need for market participants to increase awareness and promote the use of capital raising platforms targeted at SMEs, such as the Mining Claims Matchmaking Platform and the Private Deal Network, which connects a wide range of private investors to businesses seeking capital and other strategic partnerships. These platforms have a potential to break down barriers to finance, bring down the cost of capital, promote access to better strategic partnerships, and increase capital formation. The Private Deal Network also needs to promote use of its deal sharing platform that caters to financiers or investors who seek to find other financiers or investors for syndication or

[50]AfCFTA Agreement, Article 28(1) of the protocol of trade in goods and Articles 14(1) and 14(2) of the protocol of trade in services.

sharing deals as co-investors on larger projects. The AfDB Africa Investment Forum's deal platform can also be used for projects requiring larger capital outlays, generally more than USD30 million, and/or projects with a wider impact. Public markets should also give incentives for larger privately held businesses to list on public markets, gain access to a larger pool of public market investors, and improve growth prospects.

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ETHIOPIA

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Key Data Points (as of October 2024, unless otherwise stated)	
Total population	129.7 million
National currency and exchange rate	Ethiopian birr, ETB118.63 per USD1
GDP and growth rate	USD207 billion (nominal), 7.1%
SME proportion of GDP	2%
Annual average inflation	23.9%
Unemployment rate (for those aged 15–29); as of December 2024	27.2%
Total government debt outstanding	USD44,737.05 million
Public debt to GDP ratio	32.9%
Primary stock exchange	Ethiopian Securities Exchange (newly launched in January 2025)

Sources: Ethiopian Statistics Service; National Bank of Ethiopia; Ministry of Trade and Regional Integration – Ethiopia; Ministry of Finance – Ethiopia; Ethiopian Securities Exchange.

1. Introduction and Context

In 1896, Ethiopia defended its independence by gaining victory over the Italian army at the Battle of Adwa. This victory spurred Ethiopia to modernize its economy and integrate into the global economy through the Red Sea corridor. A key moment in capital formation occurred when Emperor Menelik II initiated construction of the Ethiopia–Djibouti Railway in 1897 with the issuance of shares in the European capital market. With French assistance, this undertaking marked one of the earliest instances of investment in Ethiopia, fostering early modern capital formation. In 1905, the establishment of the Bank of Abyssinia, the country's first modern bank, further spurred capital formation in the country. Shares were offered in London and other major European markets, attracting international capital, although the bank was replaced by the Bank of Ethiopia in 1931 through nationalisation. These events set the foundation for financial institutions and capital accumulation in Ethiopia.

The Second Italo-Ethiopian War (1935–1936) resulted in Italian occupation and Ethiopia's involvement in World War II. Following the war, Emperor Haile Selassie prioritised modernising the economy and building infrastructure, establishing the State Bank of Ethiopia in 1943 to help rebuild the economy. During the 1950s and 1960s, Ethiopia experienced a period of stability and economic growth, marked by the formation of share companies. The Ethiopian Monetary and Banking Law of 1963 separated commercial and central banking, leading to the creation of the National Bank of Ethiopia and the Commercial Bank of Ethiopia.

In 1974, the Derg regime took power and implemented socialist policies, including the nationalisation of major corporations and all private properties. For nearly two decades, private investment was severely restricted, and capital formation primarily relied on state-directed efforts, leaving little or no room for private sector development. This regime ended in 1991, ushering in a liberal, market-based economic system revitalising the private sector.

Today, Ethiopia is one of the fastest-growing economies in Africa, with a population of 129.7 million. Despite private sector activity during the past three decades, the economy remains dominated by state-owned enterprises (SOEs). Consequently, Ethiopia has public debt of USD65.8 billion, much of which was incurred by the previous administration to finance infrastructure development and expand the economy (see **Exhibit 30**).

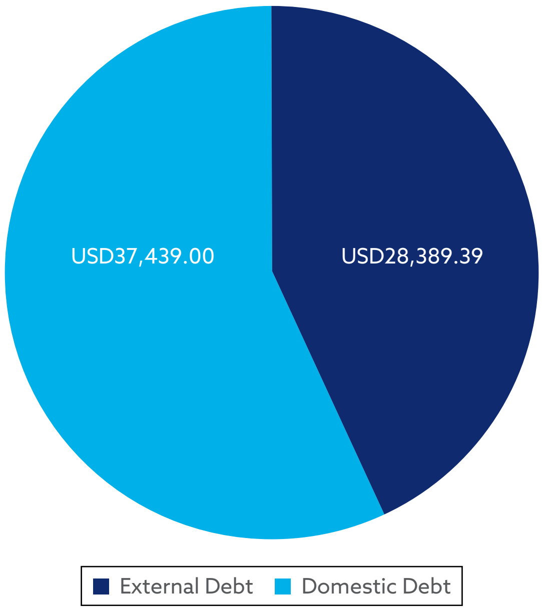
The current government, however, is shifting towards a private sector–led economy, recognising the importance of the private sector in fostering capital formation. To achieve this, they are liberalizing key sectors—finance, wholesale and retail, logistics, export and import—and pursuing the full or partial privatization of SOEs to lessen state control. This strategic move signals the government's plan to attract more private capital, reduce public debt, and deepen capital markets through increased private sector participation. These developments are pivotal steps taken to facilitate capital accumulation and accelerate economic growth.

2. Raising Funds in the Public Markets

Overview

In Ethiopia's journey toward economic modernisation and capital formation, fundraising in the public market has become increasingly important, especially in light of domestic conflicts and global supply disruptions. As Ethiopia

Exhibit 30. Share of Total Public Debt (USD millions)



Source: Ethiopia Ministry of Finance (2024b).

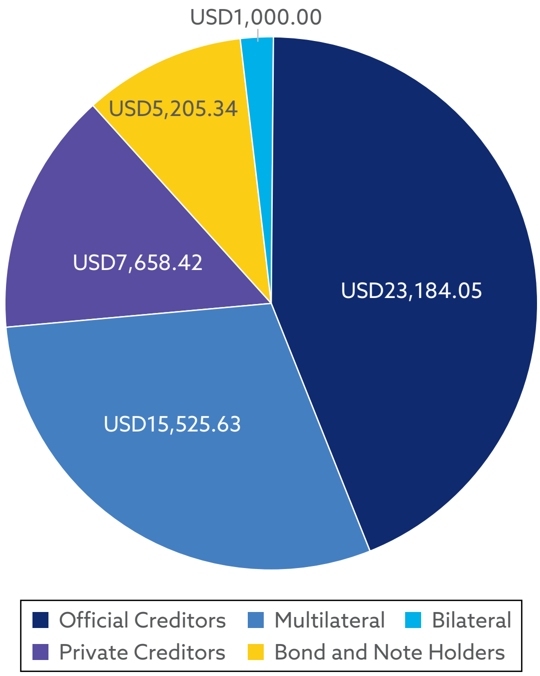
continues to navigate these challenges, securing funds from both domestic and international sources has become crucial to sustain economic growth and infrastructure development.

The government borrows from official creditors, including multilateral and bilateral institutions, private creditors, and domestic banks (see **Exhibit 31**). In terms of external fundraising, Ethiopia often secures funds through favourable terms, such as concessional loans. Domestic financing plays a significant role with debt raised through government bonds and direct borrowing from domestic banks, with the Commercial Bank of Ethiopia playing a key role in raising domestic debt.

The central government is responsible for 70.1% of the country's external debt, while government-guaranteed and nonguaranteed SOEs account for 21.2% and 8.7%, respectively. These numbers highlight the significant role SOEs play in Ethiopia's debt burden but also reveal some of the structural challenges in managing this debt effectively. As of 30 June 2024, 57.7% of the total public sector debt originated from domestic sources, underscoring the importance of internal fundraising.

Challenges persist in raising funds for public debt, however. External debt is growing faster than foreign exchange inflows, with 15% of revenue allocated to debt servicing. Moreover, ineffective management of SOEs places an additional burden on the government, hindering economic progress. In recognition of the urgency to address these issues, efforts are underway to strengthen debt management and transparency. Development of a medium-term debt

Exhibit 31. Total External Debt of the Central Government by Major Creditors 2023–24 (USD millions)



Source: Ethiopia Ministry of Finance (2024b).

management strategy is anticipated by the end of 2025, with technical assistance from the International Monetary Fund. Following discussions with the IMF, the Ethiopian government has committed to restructuring and reassessing the status of public enterprises to formulate a more refined and comprehensive strategic plan to make SOEs market driven and commercial oriented.

Funding for Infrastructure

Infrastructure development is vital to Ethiopia's future growth and capital formation, with a planned allocation of ETB203.4 billion for infrastructure projects in 2023–24. These projects are funded through a variety of sources, including multilateral and bilateral organisations and domestic creditors, as well as significant debt from the Commercial Bank of Ethiopia. The bank has recorded a 47.2% annual increase in corporate bond purchases, with one of the largest purchases being from the Ethiopian Electric Power Corporation, amounting to ETB40.3 billion in 2021–22. Additionally, a USD1 billion sovereign Eurobond has been issued to finance industrial parks and other infrastructure developments.

In terms of funding contributions, the Ethiopian government, along with state-owned enterprises, provides 66% of the funding for infrastructure, reflecting the priority given to infrastructure as a source of capital formation in the country, while the Overseas Private Investment Corporation contributes 10.35% and the African Development Bank Group contributes 4.64%. The top budgetary allocations for infrastructure in Ethiopia include road construction (ETB68.4 billion), education (ETB55.77 billion), and health (ETB22.57 billion). The government is also using public–private partnerships as part of a blended strategy to develop infrastructure in both public and private markets.

New external borrowing will be limited to concessional loans, with a strict zero limit on contracting or guaranteeing new nonconcessional debt (as a continuous performance criterion). The pace of new public and publicly guaranteed (PPG) concessional borrowing will be regulated by a ceiling on the present value of such borrowing (indicative target). However, the government of Ethiopia has requested a single exemption from the zero limit on nonconcessional borrowing for the final phase of the Koysha Hydroelectric Dam project (USD950 million) because concessional financing is unavailable. This project is critical to the government's development program because of its potential to generate export revenue, support rural electrification, and contribute to climate change mitigation.

This multifaceted approach to funding infrastructure depicts Ethiopia's commitment to fostering sustainable development and addressing the critical needs of its growing economy.

Funding for SMEs

According to the Accounting and Auditing Board of Ethiopia, a company qualifies as a small or medium-sized enterprise (SME) if it has annual revenues between ETB20 million and ETB300 million and employs 20–200 people. A UNDP study estimates that Ethiopia hosts around 1.5 million micro, small, and medium-sized enterprises (MSMEs), with 85% operating in the service sector, 10% in industry, and 5% in agriculture. These MSMEs are playing an increasingly important role in Ethiopia's economy, contributing to employment and economic diversification across sectors.

Despite their importance, MSMEs in Ethiopia currently face various challenges that impede their access to capital, such as high collateral requirements and loan terms that do not align with their long-term financing needs. Although government-financed programs, such as credit guarantee programs and lines of credit with technical assistance, aim to provide affordable capital to SMEs, the public sector often struggles with bureaucracy and a lack of incentives to innovate and cater to the needs of growth-oriented small businesses. In the 2020–21 fiscal year, banks in Ethiopia disbursed a total loan amount of ETB320 billion. Loans disbursed to SMEs, however, accounted for only 2% of this total. The average loan amount per SME ranged from ETB45,000 to ETB65,000, underscoring the limited financial support available to a sector crucial for job creation and income generation.

Banks generally offer SME clients products similar to those offered to their corporate clients, with limited comprehensive product innovation specifically tailored for SMEs. This lack of accessibility for SMEs is evident in Ethiopia's low SME financing to GDP ratio, which was only 2% in 2020, significantly lower than South Africa's 14% and Kenya's 6%. A closer look at bank loan distribution reveals a concentration of loans among a small number of large customers. Borrowers with loan sizes of ETB5 million or less represent 94% of borrowers but account for only 32% of outstanding loans. In contrast, borrowers with loan sizes above ETB5 million represent just 6% of borrowers but borrow the remaining 68% of outstanding loans. The top 1% of borrowers, who borrowed more than ETB50 million each, hold 38% of the entire outstanding loans. Thus, a concentration of loans among a few large corporate clients is evident. Therefore, reforms should focus on widening the range of financial products, enhancing SME access to capital, and promoting more inclusive lending practices that support the sustainability of this sector.

Despite all these hurdles, the Ethiopian Securities Exchange is planning to establish an alternative platform for financing for SMEs. This alternative market is a platform that will enable small and growing businesses in Ethiopia to raise capital through the capital market. Through this platform, small or medium-sized companies will enjoy more flexibility in regulatory reporting, easier access to financing, and greater autonomy in their business expansion strategies. This platform will include the ESX Crowd-Invest Platform and Electronic-Invoice Discounting/E-factoring Platform.

The Impact of COVID-19 on Fundraising

Ethiopia's macroeconomy already faced significant challenges before COVID-19, with structural issues, inefficiencies, and mismanagement driving inflation to 23%. Services and industry, key economic drivers accounting for 85% of growth and 88% of urban employment, contracted by 9% and 8.5%, respectively, while agriculture declined by 2.6%. Foreign direct investment (FDI) fell from USD2.5 billion in 2019 to USD2.3 billion in 2020, exacerbating these imbalances and hindering fundraising efforts. In response to the pandemic's impact, the government launched a one-year credit facility with a 5% interest rate to support borrowers in the hotel and tourism sectors. Now, as the economy recovers, signs of stability and growth are emerging across multiple sectors, reflecting a steady rebound from the pandemic's effects and a positive outlook for Ethiopia's economic resilience.

The Role of FDI in Fundraising

According to UNCTAD's "World Investment Report 2022," Ethiopia has experienced a significant increase in FDI inflows (UNCTAD 2022). In 2021, FDI inflows to Ethiopia reached USD4.2 billion, a notable rise from USD2.4 billion the previous year. The total stock of FDI in the country amounted to USD31.6 billion, equivalent to approximately 31.8% of Ethiopia's GDP. Overall, East Africa also experienced a notable uptick in FDI, with inflows rising by 35% to USD8.2 billion. Although the regional trend was positive, FDI flows specifically to Ethiopia surged by 75%, largely driven by a tripling of Chinese investment in 2021.

Ethiopia's strategic position as a central hub for China's Belt and Road Initiative greatly enhanced its attractiveness to investors. Over the years, Ethiopia's FDI flow stock has shown remarkable growth, rising from USD4.2 billion in 2010 to USD31.5 billion in 2021. This upward trend highlights Ethiopia's emerging role as a vital destination for foreign investment in the region.

Ethiopia stands out as the top recipient of FDI inflows among the 32 Landlocked Developing Countries, followed by Kazakhstan, Mongolia, Turkmenistan, and Uzbekistan, in that order. Ethiopia alone accounted for more than 71% of the total USD18 billion FDI received by this group. Although private investors primarily use FDI as equity, the Ethiopian government also uses it to raise funds for various projects. In 2022, the country witnessed a significant focus on renewable energy projects. Out of the five international project finance announcements, four were related to renewables. For instance, the Masdar solar project involves the construction of a 500-megawatt solar power plant for USD135 million, with Abu Dhabi Future Energy serving as a sponsor. This project highlights Ethiopia's commitment to sustainable energy development and its attractiveness to international investors in the renewable sector.

A more recent development is that in August 2024, AMEA Power signed the Power Purchase Agreement and Implementation Agreement for the 300 MW Aysha-1 Wind Project in Ethiopia's Somali Regional State. The project is set to become the largest wind farm in the Horn of Africa. This USD620 million project is set to generate 1,400 GWh of clean energy annually, powering more than 4 million households and reducing carbon emissions by 690,000 tons per year. With more than 1,500 direct jobs expected to be created during the construction and operation phase, the Aysha-1 Wind Project will drive Ethiopia's renewable energy ambitions and economic growth.

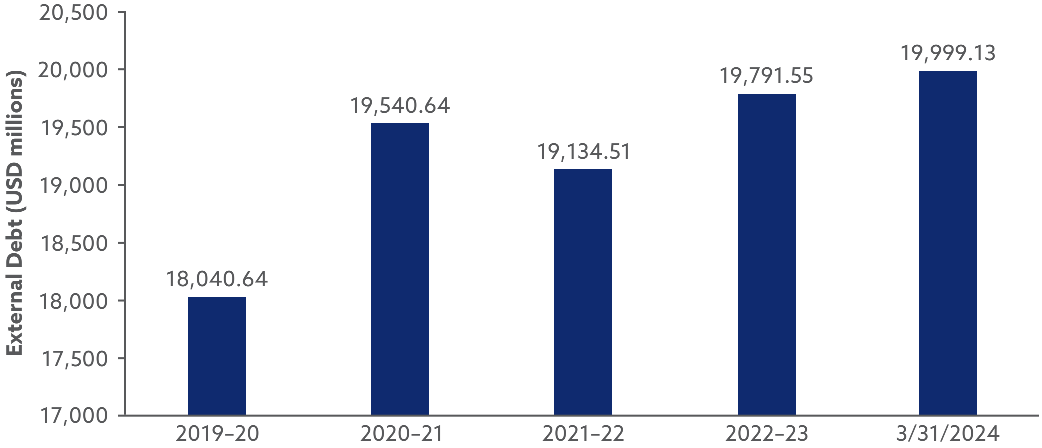
3. Debt

Ethiopia's public sector debt has been steadily rising. As of 30 March 2024, total public sector debt, including both domestic and external debt, increased by 3.9%, reaching USD68.08 billion, up from USD63.33 billion in June 2023. This increase pushed the overall public sector debt to 32.9% of the country's GDP, underscoring the growing burden on the national economy.

A consistent increase occurred in the external debt of the central government from 2019 to June 2024, except for a brief pause in 2022, as illustrated in **Exhibit 32**. During this five-year period, central government debt grew by 21.87%, indicating Ethiopia's reliance on external financing for key projects. As of 30 June 2024, the total external debt of the public sector stood at USD28.8 billion, slightly higher than the USD28.25 billion recorded in June 2023.

One reason for the increase in debt is the fluctuation of the Ethiopian Birr against the US dollar, as well as relatively lower principal payments compared with disbursements during the period. Between 1 July 2022 and 30 June 2024,

Exhibit 32. Central Government External Debt, 2019–2024 (USD millions)



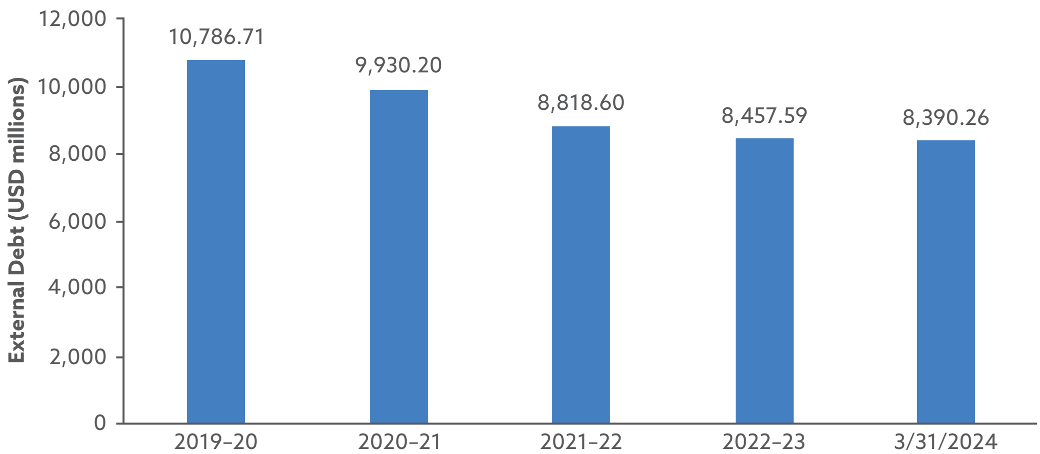
Source: Ethiopia Ministry of Finance (2024b).

the total amount paid for servicing external public sector debt, including principal, interest, and fees, amounted to USD1.27 billion. From this amount, the central government contributed USD643.44 million (USD494.24 million in principal and USD149.2 million in interest), while SOEs paid USD621.9 million.

The debt of SOEs decreased by 11.2% in 2022 compared with 2019, as shown in **Exhibit 33**. By March 2023, however, total SOE debt had increased from USD12.64 billion to USD12.99 billion. During that quarter, the central government accounted for 70.1% of external debt, while government-guaranteed SOEs held 21.2% and nonguaranteed SOEs held 8.7%.

Debt service remains the largest government expenditure in Ethiopia's budget, accounting for 28% of total spending, with a growing share dedicated to

Exhibit 33. State-Owned Enterprises' External Debt, 2019–2024 (USD millions)

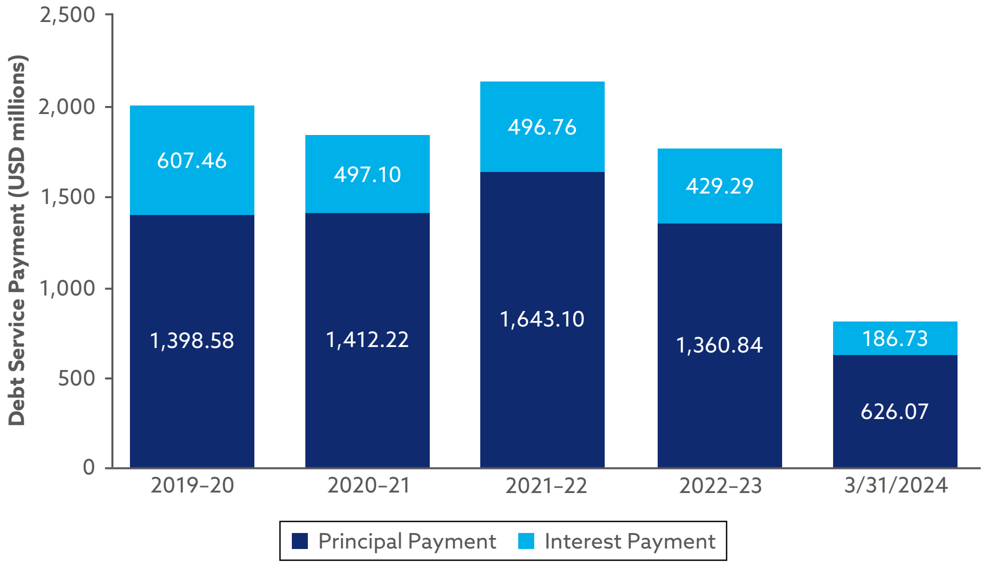


Source: Ethiopia Ministry of Finance (2024b).

domestic debt service rather than external obligations (see **Exhibits 34 and 35**). The central government's domestic debt has seen a significant increase, rising from USD20.832 billion in 2023 to USD24.542 billion in March 2024.

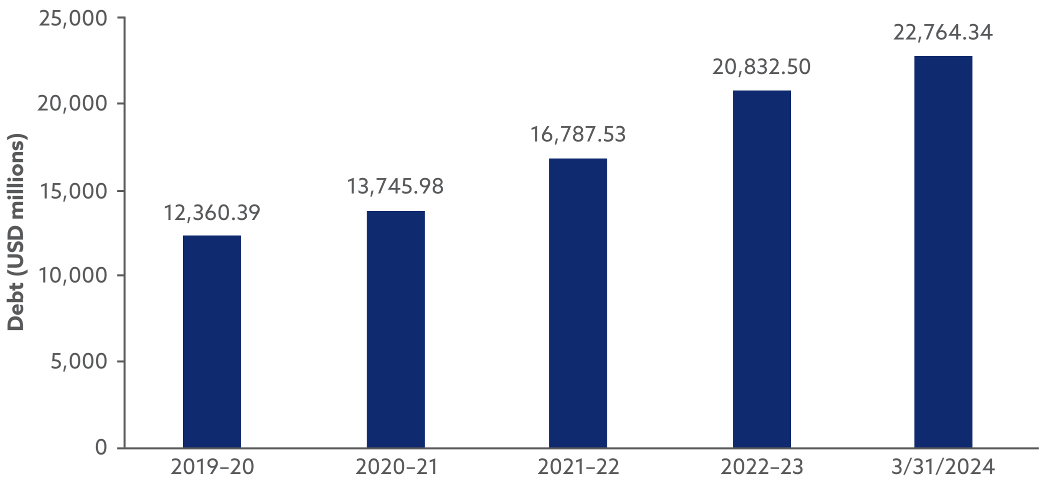
As part of Ethiopia's ongoing reforms under the new deal signed with the IMF, the country is making significant strides towards fiscal sustainability. A key aspect of this agreement is the gradual phasing out of non-market-based financing in the public sector, a practice that has long shaped Ethiopia's financial

Exhibit 34. Public Sector External Debt Service Payment, 2019–2024 (USD millions)



Source: Ethiopia Ministry of Finance (2024b).

Exhibit 35. Central Government Domestic Debt, 2019–2024 (USD millions)



Source: Ethiopia Ministry of Finance (2024b).

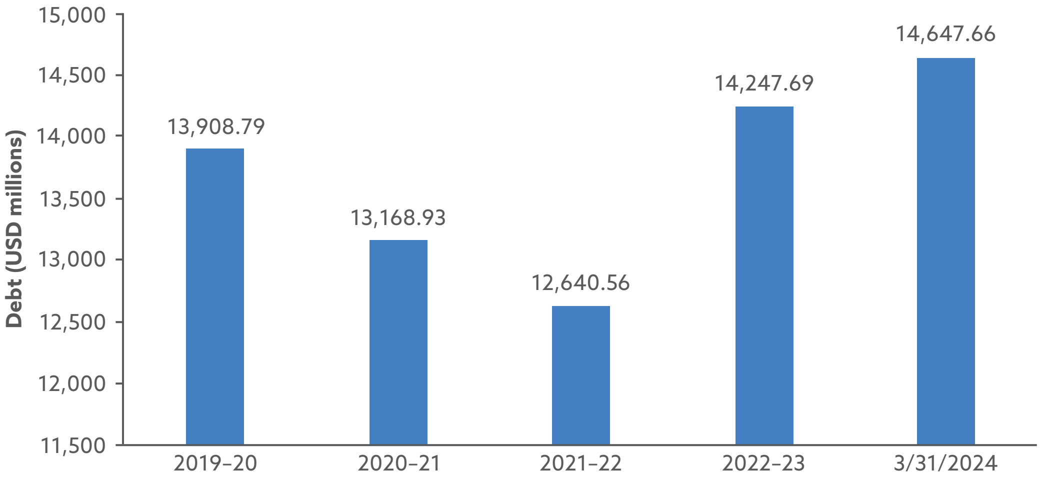
landscape. Central to these reforms is the plan to end the monetary financing of fiscal deficits. In particular, the mandatory purchase of five-year treasury bonds by commercial banks at a fixed interest rate of 9% will be phased out by June 2025, with the goal of fostering a more developed market for longer-term government securities. Additionally, the mandatory purchase of Development Bank of Ethiopia bonds by financial institutions is set to be discontinued ahead of the fifth review of the program in June 2025. These reforms are crucial in the government's broader effort to shift the focus towards the private sector, encouraging sustainable capital formation across key sectors.

A significant challenge to Ethiopia's fiscal health is the substantial debt burden held by its SOEs. The sharp increase of SOEs' domestic debt is illustrated by **Exhibit 36**. By 30 June 2024, 38% of the country's total public debt is held by SOEs.

To address the escalating debt, a portion of the outstanding liabilities of SOEs as of 31 December 2020 was transferred to the Liability and Asset Management Corporation (LAMC). LAMC is a new SOE created to manage the consolidation servicing portion of SOEs' debt, alongside a range of state-owned assets. The amount transferred totalled ETB398.7 billion, but by 30 June 2024, this figure had grown to ETB582 billion, encompassing both principal and interest arrears. And the stock of this new instrument was around ETB93,826.73 million as of 30 June 2024. During this period, treasury bills of various maturities experienced a net decrease amounting to around ETB3.06 billion. The main reason for this reduction was the considerably higher payments made to the respective holders of treasury bills between June 2022 and March 2023.

This series of reforms marks a pivotal shift in Ethiopia's financial management strategy. The government is working to transition from a state-driven borrowing

Exhibit 36. State-Owned Enterprises' Domestic Debt, 2019–2024 (USD millions)



Source: Ethiopia Ministry of Finance (2024b).

model to a market-oriented framework that promotes private sector–led growth. This shift represents a critical turning point that unlocks the potential of the private market and fosters sustainable capital formation.

The entire outstanding amount of direct advances, which was ETB236.5 billion as of 7 October 2022, was converted into a long-term bond. After the government of Ethiopia pledged to reform the central bank to reduce financial suppression and work towards maintaining a positive real interest rate, however, the National Bank of Ethiopia (NBE) introduced a new policy to limit the government's ability to rely on direct advances from the central bank, part of an effort to control inflation and ensure fiscal discipline.

According to recent reforms, direct advances will be capped at no more than 15% of the average domestic revenue from the previous three fiscal years. These advances, which are essentially short-term loans, must be repaid within 12 months and cannot be rolled over into the next financial year unless all outstanding amounts are fully cleared. The amount transferred from SOEs to LAMC as of 31 December 2020 was ETB398.69 billion. As of 30 June 2024, however, the stock (principal plus interest arrears) owed by LAMC amounts to about ETB581,979.24 million. The allocation for debt service has now reached a quarter of the total government spending and a third of the revenue. It is the largest expenditure item in Ethiopia's budget by a significant margin.

Currently, the Ethiopian government is prioritising the payment of domestic debt over external debt. The total amount allocated for servicing the debt is ETB159.2 billion, with ETB43.259 billion for internal debt and ETB45.52 billion for external debt. It has consistently been the highest budgetary line item in recent years. Because Ethiopia is a G20 Debt Service Suspension Initiative (DSSI) eligible country that has signed a memorandum of understanding with the Paris Club secretariat on the DSSI related to Paris Club countries and non-Paris Club countries, it was not required to make any external debt service payments to its bilateral creditors of central governments, in accordance with the G20 DSSI during the period 1 May 2020–30 June 2021. It has suspended the central government's external debt service obligations to its bilateral creditors, which amount to USD216.0 million, as a DSSI-eligible country. In addition, Ethiopia is qualified for grant aid from the IMF's Catastrophe Containment and Relief Trust (CCRT). The relief provided by the CCRT relates to about USD12 million in IMF debt service that was due by 13 October 2020.

As of 2024, Ethiopia's debt-to-GDP ratio had reached approximately 39%, which is below the average for low-income countries but still significant. Among treasury bills, 55% are held by nonbank entities and 45% are held by banks, with recent figures showing that private banks and pension funds together contributed around ETB95 billion (about USD3 billion) in financing. Pension funds remain a crucial part of Ethiopia's financial system, with assets estimated to be significantly higher than in previous years, supporting substantial domestic financing needs.

In its commitment to limit the country's debt burden, the Ethiopian government has refrained from taking on concessional loans for the past six years. Domestic debt has continued to expand during this period, however.

In line with the Homegrown Economic Reform Agenda (HGERA), Ethiopia has received support from the IMF and the World Bank to address macroeconomic imbalances and enhance economic stability. A cornerstone of these reforms is the transition to a market-determined exchange rate, a crucial step towards revitalising the economy. Additional measures include liberalising current account transactions, easing regulatory constraints, and improving fiscal and monetary policies. The government plans to phase out monetary financing, adopt an interest rate–based monetary policy framework, and prioritize fiscal discipline and domestic revenue mobilisation.

As previously mentioned, the debt on the Commercial Bank of Ethiopia's balance sheet has been converted into a long-term bond, and the IMF has released the package. A total liability of ETB398.7 billion from the Ethiopian Electric Power (EEP), Ethiopian Electric Utility (EEU), Ethio-Engineering Group (formerly METEC) (EEG), Chemical Industry Corporation (CIC), Ethiopian Railway Corporation (ERC), and Ethiopian Sugar Corporation (ESC) owed to the Commercial Bank of Ethiopia was transferred to LAMC under a quadrilateral agreement involving the Commercial Bank of Ethiopia, LAMC, SOEs, and the Ministry of Finance, with the Ministry of Finance acting as guarantor.

Fiscal policy reforms aim to create fiscal space by enhancing spending efficiency and increasing domestic tax collections. The HGERA emphasizes raising revenue by at least 4 percentage points of GDP through improved tax collections and rationalising tax expenditures. Resources will be directed towards antipoverty and social spending, including safety nets and subsidies for essential goods. This approach is expected to alleviate the poverty impact of macroeconomic adjustments.

The financial sector reforms include modernising the central bank's mandate and regulatory framework, opening the banking sector to foreign investment, and enhancing the financial stability of state-owned banks, such as the Commercial Bank of Ethiopia. The introduction of new laws and regulations is designed to strengthen financial oversight and create a competitive banking environment.

The HGERA also addresses public financial management, focusing on transparency and the performance of state-owned enterprises. Efforts include reducing quasi-fiscal deficits, improving financial reporting, and reinforcing SOE oversight. Privatisation efforts will be revived, targeting partial privatisation of Ethio-Telecom and other state-owned assets.

Social safety nets will be expanded, with increased government financing to support rural and urban programs. The integration of Ethiopia's digital ID system (Fayda) aims to improve program management and financial inclusion.

Economic growth strategies under the HGERA involve removing regulatory barriers, improving the investment climate, and enhancing regional and global trade integration. The government is committed to implementing reforms that will strengthen the economic foundation and foster resilient growth.

4. Raising Funds in the Private Markets

Ethiopia's Private Sector

The private market in Ethiopia is still in its early stages, characterized by both promise and challenges as efforts to attract investment continue. Challenges stem from limited capital and liquidity in the economy, but recent liberalisation measures have sparked interest from both local and foreign investors. Private equity investments have primarily targeted such sectors as technology startups, consumer goods, agribusiness, and telecommunications. Ethiopia's private sector remains largely dominated by small-scale, informal operations, however, with a strong focus on service industries that cater to domestic markets where returns are quick and substantial.

To stimulate the growth of the private sector, the IMF, in collaboration with the Ethiopian government, has recently introduced a comprehensive policy package. The key policies introduced are as follows:

- Transitioning to a market-determined exchange rate to address external imbalances and relieve foreign exchange shortages
- Combating inflation through the modernisation of the monetary policy framework, eliminating monetary financing of the budget, and reducing financial repression
- Creating fiscal space for priority public spending through mobilising domestic revenues
- Restoring debt sustainability, by securing timely debt restructuring agreements with external creditors
- Strengthening the financial position of state-owned enterprises to mitigate critical macrofinancial vulnerabilities

Despite this progress, a significant challenge lies in the sectoral distribution of investments. Private investors have been hesitant to enter productive sectors—such as manufacturing and agriculture, as well as the export market—areas that are crucial for driving industrialisation and structural transformation. Instead, most domestic private investments remain concentrated in the service sector and other domestic markets.

To address this imbalance, Ethiopia is also working on structural changes in public capital markets to strengthen the private sector, ensuring that key players—including financial institutions, importers, real estate developers, service providers, and the hospitality industry—have the support they need to diversify and expand into more productive areas.

Microfinance has traditionally been a significant source of financing for MSMEs in Ethiopia. However, the transition from microfinance institutions to banks has affected the availability of credit (loanable funds) for emerging businesses. Banks tend to prioritize larger and more established entities, making it increasingly difficult for smaller businesses to secure loans. Additionally, borrowing from banks often comes with high costs. Despite these challenges, the private market in Ethiopia has great potential for growth and diversification. It continues to attract investments in various sectors, contributing to a more balanced investment landscape and driving sustainable progress in the broader economy.

In the fiscal year 2021–22, banks in Ethiopia collectively disbursed loans amounting to ETB427.9 billion, a 30% increase from the previous year. These loans were allocated to various sectors, with a significant portion going to international trade, domestic trade, the manufacturing industry, personal loans, and housing and real estate construction.

Despite this growth in loan disbursement, the large- and medium-scale manufacturing industries in Ethiopia are still in their early stages, contributing a relatively small percentage to the country's GDP. This limited contribution can be attributed to several factors, such as the legacy of a longstanding pegged foreign exchange system, limited supply of raw materials, inadequate working space, a lack of proper infrastructure, and insufficient land for development.

The Evolution and Future of Ethiopia's Capital Markets

Ethiopia's capital markets have experienced a complex and evolving history, marked by significant disruptions and recent advancements. Share trading in Ethiopia began in 1956, allowing for the exchange of company shares and government bonds. This progress was abruptly halted in 1974, however, when the socialist regime nationalised companies and dismantled the share market. Since the fall of the Derg regime in 1991, efforts to reestablish a capital market have been ongoing.

A pivotal development occurred in 2021 with the enactment of Capital Market Proclamation No. 1248/2021, which created a comprehensive regulatory framework and established the Ethiopian Capital Market Authority (ECMA). This landmark legislation represents a renewed commitment to developing Ethiopia's capital markets, signalling a new era of financial sophistication and opportunity.

The launch of the Ethiopian Securities Exchange (ESX) in January 2025 is a critical milestone in this evolution. Local banks and insurance companies acquired significant stakes in anticipation of the exchange, reflecting growing interest and confidence in Ethiopia's capital market. These developments should create a more liquid, efficient, and secure market environment.

A notable aspect of the new regulatory framework is the introduction of the draft Public Offering and Trading Directive by the ECMA. This directive standardizes the registration of securities and sets rigorous requirements for corporate governance and disclosure. Share companies, both domestic and foreign, with more than 50 shareholders will be required to comply with these minimum standards within a one-year compliance period once the directive is ratified.

The NBE will play a crucial role in this transformation by overseeing the Central Securities Depository (CSD) system. Registered and housed at the NBE, the CSD system will facilitate the registration and dematerialisation of securities, enhancing market transparency and accountability. More than 1,000 share companies are anticipated to be formally registered under this system, enabling their automatic inclusion in the over-the-counter (OTC) market, with the option to list on the exchange subject to compliance with prescribed criteria.

The ESX will operate with two distinct licenses: an exchange license and an OTC license. Companies registered under the CSD system will have the option to trade on either the exchange or the OTC market based on their fulfilment of specific requirements. The ESX will be responsible for price discovery, trading, and ensuring the liquidity of listed securities, further advancing Ethiopia's capital market infrastructure and fostering an environment of growth and stability.

5. The Challenges to Capital Market Formation

In June 2022, stakeholders gathered for a consultation organized by the National Bank of Ethiopia's Capital Market Project implementation team. The purpose was to develop a roadmap for the successful launch of Ethiopia's capital markets, focusing on four key areas: *market development, infrastructure development, capacity development*, and *policy review*. The Ethiopian government has made significant strides in this direction, including the establishment of the ECMA to oversee capital market regulation. The authority has been instrumental in building much of the necessary infrastructure for the functioning and oversight of the capital markets, with a commitment to creating a favourable business environment.

Despite these advancements, several challenges must be addressed to ensure a thriving capital market. One critical area is the need for the ECMA to intensify its efforts to mobilize retail investors' funds. Developing innovative schemes to attract and harness these funds is essential for transforming these investments into major institutional capital. This is particularly important given the potential of retail investors to contribute to market liquidity.

Another challenge is the limited awareness and understanding of the capital market among the general public. Citizens often lack the knowledge necessary to navigate investment opportunities, which can lead to scepticism and reluctance to participate. Therefore, educating citizens is essential for managing expectations and fostering trust, both of which are crucial for the successful launch of the capital market.

On the policy front, a robust regulatory framework is a work in progress. Although regulators have made progress in advancing Ethiopia's regulations, continued efforts are necessary to enhance oversight and enforcement capabilities. A strong regulatory environment not only protects investors but also instils confidence among potential participants, facilitating a more vibrant investment climate.

To attract a diverse range of investors, it is also crucial to introduce a wider array of financial products. Currently, the selection of investment products available in the Ethiopian market is limited. Expanding the variety of asset classes will facilitate diversification for existing investors and broaden the overall investor base, enhancing the market's appeal.

Addressing these challenges will necessitate collaborative efforts from the government, regulators, and market participants. Improving the regulatory framework, enhancing market infrastructure, promoting investor education, and attracting both domestic and foreign investors are key steps towards the successful launch and development of Ethiopia's capital markets.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

As Ethiopia advances closer to launching its capital market, it is crucial to adopt a strategic approach that addresses existing challenges while seizing future opportunities. Drawing from global best practices and historical experiences, a comprehensive set of policy recommendations and solutions can guide the development of Ethiopia's capital markets. These recommendations focus on strengthening the legal and regulatory framework, enhancing market infrastructure, and fostering investor confidence.

Strengthening Human Capital for Financial Market Development

With only about 2,000 chartered accountants in the country, Ethiopia faces a pressing need to expand the pool of qualified financial professionals. This expansion can be achieved through two key strategies:

- *Inviting accredited institutions:* Establishing partnerships with internationally recognized financial and accounting bodies to provide training, certification, and ongoing professional development within Ethiopia is important. This collaboration would ensure that local professionals are equipped with the skills necessary to meet global standards.

- *Establishing a national certifying institute:* Creating a domestic certifying body to provide standardized accreditation would be helpful. It would facilitate a consistent and sustainable development of local talent and align their qualifications with international benchmarks.

Enhancing Public Awareness for an Inclusive Capital Market

A significant gap exists in the public's understanding of the capital market, which poses a challenge to the development of a robust financial ecosystem. To address this issue, the Ethiopian Capital Market Authority should take proactive measures to illuminate the complexities of the capital market and promote greater public engagement.

Key strategies to achieve this objective include the following:

- *Public education campaigns:* The ECMA should lead initiatives to educate the public about the capital market's functions, benefits, and opportunities. This can be accomplished through accessible media platforms, workshops, and community outreach programs.
- *Promoting inclusivity:* Efforts should be made to create a more inclusive capital market by tailoring information to resonate with diverse demographics. This approach will encourage broad participation from various segments of society, enriching the market's accessibility and vibrancy.

The Case of Real Positive Interest Rates

Ethiopia has faced a prolonged period without experiencing a positive real interest rate. In response to this challenge, following negotiations with the IMF, the government has initiated reforms to restructure the financial sector to restore positive real interest rates. It is imperative for the central bank to closely monitor market conditions to effectively manage expectations. In the long term, prioritising inflation control will be crucial because inflation has consistently posed significant challenges to the economy. By ensuring that interest rates remain in positive territory, the central bank can foster economic stability and growth.

The Need for Strong Corporate Governance

Strong corporate governance is foundational for fostering transparency and accountability within companies. By mandating clear reporting systems, companies can enable stakeholders access to accurate information, thereby fostering trust. Additionally, implementing policies and practices that enforce accountability ensures that managers and boards are held responsible for their decisions, effectively mitigating conflicts of interest and preventing the misuse of power.

The Need for Pension Fund Reform

Currently, Ethiopia's pension fund primarily invests in treasury securities, which significantly restricts its investment portfolio. A comprehensive reform is essential to facilitate more diversified, long-term investments and active participation in the capital market. Currently, both public and private pension funds manage nearly USD4 billion, collected from approximately 4 million public and private employees. To broaden the participant base beyond the current 4 million individuals and modernize operations, a dedicated regulatory body is essential to advocate for an expanded and dynamic pension scheme. Such reforms would enhance the fund's capacity to achieve sustainable growth and bolster its economic contributions.

A Much-Needed Overhaul of the Tax Regime

A thorough overhaul of Ethiopia's tax regime is recommended to stimulate local investment, foster capital market growth, and encourage corporate participation. Key changes should include extending tax exemptions on premium income for resident investors, contingent on reinvestment, to enhance market engagement. Additionally, introducing incentives for companies listing on the Ethiopian Securities Exchange, such as a reduced corporate profit tax rate for a specified time frame, would deepen market liquidity.

To promote the development of a corporate bond market, standardising tax rates on all interest income, with potential exemptions for interest from fixed-income securities, is advised. Lowering or fully exempting capital gains taxes on listed securities, subject to a minimum holding period, would align with property sales practices, thus discouraging short-term speculation.

Furthermore, providing flexibility in the deductibility of issuance and listing costs by allowing these expenses to be claimed immediately or over time would further ease tax burdens on firms, without negatively affecting revenue collection. For collective investment schemes (CISs) and real estate investment funds, implementing a "look-through" tax treatment would eliminate corporate-level taxes, which would support professional investment management and align with international norms.

Finally, removing stamp duty on bond issuance and transfers, along with introducing VAT exemptions for various capital market services, would significantly reduce transaction costs. These measures would greatly benefit market participants and encourage market expansion.

In conclusion, as Ethiopia approaches the launch of its capital market, a multifaceted and strategic approach is essential to overcome existing challenges and capitalize on emerging opportunities. Collectively, these recommendations form a comprehensive framework that creates a favourable business environment, boosts investor confidence, and promotes capital accumulation in the long run.

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KENYA

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Key Data Points (as of October 2024, unless otherwise stated)	
Total population	52.44 million
National currency and exchange rate	Kenyan shilling, KES129.49 per USD1 (20 November 2024)
GDP	USD116.32 billion
Real GDP growth rate	5.0%
SME contribution to GDP	34%
Annual average inflation	5.1%
Unemployment rate	5.7% (2021)
Total government debt outstanding	USD82.11 billion (KES10.58 trillion; June 2024)
Private debt, loans, and debt securities (% of GDP)[51]	29.99% (Dec. 2022)
Primary stock exchange	Nairobi Securities Exchange
Number of publicly listed companies	63
Equity market capitalisation (% of GDP)	13.84% (Dec. 2023)
Mutual fund assets under management	USD1.97 billion (June 2024)
Gross debt position (% of GDP)[52]	69.87%

[51]Total stock of loans and debt securities issued by households and nonfinancial corporations as a share of GDP.

[52]All debt of the public sector as a whole, which includes financial and nonfinancial public enterprises and the central bank.

Key Data Points (as of October 2024, unless otherwise stated)	
Number of marketable corporate debt issuers	5 (Sep. 2024)
Key private market investment firms	AfricInvest, Adenia, Ascent Capital, Phatisa, Zoscales, Centum Capital Partners, Metier

Sources: IMF, World Bank, the National Treasury, CMA Kenya, KNBS, CBK.

1. Introduction and Context

Kenya's capital market plays a crucial role in the country's economic development, serving as a platform for raising capital and facilitating investment. The Nairobi Securities Exchange (NSE) is the primary venue for equity and debt trading, showcasing a diverse range of listed companies across various sectors, including agriculture, telecommunications, and financial services.

The history of Kenya's capital market dates back to the early twentieth century, with the establishment of the East African Currency Board in 1900 and the formation of the NSE in 1954. Initially limited to a few listed companies, the market focused primarily on government securities. The postindependence era in the 1960s marked a watershed, when the government started to encourage private sector participation and foreign investment.

In the 1990s, the capital market underwent substantial reforms aimed at enhancing regulatory frameworks and improving market infrastructure. The introduction of the Capital Markets Authority of Kenya (CMA) in 1989 was pivotal, establishing a regulatory body to oversee and promote capital market development. This led to an expansion of the NSE's offerings, which now include a wide array of financial instruments, such as bonds, derivatives, and real estate investment trusts.

Recent regulatory reforms and initiatives aimed at enhancing transparency and investor confidence have contributed to increased market participation, both domestically and internationally. The NSE's efforts to modernize its operations have included the implementation of automated trading systems and mobile trading platforms, making it more accessible to a broader range of investors. Furthermore, the introduction of innovative financial instruments reflects the evolving landscape of Kenya's capital market, positioning it as an attractive destination for investors seeking growth opportunities in the East Africa region.

Despite its growth and potential, Kenya's capital market faces several challenges that could impede its progress. Market volatility remains a critical concern, often driven by economic fluctuations, political instability, and external factors, such as shifts in the global economy. Liquidity issues also persist, stemming from a relatively narrow investor base and limited participation from institutional investors. Furthermore, regulatory challenges, including the need for improved transparency and corporate governance, continue to create obstacles to attracting foreign investment. Addressing these challenges is essential for sustaining investor confidence and ensuring the long-term stability and growth of Kenya's capital market.

The following sections will delve deeper into these challenges and propose corresponding recommendations aimed at enhancing regulatory frameworks, increasing market access, and fostering innovation. As Kenya addresses these barriers and continues its development trajectory, its capital market is well positioned to contribute to the country's economic growth and stability in the years ahead.

2. Raising Funds in the Public Markets

Overview

For equity or for debt, the process of raising funds from the public markets mostly depends on the potential issuer's understanding of capital markets. The process for multinational firms, which continue to represent a large percentage of total equity capitalisation, mostly commences at company level, whereas for large locally owned businesses, the process is mostly triggered externally by financial or legal advisers.

Once the decision to tap the public markets is made, the process converges for all potential issuers. The first step entails appointing a transaction team that takes the issuer through a holistic business review. The goal is to assess the level of preparedness but more importantly to ensure the issuer meets the regulatory requirements.

If the issuer passes this evaluation, the transaction team applies to the necessary regulatory authority. In Kenya, at a minimum, this includes the CMA and the NSE. Upon approval, the issuer starts to engage potential investors; the mode depends on the approval received, the size of the offering, and the jurisdictional registration of the offer.

Book building is not prevalent, but it is starting to gain traction as issuers seek greater transparency regarding fundraising outcomes.

The overall timeline for the process—from inception to completion—spans a minimum of six months, with equity issues often requiring even longer durations. To accelerate the process, regulators have streamlined the application procedures for issuers. The market is also starting to leverage technology to allow for more efficient processing of investor applications.

Key Fundraising Challenges

The first key challenge of raising funds in the public markets is the lack of awareness and understanding of the capital markets among issuers. More than 75% of the equity market capitalisation in Kenya has consistently been dominated by multinational firms and state-owned enterprises, leaving locally owned businesses trailing behind.

The second and third key challenges are the time it takes to complete the process and the uncertainty around raising the intended sums. Private market capital providers have positioned themselves to address these two factors.

The cost associated with raising capital from public markets, versus banks or private markets, is the fourth notable challenge. For equity, the cost has averaged between 7% and 10% of the offer amount, while for debt, it is between 4% and 7%. Besides normal transaction advisory fees, the range depends on the level of credit enhancement applied, which can impact the perceived risk for investors.

Funding Infrastructure

Owing to the longstanding absence of clear legal frameworks, funding of infrastructure projects in Kenya has mostly been the responsibility of the government, facilitated directly and via bilateral financing agreements with developed countries' governments and development finance institutions.

To address the lack of clear laws and in hopes of boosting private and public market participation in funding infrastructure projects, in 2021, Kenya enacted the Public Private Partnerships Act. The landmark legislation established a transparent framework for collaboration between private sector investors and both national and county governments. It clearly stipulates the procurement process and the tax incentives available to participants, thereby creating a more favourable environment for private investment in infrastructure.

Commencing the journey of tapping private capital for infrastructure projects, in 2009 Kenya issued its first infrastructure bond. Subsequent bond issuances have mostly been successful, highlighting the importance of broadening the investor base by offering tax incentives: Unlike regular bond issues, infrastructure bonds are exempt from the 15% withholding tax on interest.

From the policy side, regulation has continued to adjust asset class allocation thresholds for pension funds. The main aim has been to diversify investment options and increase caps on nontraditional assets. This shift is intended to enhance the flow of capital into infrastructure projects by encouraging institutional investors to consider a wider array of asset classes.

On the private sector side, a key strategy of mitigating fundraising risks among emerging infrastructure developers is to partner with specialised infrastructure initiatives that act as core investors. Examples include Kenya Railways Corporation and the Kenya National Highways Authority.

Together, these efforts signal a progressive move toward a more inclusive and robust infrastructure funding landscape.

Encouraging the Development of SMEs

Similar to many other developing markets, SME participation in Kenya's public markets remains notably low. Key challenges include a lack of awareness among SMEs regarding the opportunities available in public markets and the perceived or actual high-risk nature of investing in these businesses.

On the policy front, the CMA and NSE have continued to simplify the capital raising requirements for SMEs, facilitating their access to public markets. Recent and upcoming initiatives include reducing the minimum paid-up capital, lowering the minimum operational tenure required for businesses, decreasing the minimum number of board of directors and board committees, and expanding the use of private placements. In 2021, in addition to its existing Growth Enterprise Market Segment, the NSE set up its Unquoted Securities Platform to encourage SMEs to raise capital from the public market. This platform offers SMEs a dedicated avenue for raising capital while benefitting from these streamlined requirements.

For SMEs to meet investor requirements, however, significant improvements in corporate governance and the development of robust business cases are essential. As SMEs seek to tap public markets for debt financing, the emergence of credit guarantee funds offers backstops against potential credit losses. These initiatives not only enhance the attractiveness of SMEs to investors but also contribute to a more diverse public market ecosystem.

The Impact of COVID-19 on Fundraising

The disruptive effects of COVID-19 significantly impacted public markets, primarily through diminished investor confidence, which led to a shift in capital flows towards "safe" assets. In Kenya, however, as in several other African countries, public markets had already begun to lose their appeal well before the pandemic struck.

One notable outcome of COVID-19 was the accelerated adoption of technology in the capital-raising process. This shift has paved the way for greater automation, lowering the costs associated with raising capital from public markets, which ultimately makes the process more attractive for issuers in the future.

The Role of Foreign Direct Investment in Fundraising

As noted previously, a sizable portion of Kenya's equity market capitalisation is attributed to the local subsidiaries of multinational corporations. As Kenya establishes itself as a prominent investment hub, more subsidiaries continue to be set up, thereby expanding the pool of potential future equity and debt issuers. This influx of FDI not only enhances market capitalisation but also brings expertise and best practices to the local market.

Familiarity with capital markets is a key determinant of the starting point of the capital raising process. Multinational firms often have established knowledge and experience in navigating capital markets, which can serve as a model for local businesses.

3. Debt

Kenya's public debt has been on the rise but is stabilising. Although the current levels are sustainable, they remain at a heightened risk of distress.

The total nominal public and publicly guaranteed debt stock as of the end of March 2023 stood at KES9,390.69 billion (64.7% of the country's GDP). Breaking this figure down, the domestic stock was KES4,539.59 billion (31.3% of GDP), equivalent to USD34.30 billion, while the external debt stock was KES4,851.09 billion (33.4% of GDP), equivalent to USD36.66 billion. Domestic and external debt stock accounted for 48.3% and 51.7% of total debt stock, respectively (National Treasury 2023a).

Domestic Debt

The government raises domestic debt primarily through public auctions. Occasionally the government also engages in private placements, selling bonds directly to preselected investors, including banks, mutual funds, insurance companies, and pension funds.

- *Treasury bills:* These are weekly short-term discount instruments. The 91-day, 182-day, and 364-day average interest rates were 9.76%, 10.25%, and 10.75% in March 2023 and 9.62%, 10.06%, and 10.62% in February 2023, respectively. The total outstanding treasury bill debt was KES3,631 billion, accounting for 15% of domestic debt.
- *Treasury bonds:* These are medium- to long-term instruments that typically offer interest payments every six months throughout the bond's maturity. They are issued monthly with tenors of 2, 5, 10, 15, 20, and 25 years. The government occasionally issues tax-exempt infrastructure bonds. The total outstanding treasury bond debt was KES3,631 billion, accounting for 83% of domestic debt (National Treasury 2023b).

According to the IMF, about 50% of domestic debt securities are held by commercial banks, followed by pension schemes at 47%.

Between December 2019 and June 2023, the yield curve shifted upwards, resulting in a higher cost of borrowing, and flattened, signalling expectations of rate hikes in the near term and loss of confidence in the economy's growth outlook (National Treasury 2023d).

The authorities successfully implemented their strategy to lengthen the maturity profile for government domestic debt securities from 5.75 years in December 2019 to 8.9 years in March 2023.

External Debt

External debt is denominated in five major currencies: the US dollar (67.3%), the euro (20.6%), the yen (5.3%), the yuan (4.3%), and the sterling pound (2.3%; National Treasury 2023c). Between 2013 and 2023, total external debt more than doubled as a percentage of GDP (from 16.5% to 33.4%). The structure has also changed, with nonconcessionary bilateral and commercial debt increasing tenfold and fourfold, respectively, to USD9 billion each (National Treasury 2023a). The characteristics of the external government debt outstanding are illustrated in the following paragraphs and in **Exhibit 37**.

Eurobonds

These are exchange-listed/traded tax-free instruments with a semi-annual coupon payment sold to investors largely in key source markets outside Kenya.

Bilateral Loans

Of the total external debt, 24.72% is bilateral. China is Kenya's biggest creditor, with a total debt of USD6.83 billion (17.2%) in March 2023. Paris Club members account for 7.0%, with France and Japan each holding 2.0%.

Exhibit 37. External Government Debt Outstanding

Name	Issue Date	Maturity Date	Coupon (%)	Amount (USD millions)
Kenya 24	24 June 2014	24 June 2024	6.875	2,000
Kenya 27	22 May 2019	22 May 2027	7	900
Kenya 28	28 February 2018	28 February 2028	7.25	1,000
Kenya 32	22 May 2019	22 May 2032	8	1,200
Kenya 34	23 June 2021	23 January 2034	6.3	1,000
Kenya 48	28 February 2018	28 February 2048	8.25	1,000
Total				7,100

Source: National Treasury of Kenya.

Multilateral Loans[53]

Of the USD16.9 billion (46.26%) of external debt outstanding, the IDA (World Bank), the African Development Bank, and the IMF hold 28.9%, 9.8%, and 4.6%, respectively.

Cost and Impact of Servicing

Kenya's debt service, although high, is not excessive compared with that of its peers. Except for maturing eurobonds and external bank loans in 2024, 2025, and 2026, Kenya has a relatively smooth debt service profile and is on a clear declining trajectory, which signals a strengthening in debt servicing capacity (see Exhibit 37).

Global monetary tightening has reduced the supply of and raised the cost of external commercial funding.

The Ukraine war resulted in supply chain and global trade disruption and a spike in commodity prices, putting pressure on inflation containment and resulting in currency depreciation.

The US Federal Reserve's tightening and the Ukraine war led to a spike in the yields of eurobonds, putting pressure on serviceability. This dynamic forced the cancellation of the USD1 billion eurobond[54] in 2022, putting pressure on foreign exchange reserves and causing a rapid depreciation of the Kenyan shilling, pushing up the cost of foreign debt servicing (Economist Intelligence Unit 2023). The changing structure of external debt to higher commercial debt as a proportion of external debt increased the cost of capital and puts a strain on debt service.

The COVID-19 pandemic and the slowdown in economic activity with reduced household purchasing power dampened GDP growth, reducing potential tax revenues that would be used to service debt.

Lengthening the maturity profile of domestic debt reduced short-term rollover risks and helps the local market absorb shocks (National Treasury 2022).

Recommendations

Based on our analysis of Kenya's debt situation, the following actions are recommended to foster greater fiscal sustainability and reduce vulnerabilities:

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[53]Under the multilateral sources, the terms are concessional (i.e., long grace periods and maturities and low interest rates). They are focused on economic development and social welfare. Such institutions include the IMF, World Bank, and African Development Bank. See National Treasury (2023c).

[54]A eurobond is a debt instrument that is denominated in a currency other than the home currency of the country or market in which it is issued.

- *Increase borrowing capacity via the debt-to-GDP ratio through GDP expansion:* The statutory limit is set as 55%.[55] To access more capital to develop the economy without the associated risk of financial distress, GDP needs to grow. This growth can be achieved through fiscal policy interventions of widening the tax base, investing in high-impact projects, and eliminating the waste of public resources.
- *Achieve investment-grade (BBB–) status by international rating agencies:* In order for Kenya to graduate to investment-grade (BBB–) status and attract cheaper debt from global markets, there is a need for actualising the long-planned fiscal consolidation; improvement of export sector performance and expansion of foreign reserves accumulation; promotion of economic growth to boost GDP per capita; and improvement of food production, access, and affordability in order to lower and stabilize the Consumer Price Index and the Real Effective Exchange Rate, among others (National Treasury 2023a).
- *Improve credibility via enhanced transparency and accountability in fiscal discipline, which could expand access to concessionary multilateral funding:* By demonstrating their commitment to prudent and responsible fiscal management, governments can build trust with international financial institutions and lenders. This can be achieved through closely monitoring spending, adjusting tax brackets or the base to increase revenue, curbing unnecessary government spending and focusing only on essential programs, prioritising debt repayment, and issuing new debt at favourable interest rates to manage the debt levels as a percentage of GDP. Rigorous accountability mechanisms help ensure that funds are directed towards projects that yield tangible social and economic benefits. These measures would improve economic stability, increase investor confidence, and hence lower the cost of debt, decreasing the risk of debt crises or distress.

Corporate Bonds

Corporate bonds are debt securities issued by companies to raise capital. Investors lend money to these companies and receive regular interest payments for the tenor and capital repayment at maturity. Corporate bonds are considered riskier than investments in government debt, and therefore, they generally command a premium over treasury bonds of similar tenor. These bonds are regulated by the CMA and traded on the NSE.

Relative to the government bond market, Kenya's corporate bond market is currently considered underdeveloped and sluggish, with significantly lower trading activity, because of such factors as past company collapses, information asymmetry, and high and volatile interest rates. This situation results in a market dominated by bank-issued bonds rather than diverse corporate issuances, further hindering its growth potential. The recent proposal to tax green bonds

[55]Previously, the debt ceiling was set at a limit of KES8 trillion. It has now been capped at 55% of GDP (present value) to conform with the international best practice in setting debt limits based on payment capacity.

and the current high yields on government bonds may further dampen growth for this moribund sector.

Most corporate bond issuance in Kenya comes from banks and nonbank financial institutions; nonfinancial companies hesitate to access the market. This dynamic leaves a small pool of diverse corporate bonds available for investors.

As of September 2023, KES28 billion worth of corporate bonds was outstanding, from a small list of eight issuers, two of which collapsed in the mid-2010s (Capital Markets Authority 2024). **Exhibit 38** illustrates the details.

Exhibit 38. Issued Corporate Bonds and Commercial Papers in Kenya as of September 2023

Issuer	Arranger	Approved Amount (bn)	Issued Amount (bn)	Approval Date	Issue Date	Maturity Date	Outstanding (bn)
East African Breweries Fixed MTN	ABSA Investment Bank	KES11.00	KES11.00	Aug 2021	Oct 2021	Oct 2026	KES11.00
Real People MTN	NCBA Investment Bank		KES1.63	Jun 2015	Aug 2015	Feb 2025	KES0.39
Acorn Project	Stanbic Bank	KES5.70	KES5.31	Jan 2020	Nov 2019	Nov 2024	KES0.28
Chase Bank Fixed MTN	Genghis Capital and NIC Capital	KES10.00	KES4.82	May 2015	Jun 2015	Jun 2022	KES2.88
Centum Real Estate Limited	Private Wealth Limited	KES4.00	KES2.95	Nov 2020	Dec 2020	Dec 2022	KES4.82
Imperial Bank Multi-Currency MTN	Dyer and Blair Investment Bank	KES2.00	KES2.00	Oct 2014	Oct 2015	Dec 2020	KES2.02
Family Bank	NCBA Investment Bank	KES8.00	KES4.00	May 2021	Jun 2021	Dec 2026	KES2.00
Kenya Mortgage Refinance Company	NCBA Investment Bank	KES1.40	KES1.40	Jan 2022	Mar 2022	Dec 2029	KES4.00
						Total	**KES28.38**

Source: CMA.

4. Raising Funds in the Private Markets

Private Capital Market Overview

Private capital markets have gained prominence in Africa during the last few years as various categories of stakeholders have taken an interest in the sector. Over the last decade, the total fundraising in private capital markets in Africa was about USD50 billion, compared with more than USD16 billion raised in IPOs in public markets. These figures highlight the potential of private capital markets as a primary source of finance. East Africa remains a top investment region in Africa, and Kenya is the top investment destination among the East African countries, attracting on average 62.5% of deals by investment value between 2019 and 2021 and 85% between 2017 and 2018, according to recent reports by the East Africa Private Equity and Venture Capital Association (EAVCA).

The investor base in private capital markets in Kenya and in East Africa generally is currently dominated by development finance institutions (DFIs) and international investors (including international pension funds, high-net-worth investors, and family offices), with little participation by local investors.

Some of the main challenges hindering investment by local investors are as follows:

- *A knowledge gap wherein investors generally have limited knowledge or understanding of private capital markets.* Domestic institutional investors, however, are becoming more aware of the asset class and its diversification potential and are beginning to consider it more intently.
- *Regulatory oversight.* Domestic investors, particularly some institutional investors, consider regulatory oversight as a prerequisite for investment in private capital markets. Private capital markets tend to have minimal regulatory oversight, which is associated with low transparency—perceived or real—and therefore are riskier than other available alternatives.
- *Competition from other savings/investment products.* For instance, government debt instruments in Kenya offer very attractive rates of return with relatively low risk compared with private capital markets.
- *Low liquidity and few exit opportunities.* This situation affects investors' initial investment decisions because the availability of exit options provides an incentive for investors.
- *Relatively less developed public capital markets.* These markets could serve as a viable avenue for exits, and their underdevelopment exacerbates the problem.
- *Lack of clarity in tax treatment.* In some cases, this situation reduces the value proposition of investing in certain private capital market asset classes.

- *Limited investment analysis capabilities in private capital markets.* This limitation often stems from a lack of readily available and standardized data on private companies, making it challenging for investors to conduct thorough due diligence and assess potential returns and risks. The issue is compounded by a shortage of experienced professionals at local investment firms who possess the specialized skills required to analyze these complex, illiquid assets.
- *Difficulties in valuation and complexity in determining fair value.* Unlike publicly traded companies with observable market prices, private capital assets lack such transparency, making its price discovery process challenging for investors.

Private capital markets are increasingly being embraced, with innovative structures, such as guarantee facilities and blended structures, expected to support market growth. This trend—coupled with the unique predisposition of the private capital markets to help actively address emerging challenges and financing deficits related to climate finance, adaptation, and mitigation; SME financing and infrastructure; and urban development—is increasing the value proposition of investment in these markets.

Kenya faces big financing deficits in these areas. Given the increasingly tight fiscal space, the role of private capital is expected to become more critical. Kenya required USD61.7 billion between 2020 and 2030 to meet its global commitment for climate change adaptation and mitigation (Ministry of Environment and Forestry 2020), while according to the World Bank (2024), the annual infrastructure financing gap stands at USD2.1 billion. The country also requires approximately USD27 billion in incremental investment by 2050 to finance sustainable clean urban development (FSD Africa and Coalition for Urban Transition 2024). Additionally, according to the International Finance Corporation (2022), the country faces an MSME financing gap of approximately USD19.3 billion. This situation, coupled with traditional financing types that may not work well for SMEs, as well as risk aversion by traditional lenders, results in a strong case for private capital markets, which potentially offer the flexibility to design instruments and structures that meet the needs of both SMEs and investors.

Investment Activity

A total of 332 deals valued at USD6 billion were recorded in Kenya over the eight-year period from 2015 to 2022. The highest deal values were recorded in 2017 and 2019, according to various reports by EAVCA, whereas 2020 and 2022 saw the highest number of deals recorded. There was a high total reported value of deals in 2017, driven largely by one large-ticket investment of USD2.6 billion in a telecommunication company. The dominant sectors in terms of investor interest over the period were consumer goods; financials; and technology, media, and telecommunications.

Main Forms

Equity, debt, and mezzanine financing are the three dominant forms of private capital in East Africa and Kenya, according to EAVCA. Equity leads the group, accounting for 90% of all transactions, with debt and mezzanine financing accounting for 5% each.

Exits

During the last decade, trade sale and secondary sale remained dominant as preferred modes of exit in Kenya. Eight exits were reported in 2022. Collectively, between 2015 and 2022, there have been about 27 exits versus 332 deals, resulting in an exit rate of 8%.

The Impact of COVID-19 on Private Capital Markets

Because of the economic uncertainty and decline in investor confidence caused by the pandemic, investors became more risk averse and funding for startups was reduced. These factors also drove down valuations in the market. The deal-making process was also disrupted by the restrictions on movement, making it challenging for investors and entrepreneurs to meet, conduct due diligence, negotiate deals, and close transactions. The disruption of deal flow affected both early-stage and later-stage investments. The tourism, hospitality, transportation, and logistics sectors experienced significant declines because of travel restrictions and reduced consumer demand. Businesses in these sectors faced greater challenges in attracting investment during the pandemic. The pandemic also prompted a shift in investment focus towards sectors that investors perceived as having the potential to adapt to the “new normal” and sectors that proved more resilient during the crisis, such as health care, technology-enabled solutions, e-commerce, and fintech.

The pandemic accelerated the adoption of digital technology and innovation in Kenya. Investors became more interested in businesses that offered solutions for remote work, online learning, e-commerce, and telemedicine, which drove investment activity during this period. There was also increased support from governments and DFIs, with the Kenyan government introducing an initiative to support businesses affected by the pandemic. DFIs also supported many efforts to curb the pandemic, especially in the health care sector. The government introduced financial relief programs, tax incentives, and business development support to mitigate the impact of the pandemic on the private capital market ecosystem and fast-track economic recovery.

5. The Challenges to Capital Market Formation

The development of Kenya’s capital markets has been relatively slow, hindered by a range of complex challenges that have limited their growth and competitiveness. These challenges, which affect both the regulatory framework and investor confidence, have constrained the ability of the markets to fully support economic development and long-term financial stability.

Next, we discuss key challenges to capital market formation in Kenya.

Legal and Regulatory Challenges

A sound legal and regulatory framework is vital for the growth and development of capital markets. Unfortunately, the Kenyan legal system has had instances of slow enforcement of financial laws and regulations. Delays in court proceedings, especially those related to financial malpractice and fraud, have often resulted in a lack of timely resolutions, creating a climate of uncertainty for investors. Additionally, the absence of strong deterrents in the form of punitive measures for those who violate securities laws is a cause for concern.

The CMA works with the Capital Markets Fraud Investigations Unit (CMFIU), a specialised unit of the Kenya National Police Service, to investigate fraud in the Kenyan capital markets. **Exhibit 39** provides a summary of cases that have been handled by the unit.

In addition, some regulatory limitations have had a stifling effect on the capital market's dynamism. For example, stringent listing requirements on the NSE have discouraged potential companies from going public, while the regulation of fintech startups by various regulators limits the sector's growth. Although these

Exhibit 39. Summary of Cases Handled by the CMFIU, 2014–2022

Year	PBC	PUI	PAKA	Referred to DMO for Enforcement	Total	Decrease by	Increase by	Finalised	Closed, NFPA
2014	5	20	3	2	30			3	
2015	6	22	4		30			4	
2016	6	10	2	1	19	11		5	
2017	4	13	2	2	21		2	0	
2018	7	14	5	1	17	4		14	
2019	3	16	2	1	22		5	11	2
2020	6	18	3	2	29		7	3	1
2021	7	17	6		30		1	5	1
2022	9	22	1		32		5		3

Notes: PBC = pending before court. PUI = pending under investigation. PAKA = pending arrest of known accused. Referred to DMO for Enforcement = referred to the Directorate of Market Operations for administrative action. Finalised = files that have been closed after judgement from court. Closed, NFPA = files closed, no further police action.

Source: Capital Markets Authority (2023).

regulations aim to ensure investor protection, they inadvertently limit the breadth and depth of the market.

Financial Infrastructure

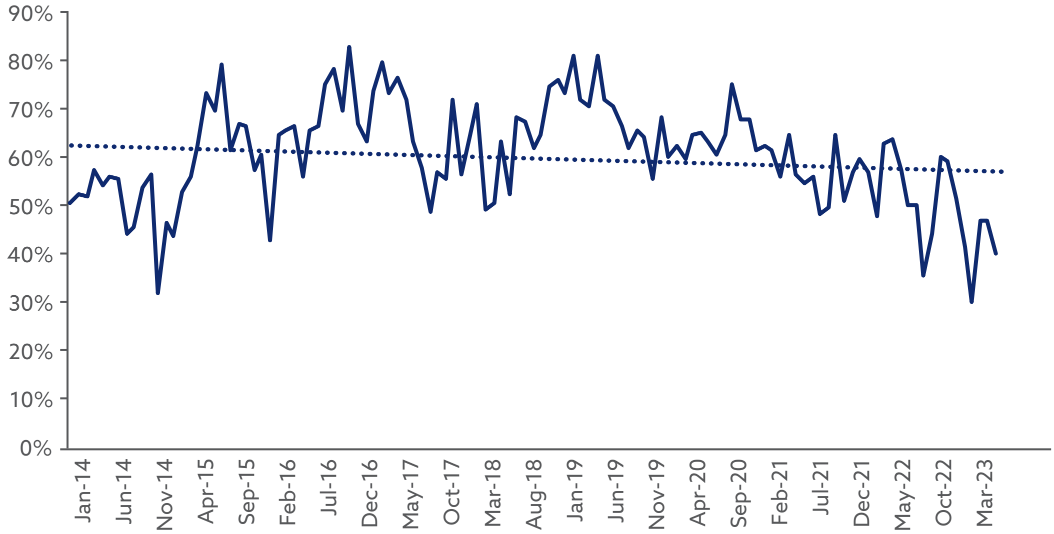
There is a lack of diversified financial products. The Kenyan public market is dominated by equities and government bonds. The slow adoption of other financial products, such as derivatives and ETFs, limits investment options and hampers overall market liquidity.

Liquidity

A major issue is the limited number of listed companies on the Nairobi Securities Exchange. Currently, the NSE has significantly fewer listed companies compared with other exchanges of similar economies and thus provides a limited range of options for investors. This shortage of investment alternatives has inevitably resulted in overconcentration of trading in a few blue-chip companies, thus creating a skewed market that is not entirely representative of the broader economy.

Additionally, local participation in the Kenyan capital market has historically been relatively low, as illustrated by the dominating foreign investor participation rate in **Exhibit 40**. Although foreign investors play a vital role in enhancing market liquidity, overreliance on foreign investment can lead to volatility, particularly during periods of global financial uncertainty, as witnessed by the increased foreign investor outflows recorded in the market since 2020. Encouraging greater local participation is therefore important for fostering a more balanced and stable market.

Exhibit 40. Annual Participation of Foreign Investors in the NSE



Sources: Capital Markets Authority (2015, 2017, 2019, 2021, 2022, 2023b).

Further compounding the liquidity problem is the lack of market makers—financial institutions that commit to buying or selling a particular security at publicly quoted prices—to ensure that trading can continue smoothly even in times of uncertainty or market stress.

Limited Market Depth

The Kenyan capital market, despite its growth, remains relatively small and lacks the depth found in more mature markets. This limited depth results in less liquidity, which can deter potential investors and impede the efficient functioning of the market. Market illiquidity can increase the cost of capital and create hurdles for businesses seeking to raise funds.

Capacity

A key issue in Kenya is the lack of sufficient financial literacy among potential and existing investors. Despite the efforts of regulatory bodies such as the CMA to promote investor education, a large proportion of the population remains unaware of the workings of the capital market, the risks and rewards of different financial products, and their rights as investors. This lack of knowledge discourages participation and limits the capital market's growth potential.

According to the 2014 S&P Global Financial Literacy Survey, 38% of adults in Kenya at the time of that survey were financially literate. Seven years later, a 2021 survey by Financial Sector Deepening Kenya (2021) found that 49.3% of Kenyans were financially literate.

In the private markets, local investor participation remains low because of limitations in capabilities around certain aspects of investment in private markets, such as due diligence and financial analysis.

Investor Trust

Investor confidence in Kenya's capital markets remains relatively low. A history of corporate defaults and financial fraud in the Kenyan market has severely undermined public trust. High-profile cases such as the collapse of Chase Bank and Imperial Bank, as well as the allegations of financial impropriety at Uchumi Supermarkets, have left a damaging legacy.[56] Investors, particularly retail investors, are wary of potential losses caused by corporate malfeasance or market manipulation.

The challenge is further compounded by perceived weaknesses in the regulatory and legal framework. Delays in the prosecution of financial crimes,

[56]Chase Bank was placed under receivership on 7 April 2016, and Imperial Bank was put under receivership by CBK on 13 October 2015. In June 2015, Uchumi sacked its chief executive for alleged gross misconduct, and an audit uncovered the loss of funds raised through a rights issue. Since 2018, the company has been trying to reach an agreement with its creditors (Global Financial Literacy Excellence Center 2014).

perceived inadequacies in investor protection mechanisms, and a perceived lack of transparency in market operations have all contributed to this climate of distrust.

Policy Formulation and Implementation Challenges

Policymaking plays a pivotal role in shaping the trajectory of capital market development. Although numerous policies have been formulated to develop Kenya's capital market, implementation has often lagged. For instance, the *Capital Market Master Plan 2014–2023*,[57] which outlines strategies for the growth and development of the Kenyan capital market, has seen slow execution. The sluggish pace of implementation can be attributed to bureaucratic hurdles, lack of political will, or inadequate resources.

Additionally, Kenyan regulatory policies have, at times, appeared to be reactive rather than proactive. There have been instances where regulatory interventions were made in response to a crisis instead of being preventive measures. This reactive approach undermines market confidence and does little to prevent future crises.

Moreover, Kenya, like many other economies, has grappled with striking a balance between fostering innovation and ensuring market security. Although the regulatory authorities are mandated to protect investors, overly stringent regulations can stifle innovation and market dynamism. For instance, the slow acceptance and integration of innovative financial products and technologies into the capital market can be traced to regulatory conservatism.

The government's fiscal policy has remained expansionary, and the government's borrowing limit and targets have repeatedly been revised upwards. The increase in government borrowing continues to crowd out the private sector, thereby negatively affecting the country's economic growth.

Lastly, there is a need for coordination between different regulatory bodies. There are instances where regulatory overlap or conflict has led to confusion, potentially discouraging participation in the capital market.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

Given the challenges we have highlighted, the following policy recommendations and approaches could be adopted to alleviate the current barriers and challenges.

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[57]For more details, see the *Capital Market Master Plan 2014–2023*, 2nd Edition (30 April 2016), developed by Kenya Capital Markets Authority: www.cmmp.or.ke/assets/documents/cmmp-2014-2023.pdf.

Encourage and Facilitate the Formation of Public–Private Partnerships

A synergetic public–private collaboration can substantially contribute to capital market formation. PPPs can harness the financial resources and technical expertise of the private sector while benefitting from the regulatory support of the public sector. We recommend the creation of platforms to facilitate such collaborations, thereby fostering a conducive environment for investment.

In the infrastructure space, the government has set up structures to operationalize PPPs and encouraged local pension funds to participate. These moves are a step in the right direction.

In Kenya, the first policy intervention in this space happened in 2011, when the government released the PPP Policy Statement and later the Public Private Partnerships Act 2013. Some projects that commenced during this period are the first three berths of the Lamu Port–South Sudan–Ethiopia Transport Corridor Project, which began in 2018; the Nairobi Expressway, which began in 2020; and the Kenyatta University Hostels (10,000 beds), which began in 2015.

In 2021, the Public Private Partnerships Act 2013 was revised in a bid to streamline project processes and expand procurement options. The Directorate of Public Private Partnerships was established with a mandate to facilitate implementation of the Public Private Partnerships programme and projects in Kenya.

The public sector's contribution can be provided in the form of cash or equivalents, such as land, development rights, revenues (rents/tariffs) generated from land, infrastructure and building assets, taxation relief, or a share in the equity generated over a fixed period.

Implement Comprehensive Regulatory Reforms

To foster a flexible, innovative, and resilient capital market, there is a need to continually revisit existing regulations. Regulatory bodies should aim to strike a balance between protecting investors and allowing room for innovation. This process would involve regular reviews and modifications of financial regulations, adapting them to contemporary market trends and international best practices.

There is also a need for innovative policies that explicitly promote capital formation. Such policies could involve incentives for companies to go public, tax benefits for investments in certain sectors, or initiatives to promote financial literacy.

The dynamism of the private sector often drives innovation and growth. However, unregulated private sector activities can lead to systemic risks. Therefore, it is vital to devise a regulatory framework that accommodates private sector innovations while safeguarding public interests. Such a framework could involve flexible regulations that encourage private sector participation and competition, coupled with robust oversight to prevent market manipulation and fraud.

Launch Financial Literacy Programs

The importance of financial literacy cannot be overstated. Policies should aim to enhance public knowledge of capital markets, equipping potential investors with the necessary skills to make informed decisions. This could be achieved through public awareness campaigns, educational programs, and collaboration with educational institutions and financial literacy companies.

In addition, policies that increase financial inclusion could also benefit the industry. Strategies aimed at digitising financial services, promoting mobile banking, and reducing transaction costs can help bring more people into the formal financial sector. Such inclusive growth would provide a broader base for capital market expansion in Kenya.

Invest in the Development and Modernisation of Financial Market Infrastructure

Infrastructure plays a pivotal role in the functioning of both private and public markets. Policies aimed at enhancing financial infrastructure—such as payment systems, digital platforms, and trading systems—will boost both private and public markets.

Efficient market infrastructure enhances transparency, visibility, and information symmetry for market participants and boosts confidence of the market participants, particularly investors.

Policymakers should prioritize infrastructure development, considering its impact on market efficiency and accessibility. Increasing fees and transaction charges would negatively affect the sector.

Additionally, policy should aim to incentivize private sector investment in capital markets because it can provide the much-needed capital necessary for infrastructure projects, innovation, and overall economic development. To effectively promote private sector participation, Kenya could implement several strategic measures. First, offering targeted tax incentives, such as tax breaks or credits for investments in priority sectors, can make capital markets more attractive to investors. Second, streamlining regulatory requirements can reduce barriers to entry, making it easier for SMEs to engage in capital market activities. This might include simplifying complicated processes or providing clear guidelines that enhance transparency. Moreover, initiatives aimed at mitigating investment risks are essential. These could involve the creation of insurance mechanisms that protect investors against potential losses.

Promote Continuous Training and Modernisation of Financial Market Infrastructure

Investment professionals play a critical role in shaping capital markets. They bring to bear their expertise in managing investments, pricing securities, and assessing market risks. Strengthening the professionalism of investment professionals through continuous training, adherence to ethical standards, and certification programs can significantly enhance the growth and development of capital markets.

Investment professionals' insights and experiences can be invaluable in developing and implementing effective policies for capital market development. Their input can help tailor policies to the realities of the market, thus increasing their effectiveness.

Over the past few years, the CFA Society East Africa has engaged regulators, employers, and industry practitioners in a bid to support professionalism in the investment industry. As a result, the number of Kenyans registering for the CFA Program has increased as industry practitioners and those seeking to join the industry seek to improve their financial knowledge.

The formation of the Institute of Certified Investment and Financial Analysts, a regulatory body that seeks to promote ethics, integrity, and professionalism in the investment and financial sector in Kenya, is one step in the right direction. There remains, however, a need for regulators and industry practitioners to engage further.

Strengthen Investor Protection Mechanisms

The absence of strong deterrents in the form of punitive measures for those who violate securities laws is a cause for concern. Regulators put in place policies and procedures that ensure that investors are protected. Regulation should, however, not be too stringent to discourage innovation. To strike the right balance, regulators should engage industry practitioners.

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BOTSWANA

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Key Data Points (as at October 2024, unless otherwise stated)	
Total population	2,359,609
National currency and exchange rate	Botswana pula (USD0.737: BWP1)
GDP and growth rate	USD19.4 billion (2023); 2.7% (2023)
SME proportion of GDP	15%–20%
Annual average inflation	2.9%
Unemployment rate	25.9% (as at Q3 2023)
Total government debt outstanding	USD3.5 billion (Mar 2023)
Public debt to GDP ratio	21%
Primary stock exchange	Botswana Stock Exchange
Number of publicly listed companies	29
Total equity market capitalisation	USD3.897 billion (Jan 2025)
Number of marketable corporate debt issuers	39 corporate bonds (as of 2025)
Examples of domestic private market investment firms	Capital Management Botswana, African Alliance Botswana Limited, Aleyo Capital

Sources: Statistics Botswana; Bank of Botswana; Botswana Institute for Development Policy Analysis; Ministry of Finance and Economic Development; Botswana Stock Exchange.

1. Introduction and Context

Botswana, a landlocked country in southern Africa, has a population of slightly more than 2.3 million people. It attained independence on 30 September 1966.

Botswana has been described as containing the "Garden of Eden," according to a DNA study on the origins of modern humans (Sky News 2019). According

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to the Diamond Registry (2023), the country is the world's largest producer of diamonds by value and second in terms of volume. Botswana is also an attractive tourist destination, with key landmarks including the Okavango Delta, Tsodilo Hills, and Chobe National Park.

Despite its tourism and diamond production, Botswana's financial markets are underdeveloped. As a developing nation, it still falls behind on advanced financial market tools that can improve the economy or make it more competitive.

Like any growing economy, Botswana needs capital to fuel its growth, and one source of such capital is the capital market. Currently, this market is under the purview of the Botswana Stock Exchange (BSE), which is regulated by the country's Non-Bank Financial Institutions Regulatory Authority (NBFIRA).

The BSE's roots go back to 1989, when it had only five entities listed. As of 2023, it has more than 25 entities listed and trades not only equities but also bonds and ETFs. The BSE serves as the bridge for capital flows between the private and public markets, and it boasts companies in varying industries, from financials, retailers, tourism, and hospitality to real estate.

Although this exchange is still young and growing, one challenge it faces is illiquidity in the markets. Its biggest investors are institutional investors—namely, pension funds. Because there are not a lot of counters on the stock exchange, these investors buy and hold quality assets for the long term and do not trade as often as in other markets. This lack of liquidity has caused investors to look elsewhere to earn returns.

The next place to look for returns is the private market, and the government of Botswana, working together with the private market and the regulator, has put in place measures to ensure that capital flows efficiently to companies that can develop the economy but also enrich and serve the population. These capital flows can be through grants, loans, and investments made by private equity firms, both locally and internationally.

This chapter will examine fundraising in Botswana from both the public and the private markets.

2. Raising Funds in the Public Markets

Overview

Capital raising in Botswana can be divided into two main components:

- Public institutions (government related)
- Corporate or private sector

Public fundraising by government-related entities in Botswana comes in fiscal and monetary forms:

- Taxes (income, value added, capital gains, etc.)
- Issuing government bonds (T-bills and treasury notes)
- Borrowing from supranational organisations, such as the IMF and the World Bank

Fundraising by the private sector in Botswana comes from the following sources:

- Economic development financial institutions
- Bilateral or syndicated loans
- Private equity
- Public stock market

Botswana follows a progressive income tax system, which levies a higher tax rate against high-income-earning entities. Other taxes include a value-added tax, a capital gains tax, and estate taxes.

The funds raised by taxes are used for the development of the country and go towards salaries for government employees, as well as building community schools and public hospitals.

As a means of tackling issues related to monetary policy, the Botswana government, through the Bank of Botswana, issues Bank of Botswana Certificates (BOBCs). For financing public activities, such as running the various ministries, the government issues T-bills and bonds.

Just as a business has a mix of debt and assets, Botswana has a mix of both. The country seeks to acquire loans from supranational organisations, such as the IMF and the World Bank. The latest loan from the World Bank was a BWP150 million loan to support the recovery of the country's economy after the COVID-19 pandemic (Modiakgotla 2023). On the opposite side of the financial statement is Botswana's sovereign wealth fund, the Pula Fund. This fund invests proceeds from diamond exports for future generations. According to the Bank of Botswana, the balance of payment surpluses for an extended period has allowed it to grow since it was established in 1994.[58] A notable example of the use of Botswana's sovereign wealth fund was when the Botswana Public Officer's Pension Fund (BPOPF) was established and assets were transferred from the Pula Fund to the BPOPF.

[58]www.bankofbotswana.bw/content/pula-fund.

The Role of Foreign Direct Investment in Fundraising

FDI plays an important role in the growth of Botswana's economy. Through such organisations as the Botswana Investment and Trade Center (BITC) and the Botswana Development Corporation, foreign investment passes through to the country to be invested in such sectors as mining, agriculture, finance, and real estate.

From the corporate side, funds are raised through the issuance of shares in the stock market, through loans—both bilateral and syndicated loans—and through the private market, where businesses acquire funding from private equity managers. These private equity managers are local, and they invest large sums of money in the development of the country through different sectors (e.g., education, logistics, health). One medium of exit that private equity (PE) managers use is listing. The BSE is the medium through which companies can list their shares.

Institutional investors, such as pension funds, hold the largest share of monies on the BSE. Because of a lack of trading volume, the local equity market is said to be relatively illiquid, as institutional investors execute buy and hold strategies despite the performance of companies' stock. This situation does not reflect true market prices, making the local equity market inefficient.

Funding for Infrastructure and SMEs

There are also numerous SMEs in Botswana, accounting for more than 35% of the country's GDP (BIHL Group 2017). These businesses acquire their funding mostly from government institutions, such as the Citizen Entrepreneurial Development Agency (CEDA). CEDA helps businesses with funding for capital expenditure, working capital, and training and mentoring.[59]

Despite efforts aimed at assisting entrepreneurship, Botswana has a notable amount of unemployment. The unemployment rate rose during the period from 2015 to 2020. One key factor cited is the lack of funding put toward the SME sector. To assist in improving the business environment, the government provides funding to aid economic activity. In the latest budget report, the government pledged more than BWP400 million to satisfy this goal (Serame 2023). In the private sector, there is a direct relationship between the size of the SME and the probability of a PE firm investing in the SME. If the SME is small (based on the number of employees and annual profitability), then it will not be considered as a portfolio company in the books of the PE firm. The higher the valuation and number of employees, the higher the probability of being considered. This situation leaves a number of smaller SMEs scrambling for funding from the government.

[59]See the CEDA corporate profile, www.ceda.co.bw/corporate-profile#:~:text=Corporate%20Profile-,Background,sustainable%20citizen%20owned%20business%20enterprises.

Infrastructure is paramount to the success of economic activity in any country. Infrastructure projects are developed through government budgets, the private sector, and even development partners. The largest contributor to infrastructure projects is the Botswana government. In the 2023–24 budget speech, a budget of BWP12.73 billion was being invested in the development of infrastructure in the country (Serame 2023).

Botswana also has public–private partnerships that foster the development of infrastructure projects, such as projects dealing with water, energy, commercial real estate, transportation, and agriculture. The goal here is to have a collaboration between the government and the private sector, where financial resources, knowledge, and expertise can be pooled to improve the basic services for the nation at large.

The PPP Unit was established within the Ministry of Finance and Economic Development. It acts as a custodian of the PPP policy established by Botswana's government and ensures the policy is successfully implemented.[60] According to the Ministry of Finance, out of 16 possible PPP projects, only 3 are at the "procurement of private party stage," which is when private companies bid to provide their services to the PPP project. To date, only two projects have been developed through PPPs: the Ombudsman and Land Tribunal Office Accommodation Project and the SADC Headquarters Office Accommodation Project. Therefore, the two ways infrastructure projects are done in Botswana is through the government wholly or through PPPs.

The Impact of COVID-19 on Fundraising

During the COVID-19 pandemic, the economy experienced a slump in economic activity that affected multiple sectors. Companies saw their bottom line fall, and individuals lost their jobs. Diamond sales fell because of the lack of global demand for diamonds, which affected Botswana because it is one of the world's largest diamond exporters. The country undertook measures to assist with effects of the pandemic, such as tax reforms that increased the minimum wage allowed to pay income tax, as well as a COVID-19 relief fund established by the Ministry of Finance to assist with funding for the control, prevention, and treatment of COVID-19 and its aftereffects.

In the private sector, because of declining profitability, companies found it difficult to list on the BSE. This situation reduced the chances of an increased number of options for investors and boosting liquidity in the local markets. Delistings also occurred because of the pandemic, which cost investors money (Dickson 2022). Despite the absence of listings, there was an uptick in the issuance of debt, with around BWP5.6 billion raised by corporations and government (Botswana Stock Exchange 2020).

[60]For more details, see the Ministry of Finance web page on the PPP unit at www.finance.gov.bw/index.php?Itemid=402&option=com_content&view=article&id=260&catid=13.

After the COVID-19 pandemic subsided, fundraising was conducted through bonds issued by the central bank, as well as loans from organisations such as the World Bank.

Botswana therefore has multiple avenues to raise funds. In the private sector, local and international organisations are supplying funds. In the public sector, the government and FDIs are boosting economic activity. The pandemic increased government spending to boost economic activity, while private companies did not fare well. As for equities, the stock exchange, which is still new, is seeking to list more companies and improve liquidity for investors, both local and foreign.

3. Debt

Debt and Capital Market Depth

Government debt and guarantees increased from BWP48.7 billion in financial year 2021–22 to BWP53.4 billion in financial year 2022–23 (unless otherwise noted, the data in this and the subsequent subsections are from CEIC [2023; 2024]). As a proportion of GDP, government debt increased to 20.4% from 18.7% over the same period. Total domestic government debt amounted to BWP27.2 billion (10.4% of GDP) at the end of the 2022–23 financial year, which is lower than the statutory domestic borrowing limit of 20%. External debt is estimated at 7.2% of GDP for the same period, also below the 20% threshold. These data indicate that the government has sufficient fiscal capacity for debt consolidation if the need arises and that there is room for even more capital formation by the government.

Government External Financing

Botswana's Ministry of Finance considers these debt levels sustainable even after accounting for the increasing debt service obligations because of the acquisition of new external loans—for example, the USD250 million (BWP2.8 billion) loan for financing economic recovery secured under the Programmatic Economic Resilience and Green Recovery Development Policy (ERGRDP) at the International Bank for Reconstruction and Development. Also under the ERGRDP, a loan amount of USD100 million from OFID was published in the *Botswana Government Gazette* of 23 December 2022. Further, an act to authorize a loan not exceeding JPY15 billion from the Japan International Cooperation Agency to the COVID-19 Crisis Response Emergency Support Programme was also listed in the *Gazette* on 23 December 2022. Despite the increase in government debt, it is expected to remain below the statutory limit at a projection of 20.7% of GDP in 2023–24. These efforts for further fiscal consolidation reflect the government's desire to diversify its funding sources and highlight an appetite for more debt financing as the country strives for more economic transformation in line with the second Transitional National

Development Plan that was designed to facilitate the transformation initiatives and has run from April 2023 to March 2025.

The increase in external debt demands a robust debt management strategy to manage the interest rate and exchange rate risks. Consequently, the Ministry of Finance uses the Medium-Term Debt Management Strategy of 2016/17–2018/19 as a guide. The new Strategy was published in 2023, in parallel with the regular 2023 Budget Speech, outlining measures of hedging against interest rate risk and exchange rate risk.

Government Domestic Financing

For securities listed on the Botswana Stock Exchange, government bonds generally drive market capitalisation. Bond market capitalisation increased by 15.1% from BWP22.2 billion in February 2022 to BWP28.2 billion in December 2023 because of the listing of new corporate bonds on the stock exchange and reopening of government bonds. According to the Botswana Financial Stability Report, the reopening of government bonds is the main driver of total bond market valuation. The nominal value of government bonds rose from BWP20.2 billion in December 2022 to BWP23.2 billion in December 2023, while corporate bond valuations decreased by 33%, to BWP5.3 billion during the same period.

The proportion of government bonds in the nominal value of the fixed-income market stood at 81.4% in December 2023. This figure demonstrates the government's ongoing commitment to deepen and develop the domestic capital markets under the BWP30 billion Government Note Issuance Programme, which is a culmination of continuous efforts by the government to spur activity in the capital market since 2004. Under the Bond Issuance Note Programme in 2004, the government embarked on a journey of issuing bonds with the primary objective to support the development of the domestic capital market, given that government was generally running budget surpluses and did not need to borrow to finance its spending.

This effort by the government has been ongoing for years, and the 2023–24 Government Borrowing Strategy and Issuance Calendar outlines the government's total financing strategy in the domestic capital market and its specific intentions for the issuance of its debt securities, including deepening the capital market because of overall inactivity in other market segments. The strategy provides the market with preliminary information on the auctioning of treasury bills and government bonds during the year, as well as other possible special operations, such as bond buybacks and switch auctions.

It is our view, however, that in the long run, the dominance of government securities has the potential to crowd out capital funding from the private sector and may need to be scaled down as the market in Botswana matures. Despite this concern, it is necessary for the government to continue to deepen the domestic capital market, given that the government is the biggest employer and driver of businesses in the economy.

Overall Deficit Financing

The government of Botswana implemented front-loaded fiscal policies at the height of the COVID-19 pandemic, leading to a depletion of the country's fiscal buffers and government debt peaking at 24.5% of GDP in 2021–22. Over the years, however, enduring fiscal surpluses have led to the government having no need to participate in the domestic capital market, leading to only small issuances that have kept the market shallow and underdeveloped. This situation is particularly critical for Botswana because the government drives overall economic activity, given that it is the largest employer and owns the country's most critical economic resources—the Debswana Mining Company and other diamond production and marketing ventures. In this regard, government spending and borrowing are viewed as essential to drive overall economic activity, including activity in the capital markets. We also note that because of limited investment opportunities in the domestic financial system, institutional investors hold most of the government securities, often to maturity. This dynamic limits potential over-the-counter activities and further limits the market's growth potential because the secondary market is, in turn, nonexistent.

Digitalisation

With a view to consolidate trading and settlement of bonds in the domestic stock market, the BSE has embarked on a journey to digitise trading operations. In September 2022, it went live with a Central Securities Depository system, an Automated Trading System, and SWIFT connectivity. These systems mark the beginning of a new era of digitalisation of Botswana's domestic stock market, presenting new technology infrastructure that aims to improve the resilience of the market, network security, and operational efficiency and aligns with international best practice.

4. Raising Funds in the Private Markets

Considered an emerging market, Botswana is known as one of the most peaceful countries in Africa (Oluwole 2023). It is known for its diamonds, and mining and quarrying remain the economy's largest contributor to GDP.

Investments in these industries come from both domestic and foreign investors. According to data from World Bank and CEIC,[61] FDIs in Botswana has generally been on an upward trajectory since 2017. This trend was interrupted by a sharp decline from USD286 million in 2021 to a net outflow of USD700 million in 2022. Subsequently, FDI has shown signs of recovery, reaching approximately

[61]The foreign direct investment database from World Bank (2023) is available at https://data.worldbank.org/indicator/BN.KLT.DINV.CD?end=2023&locations=BW&start=2010. The foreign direct investment database from CEIC (2024) is available at www.ceicdata.com/en/indicator/botswana/foreign-direct-investment.

Exhibit 41. Top Five Sectors and Their Corresponding Operating Establishments in Botswana

Top 5 Sectors	Number of Operating Establishments
Wholesale and Retail Trade	5,539
Hotels and Restaurants	2,192
Real Estate, Renting, and Business Activity	1,795
Education	1,332
Manufacturing	1,313

Source: Statistics Botswana, "Statistical Business Register" (24 May 2023), www.statsbots.org.bw/statistical-business-register.

USD50 million by July 2023. **Exhibit 41** shows the top five sectors that contribute to economic activity and the number of operating establishments.

The companies that operate in those sectors are a combination of SMEs and large corporations. Within these categories, some are publicly listed and others are private.

In the private markets, SMEs account for 50% of private sector employment, and they contribute 15%–20% of the country's GDP, so they play an integral role in the growth of Botswana's economy (Beck 2022). Access to the private markets occurs through pension funds' investments, asset managers, private equity managers, or direct investments.

Of the USD445 billion invested globally in the private equity/venture capital space in 2022, USD6.5 billion was invested in Africa, 77% of which came from international investors and the rest from African investors. When we drill down to geographical sectors, Southern Africa had 120 venture capital deals in 2022, and the total reported value was USD481 million. There have been reports of some companies being prime targets for venture funds in Botswana. For example, the pan-African firm Launch Africa has sought to invest in an "insurtech" company in Botswana (Mguni 2023).

The private market is also supported by developmental finance institutions. CEDA is a parastatal organisation that aims to grow the private sector by providing funding for local startups and already existing businesses. Other DFIs, such as the Botswana Development Corporation, drive industrialisation of Botswana by providing capital to investors with viable projects. Impact Investors also play a big role in the development of the private market. Banks, such as the African Development Bank, gain exposure to the private market in Botswana by extending loans to DFIs. A recent way to gain exposure to private markets is through the creation of private debt funds by asset managers, which provides institutional investors with access to a new asset class.

Investing in Botswana's private market is carried out through equity financing, mezzanine financing, or debt financing. Those investing in such instruments are locked in for a relatively long time until shares are sold to another investor or the company goes public. The companies in the portfolios of private equity managers and DFIs are diverse, ranging from the education sector to financials to logistics. Although some managers prefer majority ownership, others prefer minority shareholder control and more debt.

With the Pension Fund Rules 2 now in place, which stipulate that pension fund money should be repatriated back into the country until pension funds are equally invested both offshore and onshore, more capital will be available in the economy. Because the BSE is illiquid, since investors typically just buy and hold despite the movement of share prices, pension funds will have to find new places to invest the money, which will be in the private markets through private equity managers and asset managers.

The COVID-19 pandemic and the Russia–Ukraine war affected the private market by making it expensive to do business. As demand for goods and services fell during the pandemic and as banks increased their interest rates because of high inflation caused by the Russia–Ukraine war, the private market experienced a high cost of doing business. Capital inflow from investors ranging from supranational organisations to private equity investors helped the private market recover. Debt funding in the private market increased during this period.

The challenges that pension funds face with the repatriation of funds back to Botswana is the lack of financial instruments to invest in locally. The private market is full of SMEs trying to grow, and because PE managers are risk averse, they avoid investing in most SMEs. Despite this risk aversion, the ticket sizes or valuations needed for investments by PE firms are high. Many private firms in the country do not have adequate valuations to be part of a PE firm's list of portfolio companies.

Another challenge in the private market is the low activity of venture capital funds. PE firms invest in companies with high valuations, so private companies with lower valuations are not taken seriously and must get their capital from banks. If Botswana had a budding VC industry, these lower-valuation companies would have seed and growth capital put into them, which would grow the private market.

5. The Challenges to Capital Market Formation

Financial Literacy

Financial literacy is the ability to understand and use financial information to make informed decisions about your money. Knowledge of how capital works will determine the proliferation of investors in the capital markets. Lack of knowledge will keep investors out of the market and cause them to stick to what they know, and in the context of Botswana, what they know is property and agriculture. This cycle is almost a cultural phenomenon, and it causes the capital markets to rely on a few high-net-worth individuals, institutional investors, and the government. There is a limited number of institutional investors and a limited amount of financial instruments available for them to invest in. Traditional asset classes (equities, bonds, and cash) seem to be the major asset classes that investors invest in. Property, private equity, and private debt are alternative investments available to institutional investors.

A report by Hungwe and Odhiambo (2018) examined domestic savings in Botswana. Regarding private savings, they pointed out that bank savings and cattle were two different forms of savings in private households. They concluded that because of income inequality and the lack of financial services offered to the poor, a substantial number of Batswana are unbanked. These include low-income households, the rural population, and small-scale business owners (Hungwe and Odhiambo 2018). Those who had access to financial services could afford to save.

As a percentage of GDP, credit to the private sector was 14.7% in 2022, while private sector gross savings represented 26.2% (International Monetary Fund 2023a). Credit to the private sector can come through Metshelos (a group of people pooling resources to lend money to people outside the group), microlenders, and commercial banks. According to data from the central bank, in December 2022, total household debt amounted to BWP47.724 billion, the bulk of which was personal loans, while household deposits totalled BWP18.028 billion (Bank of Botswana 2022). Household loans were 2.6 times greater than household deposits. This low deposit-to-loan rate is a plausible reason for the low participation rate of retail investors in the capital markets. Most household finances are tied up in debt, and therefore, households have insufficient savings to invest in the capital markets.

Households, however, do have access to the capital markets through pension funds, which make up the institutional investor sector. Pension funds have a higher share of savings than commercial banks (Hungwe and Odhiambo 2018).

The concentration of investment in traditional asset classes, combined with a small population and limited market participants, causes illiquidity in those markets, hindering capital market development. The tendency to buy and hold stocks despite market fundamentals creates an inefficient capital market.

Regulations and Policies

Policies such as limiting outside investments in Botswana can limit capital market enhancement. The latest IPO in Botswana, BTC, was restricted to local investors. Such regulations can hamper the development of the capital markets in Botswana. Monetary policy can also affect capital market formation, and global events can exacerbate these challenges. The Russia–Ukraine war caused interest rates and the cost of doing business to increase. This situation affected balance sheets and valuations, reducing the amount of capital market activity and development.

Fintech policies are still new, and although some countries have investing applications, Botswana has yet to see such developments. Investing apps, such as EasyEquities in South Africa, would be difficult to use in Botswana and currently do not exist there. There are no apps in Botswana that allow individuals to trade stocks on the stock exchange, which could potentially create demand and supply. This lack of technological advancement hinders the development of the capital markets because it also limits international investors who would like to have access to this market.

Overreliance on Particular Economic Sectors

Overreliance on the diamond sector to develop the country hurts the development of financial markets. Capital markets are also aimed at growing the nation. Lack of diversification in developing other sectors of the economy, such as manufacturing, IT, textiles, and health care, impedes the growth of capital market formation. Another problem is the overreliance on government to grow the private sector. When funding is needed for great ideas, the first place to go for funding is a government agency, such as CEDA. Limited investment in SMEs from the PE industry reduces the number of potential listings in the future, which is something needed for capital market development.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

In this section, we discuss areas we consider worthy of attention for regulators, policymakers, and the industry.

Integration

In the capital markets, there is a disconnect among the parties that make up the markets. Government, regulators, and asset managers need to come together to chart a path toward the success of capital market formation.

Before decisions can be made, consultation from all parties should occur. A recent decision that took place without such consultation was a surprise change of pension fund rules. A law was passed that required pension funds to repatriate offshore funds back home so that the final local/global allocation is 50%/50%. Prior to this change, the minimum investable portion in local assets was 30% and the maximum investable portion in global assets was 70%. This change was made to ensure pension fund money is used to develop Botswana.

Although the cause is worthy, the passage of this measure was a shock, causing investors to worry about the loss of returns when money is brought back home. A roundtable of sorts consisting of the players in the market would allow for discussion on market policy changes and could help accelerate capital market formation.

Capital Market Dynamism

Capital markets should be dynamic so they can house different instruments and players. Currently in Botswana, the winners are the big players, whereas smaller companies are not getting as much funding as they need to grow the economy. To support the necessary dynamism, competition would set the stage for the growth of the capital markets and diversification. This ties in with policies enacted to allow a bustling venture capital market that invests in startups. It also means changing the regulation to allow more pension fund money to invest in the startup market, which would also alleviate pressure on the government in funding most startups. PE firms, at the behest of policy changes, could allocate a portion of their institutional fund money to investments in companies from the idea stage up to the point of a trade sale or an IPO. The more funding that goes into smaller companies, the more competition will grow, which could also attract FDI.

Education

The government of Botswana currently funds students' education. Some courses are given as grants and others as loans. The funding goes as high as professional courses, such as those administered by ACCA and CIMA. Widening the funding to allow finance and investment courses, such as those administered by CFA Institute, would create a pool of individuals who understand financial markets on a broader level and can act in favour of capital markets. Having a CFA charterholder serving on the board of trustees of a pension fund would benefit the pension fund's members. Having a charterholder working in the regulatory authority would facilitate cohesion of policy and practice and rational decision making to change the landscape of the capital markets.

In addition, cultivating a culture of advanced knowledge and specialized expertise within local ministries can empower public servants to better understand the private sector, identify potential partnership opportunities, and drive successful collaborations.

For long-term, sustainable results, incorporate financial literacy courses within school curricula, from the primary to tertiary level, to improve the future generation's participation in the capital markets.

Fintech Sector Development

Fintech offers Botswana significant opportunities for capital market formation. Crowdfunding platforms can democratize access to capital, particularly for startups and small businesses. Robo-advisers can make investing more accessible to a wider range of individuals by offering affordable, personalised investment advice. Peer-to-peer lending platforms can provide borrowers with access to credit and lenders with attractive returns. Digital securities exchanges can streamline the issuance and trading of securities, reducing costs and increasing efficiency. The adoption of mobile payments and digital wallets can further facilitate financial transactions and increase participation in the capital markets. Finally, blockchain-based clearing and settlement can enhance the efficiency and transparency of capital markets.

Embracing these innovations can foster economic growth, financial inclusion, and greater access to capital for both businesses and individuals in Botswana. Fintech technology adoption in Botswana is currently concentrated on mobile and digital banking and e-wallets, and there are opportunities to adopt more technologies for capital formation as outlined previously. Fintech adoption has the potential to unlock new funding avenues for startups and encourage the participation of ordinary Batswana in capital formation and overall financial deepening in the domestic market.

Fintech should be leveraged to attract foreign investment into the country. Currently, access to a share on the local exchange occurs through a broker. To ensure liquidity and more participation, technology that can improve investor participation should be created and encouraged.

The fintech sector in Africa has seen a rise in inflow of capital. Although the COVID-19 pandemic affected fintech deals, they rebounded in 2021 (KPMG 2022). Fintech is actually the highest-funded industry in terms of startups in Africa. Some notable countries growing in this sector are South Africa, Nigeria, Egypt, and Kenya, and the types of services that these fintech companies offer include mobile wallets, payment apps, investment apps, and even insurance apps.

In Botswana, the use of fintech typically occurs on mobile banking apps from larger banking institutions, such as FNB and ABSA, and these apps support the organisations' operations, such as providing checking account details and facilitating the transfer of money. The development of fintech apps that allow credit to flow to SMEs in a simple manner could be useful for the economy, however, because it would open avenues of innovation because of funding.

On the investment side, having apps that allow individuals to invest on the local stock exchange and even international stock exchanges can benefit the economy. Being in the innovation age means we can simplify the brick-and-mortar ways of operating businesses and conduct business using apps and computers, such that individuals across Botswana can have access to digital services. Notably, for these services to operate, infrastructure in the country would also have to be developed.

Treat Funding as Investment

The government can create endowment-like funds for its various ministries. For example, the Ministry of Youth has a Youth Development Fund, which is a socioeconomic program for startups and expanding businesses. Treating it like a private investment fund, with contributions and growth, with the goal of allowing it to sustainably cater to viable projects in the future, will facilitate improvement of the private sector. Getting expertise from investment consultants and allowing them to advise on how to run certain ministerial funds aimed at promoting economic growth will help in the long run. Most of these investments/funds can also be unitized, increasing the number of financial market instruments and the amount of participation.

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SOUTH AFRICA

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Key Data Points (as at end-December 2023, unless otherwise stated)	
Total population	63,212,384
National currency and exchange rate	Rand (ZAR), ZAR18.27 per USD1
GDP and growth rate	ZAR6.97 trillion, 0.6% (nominal and real)
Annual average inflation	6%
Unemployment rate	31.9%
Total government debt outstanding	ZAR4.7 trillion (excl. contingent liabilities)
Public debt to GDP ratio	73.4% (government)
Primary stock exchange	Johannesburg Stock Exchange
Number of publicly listed companies	273
Equity market capitalisation (total and % of GDP)	ZAR19.5 trillion, 348.3%
Mutual fund assets under management	ZAR1.48 trillion

Sources: Statistics South Africa; South African Reserve Bank; National Treasury of South Africa; Johannesburg Stock Exchange; Association for Savings and Investment South Africa.

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1. Introduction and Context

A nation rich in history and natural resources, South Africa is characterized by its diversity and dynamism. Since the end of apartheid in the 1990s, the country has undergone significant economic and social transformation. Despite its progress, South Africa continues to grapple with a complex interplay of economic challenges, social disparities, and political dynamics.

On the macroeconomic front, the country has demonstrated steady growth in recent years, with an average GDP growth rate of 1.8% annually between 2010 and 2023. This growth has been accompanied by relatively stable inflation, which has hovered between 4% and 5% each year, indicative of a degree of economic stability.

Structurally, South Africa is well positioned for international trade, engaging with key markets such as China, the United States, Germany, and the United Kingdom. It is home to eight commercial ports, which enhance its trading capabilities and make it a leader in trade and foreign exchange activities on the continent. Trade alone has accounted for approximately 25% of South Africa's GDP.

Despite improvements in the population's literacy rate, disparities in education and access to opportunities persist, particularly in rural areas. The emergence of a small but growing middle class in South Africa signifies a positive development. Challenges remain, however, because a substantial portion of the population continues to live in poverty (approximately 30% below the national poverty line in 2020). Additionally, unemployment rates stood at around 33.3% in 2023, exacerbating the issue of income inequality in the country, which had a Gini coefficient of 0.63 in 2023.[62] These challenges are compounded by limited infrastructure and insufficient funding for SMEs and households.

Retail participation in the capital markets has grown in recent years, as a result of strengthened financial literacy, increased job opportunities, rising income, and a wider range of investment products. Retail investors are exposed to market volatility and financial scams, however, given a lack of in-depth knowledge and experience to make informed investment decisions.

2. Raising Funds in the Public Markets

It is well understood that local capital markets cannot develop without sound and stable macroeconomic frameworks and a legal environment that protects investor property rights. With these in place, the financial infrastructure needed for securities trading, settlements, legal and regulatory enforcement, credit ratings, market conduct, monitoring, and reporting can follow. It is crucial for regular disclosures and securities listing rules to be standardised across

[62]Data from African Development Bank, "South Africa Economic Outlook" (2023), www.afdb.org/en/countries/southern-africa/south-africa/south-africa-economic-outlook.

companies. The development of markets tends to be a gradual and interactive process. South Africa's capital market is considered advanced relative to its counterparts elsewhere in Africa. More work is needed, however, to grow and diversify it. With a Gini coefficient of 0.63, an effective unemployment rate of 41.9%, and a 72-member cabinet, South Africa also faces extreme levels of inequality, unemployment, and bureaucratic burden, thus inhibiting rapid capital formation.

In South Africa, one can raise bond and equity capital from the public on the Johannesburg Stock Exchange (JSE), among other much smaller exchanges. It is the largest stock exchange by market capitalisation in Africa and the 16th largest in the world. Formed in 1887, the JSE joined the World Federation of Exchanges in 1963. In the early 1990s, it was upgraded to a fully electronic trading system, offering trading, clearing, and surveillance for equities, bonds, commodities, and their respective derivatives. Generally, the exchange is open to all participants (domestic and international) that can meet the requirements, which are aligned with international best practice. The exchange is regulated by the Financial Sector Conduct Authority (FSCA), which is modelled on the twin peaks framework adopted by the United Kingdom. As a result, its regulation, compliance, and dispute resolution operations are analogous. As the regulator, the FSCA specifies the governance and arbitration rules for financial markets' service providers and consumers.

Currently, the South African Reserve Bank—the central bank of South Africa—implements inflation targeting to maintain a consumer price level between 3% and 6%. In addition, the National Treasury promotes a set of fiscal policies aiming at a primary budget surplus. Although these efforts manage to stabilize some macroeconomic variables, high unemployment, slow economic growth, and relatively high national debt pose challenges to further stability. Therefore, the composite credit rating for South African sovereign debt is BB–, two levels below investment grade.

Fundraising Processes

The process to raise equity and bond capital requires appointing a sponsor, a corporate adviser, a legal adviser, an accountant, transfer secretaries, a public relations consultant, and in the case of minerals companies, a technical adviser. The appointment of these roles can be undertaken by one or more agents. The platform STRATE must be used for clearing and settlement of dematerialised securities. Additionally, local legislation requires at least three nonexecutive board members, one of which must be designated as the chair.

The sponsor's main responsibilities include ensuring that the company meets the listing requirements and that directors know their responsibilities and obligations as directors of a listed company, submitting the listing documentation to the JSE, and serving as a liaison between the JSE and the company. The corporate adviser counsels the company on the method of listing, marketing, the size and terms of the offer, and the timing and pricing of the offer. The legal adviser assists with drafting the listing documentation to ensure compliance with all legal requirements. The JSE requires an accredited independent accountant to report in the prospectus (i.e., the prelisting statement) on the profits of the company over the previous three years and the financial position of the company over the previous three years. Transfer secretaries are responsible for setting up the company's register of members, issuing share certificates, the registration of transfers, and mailing company circulars. Companies must be approved as STRATE eligible in terms of the Central Securities Depository Rules. Public relations consultants are used to promote the image of the company before a listing. For basic resources companies, the JSE requires the prospectus or prelisting statement to contain a technical adviser's report on the company and its exploration and mining activities. Among other requirements, the listing must meet the basic criteria of value exceeding ZAR50 million (≈USD2.9 million), at least 25 million shares being issued, and at least 20% of equity held by the public. A dedicated public exchange, AltX, is run by the JSE for listings of smaller entities, which must still comply with this listing process, with additional requirements that increase transparency.

In addition, the following are permitted to list on the JSE with minor adjustments to the previously listed criteria: special purpose acquisition companies that facilitate capital raising to acquire assets and construct a viable listed company; green bonds that raise investment for green infrastructure, technologies, and services; and fast-tracked secondary listings for companies already listed on the Australia Stock Exchange, London Stock Exchange, New York Stock Exchange, and Toronto Stock Exchange.

Striking a Balance in Listing Processes

Each step in the listing process incurs costs, many of which are fixed. For large issuers, these costs are not significant barriers to listing, but such costs can be material for small enterprises that issue relatively smaller tickets. For example, these mandatory direct and indirect governance costs can amount to around ZAR12 million per annum for a small and simple company. Although the listing process is transparent and market size is not a key issue, a company must set aside at least ZAR12 million per year from net income to maintain a listing. Recall that access to private loans from the banking system is a relatively cheaper and simpler alternative with lower levels of governance requirements.

Discussions around simplifying the listing processes are ongoing. It is hard to strike the right balance between enhancing market competitiveness and investor protection because it is equally important to uphold public interest, international regulatory alignment, and integrity of the exchange. A medium-term solution at the micro level would be to increase the supply of the previously mentioned service providers and agents in order to promote price competition. At the macro level, a low economic growth rate (significantly below potential), public debt crowding out, historically high real rates, and fiscal dominance are headwinds to private sector capital formation, especially by younger and smaller industries. Low real growth extinguishes the key benefits of a public listing.

In theory, with regulated and mature local pension funds, asset managers, banks, and intermediary brokers, public access and investment in listed debt, equity, and its variations should be well serviced. In practice, however, small to medium listings experience illiquidity and much lower analyst coverage or no coverage at all. Risk premiums tend to be inversely correlated with size in South Africa. Here, too, an increase in the supply of analysts and trading can reduce the risk premium and increase valuation. South Africa follows the global trend in delisting from public markets. Low liquidity, high costs of listing compliance, and low aggregate growth have accelerated this trend.

SME Financing

The development of South Africa's capital markets has been a key driver of socioeconomic growth, providing access to finance for businesses and infrastructure projects. The JSE is one of the largest and most sophisticated stock exchanges in Africa, playing a predominant role in mobilising domestic and foreign capital. To help SMEs, which often struggle to access affordable funding, the government has implemented various initiatives to support SME financing, such as the Small Enterprise Development Agency and the National Credit Regulator.

Yet these efforts have been insufficient to meet the growing demand for SME financing, constraining the growth potential of SMEs in South Africa. According to the Organisation for Economic Co-operation and Development (OECD), contributing factors to low access to SME financing include

- the lack of suitable formal finance products available to small enterprises,
- stringent lending requirements,
- the lack of readily available credit information,
- the perceived riskiness of small enterprise finance, and
- the apparent lack of appropriate assets available to small enterprises for the purposes of collateral (OECD 2022).

All these issues reduce the availability—and therefore increase the cost—of credit for small enterprises.

Infrastructure Financing

Infrastructure development is another critical area for South Africa's economic progress. The country has made significant investments in transportation, energy, and telecommunications infrastructure, but challenges remain in terms of efficiency, maintenance, and equitable access.

Public investment is being prioritised through upscaling the use of public–private partnerships and new institutional arrangements that will bring in private funding to improve infrastructure delivery. Following a review of the PPP regulatory framework, the government is implementing reforms to improve effective governance, risk management (against perceived country/market risk), and the alignment of interests between the public and private sectors.

According to the National Treasury (2024), the key elements of the reforms are as follows:

- Consolidate the financing, preparation, and planning arrangements for large projects in a single entity to bring in private sector finance and expertise.
- Increase the use of PPPs to deliver infrastructure projects.
- Reduce fragmentation and duplication across spheres of government.

Total infrastructure investment planned by the South African government over the next three years amounts to ZAR943.8 billion.

The Impact of COVID-19 on Fundraising

The trend of delisting and the scarcity of new listings continued during the COVID-19 pandemic. On average, about 16 new equity listings took place each year in South Africa between 2010 and 2019, but starting in 2020, the average decreased to about 6. The average pace of equity delisting increased from about 6 per year to 16 per year during the same periods. Turnover and value have increased year on year since 2000, except for during the 2008 and 2020 crisis periods. In 2000, there were 616 listed equity counters, compared with 292 in 2023. In contrast, the bond markets have grown year on year since 2003 in terms of issues, value, and turnover. Much of this bond market growth can be attributed to the government increasing its debt stock and structured product notes being listed on exchange.

The structural decline in interest rates from peak to trough cycles has not resulted in growth in new capital formation on the exchange. Since 2000, aggregate growth has declined from around 3.5% to 2.0% in 2010 and to 1.0% in 2020. Further research is required to determine why capital formation through capital markets in South Africa is slowing dramatically. Preference for lower risk premiums and interest rates in developed markets are key contributors. Nevertheless, intermediaries, including the JSE, can improve company disclosures, access to information, and analyst coverage and promote the advantages of going public to the investors of South Africa. Compared with developed markets such as the United States, the efforts in South Africa are deficient even though the costs of such efforts are not particularly high. Lastly, higher risk aversion among investors also explains weakened capital formation in South Africa.

3. Debt

According to the National Treasury's (2024) budget review, the government's budget deficit narrowed during the past year. The consolidated budget deficit is projected to narrow from 4.9% of GDP in 2023–24 to 3.3% by the end of the 2024 medium-term expenditure framework period. As a result, the gross borrowing requirement declined from a projected ZAR484.5 billion to ZAR387.9 billion in 2023, or 5.8% of GDP.

Eskom, a public energy utility, is South Africa's largest state-owned enterprise. Over the next three years, the government will service ZAR184.4 billion of Eskom's debt (capital repayments and interest payments), and in 2025–26, it will take over up to ZAR70 billion of Eskom's debt, with strict conditions. As a result, the gross borrowing requirement will increase from ZAR515.6 billion in 2023–24 to ZAR555 billion in 2025–26. Any guaranteed debt that is settled as part of the debt relief arrangement will reduce the state's guarantee exposure to Eskom. By the financial year 2025–26, this exposure is expected to decline by ZAR118.9 billion.

Gross debt stock is projected to increase from ZAR4.73 trillion in 2022–23 to ZAR5.84 trillion in 2025–26. Debt is expected to stabilise at 73.6% of GDP in 2025–26, compared with the 2022 Medium Term Budget Policy Statement projection of stabilisation at 71.4% of GDP in 2022–23. Debt as a share of GDP is expected to decline thereafter. Contingent liabilities are set to decline from ZAR1.07 trillion in 2022–23 to ZAR904.1 billion in 2025–26.

During the past year, rising inflation, interest rates, and risk aversion have led to more difficult global and domestic financing conditions. Nevertheless, South Africa's deep capital markets and its improved fiscal and debt position have helped cushion against rising risks associated with tightening monetary policy and a slowing global economy. Moreover, South Africa's foreign debt remains a relatively small share of its overall borrowing. In 2022, the key credit rating agencies (Fitch Ratings, Moody's Ratings, and S&P Global Ratings) indicated an improved outlook for South Africa's sovereign credit ratings for these reasons, although concerns over power cuts, a high debt burden, and significant fiscal risks remained. Those concerns explain why Scope Ratings downgraded South Africa's credit rating in late 2023 (Scope Ratings GmbH 2023).

The government continues to work with the private sector to develop South Africa's capital markets and ensure a diversified portfolio of instruments to meet its borrowing needs. In 2023–24, the government successfully introduced a new floating-rate note and a domestic rand-denominated sukuk (Islamic bond). In 2024–25, the gross borrowing requirement will be financed through domestic short- and long-term loans, foreign currency–denominated instruments, and cash balances (National Treasury 2024). In addition, the government will continue to explore innovative ways to raise funds through climate financing and related initiatives. See **Exhibit 42** for details.

The National Treasury has argued that the yield curve has shifted higher, as illustrated by the difference between the January 2022 and January 2023 curves, averaging 68 bps (see **Exhibit 43**). Higher yields indicate higher borrowing costs across maturities, especially for long-term bonds. This yield curve shift reflects

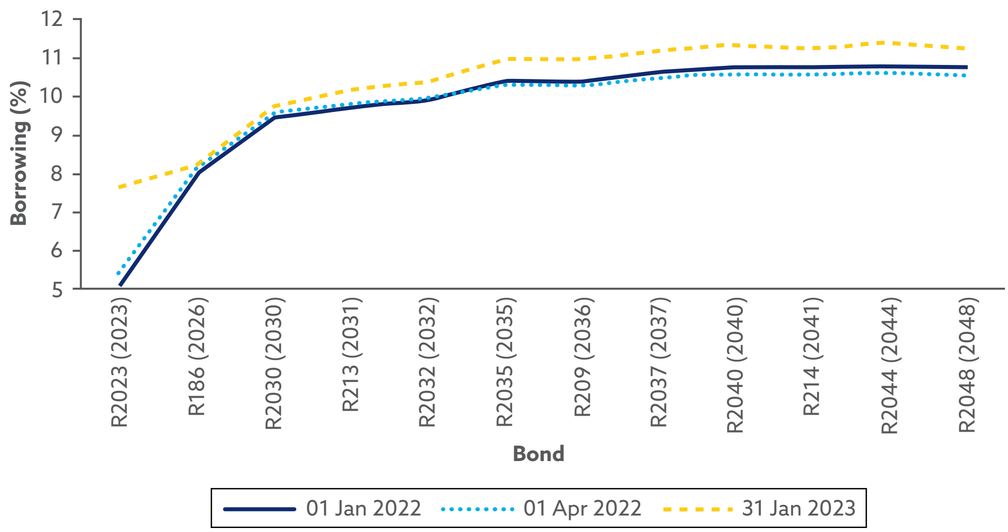
Exhibit 42. Performance Estimates for 2023–24 and 2024–25 Against Strategic Portfolio Risk Benchmarks

Description	Benchmark Range or Limit	2023–24	2024–25
		Estimates	
Treasury bills as a percentage of domestic debt[a]	15.0	11.8	12.5
Long-term debt maturing in 5 years as a percentage of bonds	25.0	15.4	20.0
Inflation-linked bonds as a percentage of domestic debt	20–25	21.8	19.3
Foreign debt as a percentage of total debt	15.0	10.6	10.8
Weighted term-to-maturity of fixed-rate bonds and treasury bills (years)	10–14	10.5	9.7
Weighted term-to-maturity of inflation-linked bonds (years)	14–17	13.7	14.7
Other indicators (weighted average)			
Term-to-maturity of total debt (years)		11.2	10.7
Term-to-maturity of foreign debt (years)		12.8	12.1

[a]Excludes borrowing from the Corporation for Public Deposits and retail savings bonds.

Source: National Treasury (2024). The National Treasury estimated that in 2023–24, domestic long-term borrowing increased to ZAR329.9 billion and averaged ZAR349.5 billion over the medium term.

Exhibit 43. South African Domestic Borrowing



Source: National Treasury (2024).

Exhibit 44. Foreign Currency Commitments and Financing (USD millions)

	2022–23	2023–24	2024–25	2025–26	2026–27
	Outcome	Estimate	Medium-Term Estimates		
Opening Balance	5,925	7,119	4,590	2,172	1,030
Commitments	−3,009	−4,945	−4,420	−5,643	−4,705
Redemption	−1,000	−2,493	−2,141	−3,224	−2,146
Interest	−1,177	−1,643	−1,514	−1,645	−1,780
Departments	−832	−809	−765	−774	−779
Financing	4,203	2,417	2,002	4,501	5,001
Loans	4,131	2,412	2,000	4,500	5,000
Purchases	–	–	–	–	–
Interest	72	5	2	1	1
Closing Balance	7,119	4,590	2,172	1,030	1,327

Source: National Treasury (2024).

the lingering effects of COVID-19, the ongoing Russia–Ukraine war, monetary policy tightening to combat persistent inflation, and the impact of prolonged power cuts.

International Borrowing

The South African government borrows in foreign currency—mainly US dollars and euros—to meet its foreign currency commitments, as illustrated in **Exhibit 44**. It will continue to explore financing instruments that offer concessional loan terms to support its developmental objectives.

Debt Service Costs

Debt service costs are determined by debt stock, new borrowing, and macroeconomic variables, such as interest, inflation, and exchange rates. As a share of GDP, debt service costs in South Africa are projected to average 4.9% over the medium term, and as a share of government revenue, they are projected to increase from 18% in 2022–23 to 19.8% in 2025–26 (see **Exhibit 45**). Although the projected debt service costs may seem manageable at present, the treasury should approach fiscal policy with caution, taking into account long-term sustainability for the country. Strategies that enhance revenue generation, improve fiscal discipline, and potentially restructure existing debt to support rather than hinder economic growth should be prioritized. Such strategies are particularly relevant in light of a tight monetary environment, which debt service costs depend on.

Exhibit 45. National Debt Service Cost (ZAR millions)

	2021–22	2022–23		2023–24	2024–25	2025–26
	Outcome	Budget	Revised	Medium-Term Estimates		
Domestic Loans	250,503	277,693	284,874	317,018	340,566	372,327
Short term	22,096	23,454	30,385	40,473	41,522	43,851
Long term	228,407	254,239	254,489	276,545	299,044	328,476
Foreign Loans	17,568	24,113	22,283	23,442	22,274	24,747
Total	**268,072**	**301,806**	**307,157**	**340,460**	**362,840**	**397,074**
As a percentage of:						
GDP	4.3	4.7	4.6	4.9	4.9	5.0
Expenditure	14.2	15.3	15.3	16.7	17.0	17.5
Revenue	17.1	19.0	18.0	19.4	19.4	19.8

Source: National Treasury (2024).

State-Owned Entities

According to the National Treasury, Eskom accounts for 85.3% of total SOE debt guarantee exposure (see **Exhibit 46**).

Corporate Debt Market

There are only 42 nonbank bond issuers in the South African listed credit market. Combined, these companies have approximately ZAR170 billion of listed debt outstanding, compared with the ZAR459 billion issued by banks and government's total issued debt of around ZAR3.3 trillion.

According to Satish Gosai of Camissa Asset Management, in a corporate credit market of a small size (relative to the overall savings), security prices tend to be sensitive to changes in demand. During the past five years, primary issue demand has been substantially higher than company issue size (as shown in **Exhibit 47**). This higher demand has led to higher-clearing bond prices and lower credit risk premiums at issue and thereafter in the secondary market.

According to Philip Bradford, Chief Investment Officer at PMX Asset Management, there is enormous demand and not enough supply in the South African credit market, which has driven spreads tighter and tighter. A large part of this demand has come from local short-term interest-bearing and multiasset income funds, as these unit trust categories have seen substantially increased uptake. As **Exhibit 48** shows, the combined assets under management (AUM) in these categories nearly tripled from 2015 to 2022.

Exhibit 46. Guarantee Exposure of SOE (ZAR billions)

	2020–21		2021–22		2022–23	
	Guarantee	Exposure[a]	Guarantee	Exposure[a]	Guarantee	Exposure[a]
Public Institutions	**581.6**	**384.7**	**559.9**	**395.3**	**478.5**	**396.1**
Eskom	350.0	298.3	350.0	313.0	350.0	337.8
SANRAL	37.9	37.4	37.9	42.0	37.9	28.6
Trans-Caledon Tunnel Authority	43.0	13.2	25.0	9.6	25.0	8.7
South African Airways	19.1	6.7	19.1	2.8	19.1	0.3
Land and Agricultural Bank of South Africa	9.6	2.4	9.6	1.9	8.1	0.4
Development Bank of Southern Africa	10.0	4.9	9.9	5.2	9.9	5.5
Transnet	3.5	3.8	3.5	3.8	3.5	3.8
Denel	6.9	3.4	3.4	3.5	3.4	0.3
South African Express	0.2	0.0	0.0	0.0	0.0	0.0
Industrial Development Corporation	0.5	0.1	0.5	0.1	0.5	0.1
South African Reserve Bank[b]	100.0	13.7	100.0	12.8	20.0	10.0
Independent power producers	**200.2**	**176.7**	**200.2**	**165.7**	**208.5**	**187.1**
Public-private partnerships[c]	**8.0**	**8.0**	**7.9**	**7.9**	**7.1**	**7.1**

[a]Total amount of borrowing, adjustments to inflation-linked bonds as a result of inflation rate changes, and accrued interest.

[b]In April 2022, the minister approved the reduction of the loan guarantee scheme to ZAR20 billion.

[c]These amounts include only national and provincial PPP agreements.

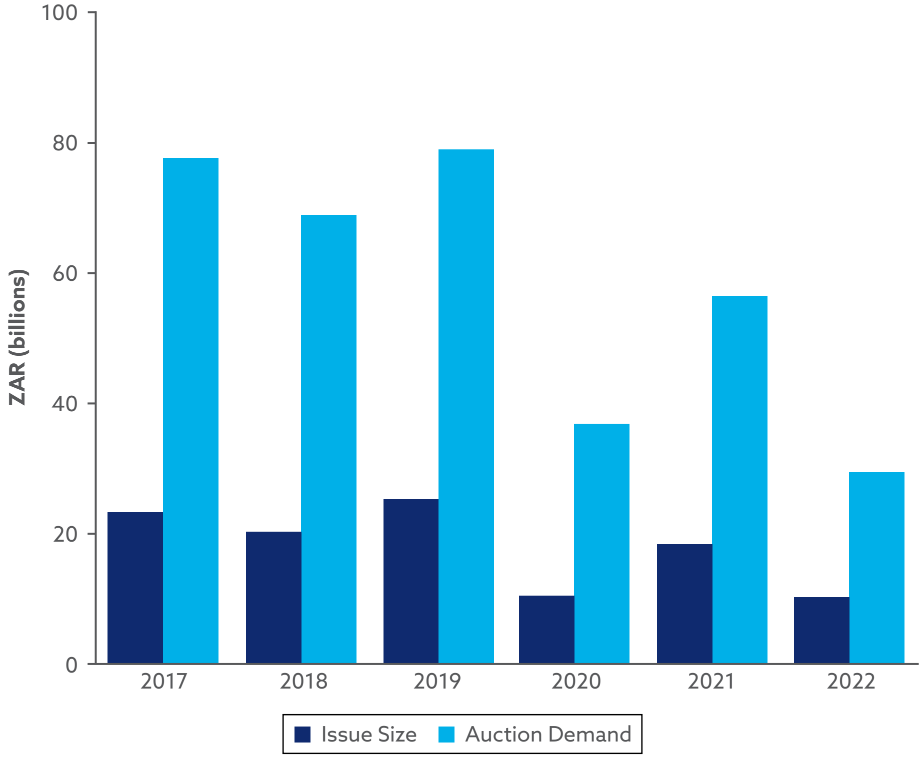
Source: National Treasury (2024).

The South African corporate credit market is small and illiquid. Most fund managers buy corporate bonds at initial auction and hold them to maturity. The primary investors in South African corporate bonds are local institutional investors, and most corporate bonds issued are denominated in South African rand.

The main corporate bond issuers (excluding banks) are listed in **Exhibit 49**.

It is worth noting that corporate credit has experienced a rebound, reversing the significant contraction in 2020. The recovery could be attributed to a variety of factors, including increased demand for working capital and a renewed focus on investment needs (South African Reserve Bank 2023).

Exhibit 47. Issue Size and Auction Demand in South Africa, 2017–2022



Sources: ABSA, Standard Bank, and research by Camissa Asset Management (https://citywire.com/za/news/just-how-big-is-the-risk-in-the-local-credit-market/a2410379).

Exhibit 48. AUM in South Africa's Unit Trust

Local Unit of Trust Growth				
	December 2015		December 2022	
Category	Number of Funds	AUM (ZAR bn)	Number of Funds	AUM (ZAR bn)
SA interest-bearing short term	48	86.4	52	271.8
SA multi-asset income	95	119.8	138	284.6

Source: Association for Savings & Investment South Africa, www.asisa.org.za/media/df0nvgwf/20221231-asisa-cis-statistics-1-holdings.xlsx.

4. Raising Funds in the Private Markets

Background on Private Markets in South Africa

The definition of alternative assets is broad and includes real assets, real estate, and, increasingly, new asset classes, such as cryptocurrencies. For the purposes of this publication, we limit the scope to private equity and private debt, the private markets' analogue to traditional investments.

Exhibit 49. Profile of the Main Corporate Bond Issuers in South Africa

Company Name	Industry	Approximate Market Capitalisation (ZAR billions, October 2024)
AECI Limited	Chemicals and Explosives	10.43
Barloworld Limited	Industrial Equipment and Services	16.03
Bidvest Group	Diversified Investments	99.40
Discovery Limited	Financial Services	122.19
The Foschini Group (Supergroup)	Retail	50.78
Kap Industrial Holdings	Diversified Investments	8.53
Mercedes-Benz South Africa	Automotive	Part of the global Daimler AG
MTN Group	Telecommunications	166.97
Northam Platinum Holdings	Mining	58.25
Pan African Resources	Mining	18.60
Woolworths Holdings	Retail	65.25

Source: Data from JSE, via Reuters decision-support system.

Allocating to alternative investments and its many strategies requires a level of investor sophistication. Private credit managers follow wide-ranging strategies that span the debt-to-equity risk spectrum. Some strategies, such as direct lending, assume pure credit risks, while others, such as special situations investing, contain significant equity risk, despite being labelled debt investments. In addition, private assets are difficult to value and involve subjective inputs, often with significant information asymmetry between managers and investors. Therefore, investors need to be discerning about investment risks and suitability in relation to investment objectives. Given its fairly developed financial system, South Africa has a range of expertise to support private market investing. Organisations such as Financial Sector Deepening Africa (FSD Africa) and the Southern Africa Venture Capital and Private Equity Association (SAVCA) play pivotal roles in fostering a vibrant ecosystem.

Investors have the option to customize private investments through limited partnerships or segregated funds or to access a diversified pool of assets through standardized investments, such as funds of funds and closed-end investment companies. The former option may be suitable for larger investors with adequate resources, expertise, and a desire to retain some control over the investment strategy. However, smaller pension funds that lack the resources and scale may opt for the latter. Examples of some of the larger pension funds in South Africa include the pension fund (USD119.4 billion), the Eskom Pension and Provident Fund (USD9.7 billion), Central Retirement Annuity Fund

Exhibit 50. Major Pension Funds and Corresponding Asset Holdings in South Africa

Major Pension Funds in South Africa	Asset Holdings (USD billions)
Government Employees Pension Fund	119
Eskom Pension and Provident Fund	9.7
Central Retirement Annuity Fund	7.27
South African Retirement Annuity Fund	7.1
Sentinel Retirement Fund	6

Source: Financial Sector Conduct Authority (South Africa), "2022 Retirement Funds Statistical Report," www.fsca.co.za/Annual%20Reports/2022%20Pensions%20Statistical%20Report%20Publication.pdf.

(USD7.27 billion), South African Retirement Annuity Fund (USD7.1 billion), and Sentinel Retirement Fund (USD6 billion). **Exhibit 50** provides more detail.

Although it boasts a substantial asset base of approximately USD500 billion, the pension fund industry in South Africa is characterized by a dual nature of concentration and fragmentation:

- *High concentration at the top:* The top five pension funds account for roughly 30% of the total assets.
- *Long tail of small funds:* The industry comprises a large number of smaller funds, with approximately 2,000 active funds currently operating from more than 10,000 companies.
- *Government consolidation efforts:* The South African government aims to consolidate the industry, reducing the number of funds to between 100 and 200 to enhance efficiency and effectiveness.

Private Credit Investing in South Africa

According to data from FSD Africa (2022), between 2015 and 2021, the South African private debt market was the most active in Africa, with USD7.7 billion in transactions. This rapid expansion of nonbank private credit follows tighter regulations for banks after the global financial crisis, resulting in reduced funding to SMEs.

There is a strong overlap in sector exposure between private equity and private credit funding because of the complementary nature of these two funding methods. It is estimated that 21% of South African private equity firms also offer private credit funding, compared with 31% globally. This private credit gap between local and international private equity firms suggests that there is significant scope for private credit growth in South Africa. Local players have noted the international growth in private credit and expect significant growth in the South African private credit market in coming years.

The changes in regulations, particularly Regulation 28 of the Pension Fund Act (regulating asset class concentrations by setting limits for retirement funds), create opportunities to grow the asset class. The regulatory limit for alternative assets, including private equity and private credit, rose from 10% to 15%. SAVCA found that 53% of pension funds allocated less than 1% to private credit, including 24% that have no private credit allocations at all.

Private Equity Investing in South Africa

South African private equity firms manage ZAR206.2 billion in AUM (up 20% since 2017), including ZAR39.5 billion in undrawn commitments. The main sectors that benefitted from private equity investments are infrastructure (20.4%), energy (14.5%), and telecommunications (10.7%). The variability in sector exposure is driven by thematic trends in the economy. For instance, energy sector investments responded to recent government policy actions (for example, Section 12B in the Income Tax Act) aimed at attracting private sector investments into the energy sector to address the country's current energy crisis.

South African private equity funds mainly raise funds locally (69% of AUM), with the balance from foreign investors (31%). The main contributors to foreign investments are Europe (67% total, of which the United Kingdom accounts for 18%) and the United States (27%).

Pensions and endowments are the main investors in private equity, contributing more than two-thirds over the last three years. The recent increase in the regulatory asset allocation limits for global assets under Regulation 28 are likely to result in reduced investment—at least in the short term—for local assets, including private equity. This reduction may be partially offset by the increase in asset allocation limits for alternative assets.

Other significant investors in the private equity market include government development funds, international aid agencies, and DFIs (23%), insurance companies (19%), banks (7%), and private equity funds of funds (4%).

South African private equity firms consistently lag global peers in offering ancillary services. Most PE managers also offer private credit (21% locally versus 31% for global peers), real estate (5% locally versus 8% globally), venture capital (3% locally versus 13% globally), and real assets (3% locally versus 8% globally). The significant underperformance in venture capital may indicate a need to attract a more diverse pool of funders who can tolerate higher levels of risk.

Exhibit 51 provides insight into the segmental focus of the largest managers in the market. The best alternative managers, offering differentiated strategies, tend to be capacity constrained. To avoid negatively affecting investment returns, fund managers may limit the number of investors and/or capital into their funds.

Exhibit 51. Most Active PE Players in South Africa, 2018–2023

	Number of Investments	AUM (USD bn)	Median Deal Size	Exits
ARC Investments	15	0.9	11.4	3
Ethos Private Equity	11	1.7	74.2	1
Medu Capital	10	NA	11.9	0
Apis Partners	10	0.8	21.5	2
Growth Capital Partners	9	NA	1.3	0
The Carlyle Group	9	400	110.9	1
Crossfin Technology	9	NA	30.3	2
Old Mutual Investment Group	8	4.8	25.6	3
Fledge Capital	8	NA	9.1	3
Khulasande Capital	6	NA	9.8	1

Note: NA = not available.

Source: David Stevenson, "The 10 Most Active PE Investors in South Africa," Pitchbook (28 March 2023), https://pitchbook.com/news/articles/top-pe-investors-south-africa.

Managers' investment philosophy and strategic focus tend to drive portfolio construction. Whereas established players, such as Ethos and Carlyle, have large median deal sizes (focusing on the top end of the market), the emergence of new managers targeting smaller transaction sizes is to be encouraged. This dynamic creates diversified sources of funding for mid-sized companies and, in turn, promotes broader economic participation and growth.

Is Investing in Private Markets the Answer?

The capital markets, both private and public, are part of the financial services ecosystem. Rather than competing with each other, they are complementary offerings with a potential for stronger linkages. For instance, a review of JSE company press releases from 2019 indicates that 8 out of 33 companies that delisted from the JSE involved financial sponsors (i.e., private equity companies). In these cases, mainly smaller-capitalisation companies that did not see the benefit of maintaining a listing, the companies resorted to private equity funds. As the JSE (2022) noted, small and medium-sized companies have seen a decline in the benefits of being listed, alongside a number of structural changes in the savings industry:

> There has been a reduction in institutional interest in small and medium-sized companies. In particular, the transition of most pension funds from defined benefit to defined contribution has substantially lessened their ability to invest in illiquid stocks.

Activity during the 2019 to 2022 period was driven by smaller PE funds and Black Economic Empowerment players as "providers of liquidity." During the same period, there were three investment exits through stock market listings by private equity firms. This shift reflects broader trends in the investment community, where risk aversion has grown and the focus has shifted towards more liquid, established investments. The private capital markets have become "seekers of liquidity" in these transactions and turned to the public capital market.

As institutional interest wanes and investment patterns change, the JSE, being the biggest public investment market in South Africa, recognized the need for stronger private capital markets and introduced JSE Private Placements (JPP, a wholly owned subsidiary) in 2021. The platform is intended to "connect private companies and issuers directly to investors, enabling private capital formation," given it is difficult and expensive for small and medium-sized companies to raise capital on the JSE. Initiatives such as the JPP can reduce the cost and burden of compliance, while mobilising additional funding targeted at SMEs.

Expanding Access to Capital for SMEs

Similarly, the growth in private equity and private debt funds has expanded the pool of available capital for SMEs—particularly in underserved segments—and should be encouraged. Although established private equity players have large transaction size as entry points, much like traditional lenders, this excludes a large section of the SME market. For instance, the Ethos Mid Market Fund targets investments between ZAR100 million and ZAR350 million (approximately USD6 million to USD18 million). The effort by large fund managers to reach smaller firms is laudable. Because of this commitment to smaller firms, private markets serve as alternative financing sources that offer a crucial lifeline to smaller businesses.

Smaller Fund Managers, Bigger Impact

Smaller private equity firms, such as Growth Capital Partners, which has a median transaction size of USD1.3 million, play a pivotal role in bridging this financing gap. By targeting smaller transaction sizes, these firms offer much promise for impactful investing that caters to the specific needs of SMEs in South Africa. Similarly, in the private credit space, Aluwani Capital Partners is also making a significant impact by casting a net wider than the traditional targets for private credit. These funds can help businesses overcome capital constraints and achieve their growth objectives. As more players enter this space with a commitment to supporting SMEs, the ripple effects will not only stimulate economic growth but also foster job creation and innovations in the long term.

5. The Challenges to Capital Market Formation

The dynamics of South Africa's capital markets are deeply influenced by the country's legacy of social inequality, which manifests in several critical areas:

- Limited pools of private capital
- Dominance by five institutions in the banking sector
- Low levels of disposable income, leading to low savings rates
- High risk aversion in the banking and formal finance sectors
- Economy driven by small and informal enterprises
- Low economic diversification
- Low-tech financial solutions for small and informal businesses

These challenges create substantial barriers for small and young enterprises to secure capital needed for growth, leading to a high rate of corporate failures. Research from the University of the Western Cape[63] highlights an alarming statistic: South Africa's overall startup failure rate ranges from 70% to 80% within the first five years. Furthermore, only about 1% of startups manage to grow large enough to employ 10 or more individuals. This lack of growth is of particular concern because it limits the capacity and potential of SMEs to reduce the country's persistently high unemployment rate, which has hovered around 34% over time.

The interplay of these factors not only reinforces the low credit ratings assigned to small enterprises—critical players in the South African economy—but also perpetuates a cycle of capital starvation that stifles job creation and capital accumulation.

Exhibit 52 draws on World Bank estimates for GDP and surveys of bank penetration.

The Rank column in the exhibit indicates a global rank for gross domestic product, C-Score is the percentage market share of the jurisdiction's five biggest banks, and B-Score is the percentage of respondents aged 15 years and older who have a bank account with a formal institution. The sample was selected to show South Africa against the world's leading economies, as well as rivals for size. Iran and Hong Kong SAR (ranked 40 and 41, respectively) are excluded for lack of bank concentration estimates (Iran) and unique market dynamics (Hong Kong SAR).

South Africa's banking concentration is striking because it has the highest ranking in the sample, with the top banks dominating the entire sector.

[63]Research from University of the Western Cape (n.d.), "How Can South African Entrepreneurs Succeed?": https://www.uwc.ac.za/news-and-announcements/news/how-can-south-african-entrepreneurs-succeed-897.

Exhibit 52. Financial Concentration and Inclusion by Jurisdiction

Rank	Jurisdiction	GDP (current USD, millions)	C-Score	B-Score
1	United States	25,462,700	49.7%	95.0%
2	China	17,963,171	54.2%	88.7%
3	Japan	4,231,141	63.6%	98.5%
5	India	3,385,090	53.4%	77.3%
8	Russia	2,240,422	69.8%	88.7%
11	Brazil	1,920,096	79.4%	83.6%
16	Indonesia	1,319,100	57.1%	50.0%
30	Nigeria	477,386	74.4%	45.1%
31	Egypt	476,748	84.0%	26.1%
34	Bangladesh	460,201	35.2%	37.7%
35	Vietnam	408,802	48.3%	
36	Malaysia	406,306	70.1%	88.2%
37	**South Africa**	**405,870**	**99.3%**	**84.1%**
38	Philippines	404,284	67.3%	46.0%
39	Denmark	395,404	89.9%	100.0%
42	Colombia	343,939	90.2%	55.9%
	Average score		*67.9%*	*71.0%*

Sources: World Bank Group's Global Findex Database 2021; World Bank Group's Global GDP Indicator from 2023, https://openknowledge.worldbank.org/bitstream/handle/10986/37578/9781464818974.pdf.

This resulting reduced competition retards the customisation of investment products for nontraditional customers and segments. In Exhibit 52, South Africa's B-Score of 84.1% is higher than the sample average of 71%. Although this statistic shows that the country has a higher-than-average rate of banked respondents, these are largely retail consumers, not business banking customers.

The gap between South Africa's B-Score and C-Score suggests potential for reform. Banks could expand their services to underserved businesses without the need to first develop a base of banking-savvy clients. However, the complexities involved between commercial and retail banking products and the related gap between retail and institutional credit risk suggest that banks may not rush to coax their business-owner clients to bring their businesses on board.

Research by the UNCTAD (2022) has identified low economic diversification as a hurdle to growth. Africa's heavy dependence on commodity exports, which represent over 60% of total merchandise exports in 45 of its 54 countries, positions it as one of the least diversified regions globally. This lack of diversification makes the continent highly vulnerable to global commodity price shocks, hindering sustainable growth and development opportunities. The crippling effect of sector concentration is seen in capital formation, where South African investors look offshore for investment diversification. The concentration aversion is amplified by South African investors' and consumers' perception of the rand as a "weak" currency, set upon a long-term trend of devaluation against the US dollar. Thus, dollar-denominated assets are perceived as doubly effective in offsetting concentration risk.

Statistics from the South African Reserve Bank show increased offshore investment by nonbanking institutions and retail investors in South Africa. This trend is driven by the quest for diversity described previously, coupled with the perception of South Africa as a dangerous, unstable place. This perception leads to "over-insurance," which takes the form of maximal offshore allocation, at the expense of local capital-consumptive companies. At the informal end of offshore investment, South Africa's sophisticated economic system and nascent financial forensic capacity allow more capital flight than the reserve bank's regulated prudential limits allow.

Data from the South African Chamber of Commerce and Industry show business confidence pegged in a narrow range from January 2016 through May 2023 (see **Exhibit 53**). There has been volatility on the downside only, with sharp spikes triggered by local political crises and the onset of the COVID-19 lockdown. The upside has seen only mean-reverting recoveries from the crises. This picture is consistent with corporate managers maintaining a cautious rating of local risk. With this mindset, investment in local industries is constrained by the policy

Exhibit 53. Business Confidence Index in South Africa, January 2016–May 2023

Source: South African Chamber of Commerce and Industry, Q2 2023 (https://sacci.org.za).

of self-insuring, preserving excess cash as a buffer against future crises. The risk-averse maintenance of "lazy balance sheets" presents a challenge to capital formation (granting that, technically, idle cash on a balance sheet is "capital").

Although South African financial markets are sophisticated by global standards, the provision of sophisticated financial solutions is currently a preserve of larger corporates. As a result, small and medium-sized enterprises—constituting the major employers—are deprived of capital-enhancing solutions. Research by the Center for Strategic and International Studies (CSIS) provides examples of this problem.[64] CSIS specifically targets blended finance models, which combine commercial credit with grants and concessionary finance. Increasingly, such finance is used to great effect by the South African government and major non-banking institutions. Blended models have the potential to draw commercial investors to the MSME sector, providing working capital that would stem the high attrition rate of smaller companies.

On the demand side, the lack of sophistication among small business owners contributes to the limited access to capital. Historically, about half of all small South African businesses keep no formal records, obviating credit scoring through financial statements. Research by McKinsey[65] has identified the demand for loan collateral as a further impeding factor. South Africa's unusual wealth concentration and history of red lining by commercial banks means that MSME are largely unable to offer collateral assets to match the loan requirement. The McKinsey research further identifies fragmentation as a hidden impediment.

A banking sector respondent mentioned that the costs of screening companies with a turnover under USD0.5 million were prohibitive and that therefore these companies were routinely denied loan capital. According to statistics from SME South Africa, more than 70% of small businesses fall under this threshold. Moreover, minority borrowers may have demographic differences that affect the modelling of their likelihood of default. Credit scoring models that do not consider these differences systematically underrate bankable members of these groups. This problem has a relatively significant impact in South Africa, where traditional scoring models are not derived from observation of default among the unbanked corporate majority.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

A number of structural and qualitative barriers and challenges to the development of local private capital markets have been highlighted and articulated in the previous sections. The purpose of this section is to explore

[64]See CSIS, "Supporting Small and Medium Enterprises in Sub-Saharan Africa Through Blended Finance" (July 2021), www.csis.org/analysis/supporting-small-and-medium-enterprises-sub-saharan-africa-through-blended-finance.

[65]See McKinsey & Co., "A Credit Lifeline: How Banks Can Serve SMEs in South Africa Better" (11 December 2020). www.mckinsey.com/featured-insights/middle-east-and-africa/a-credit-lifeline-how-banks-can-serve-smes-in-south-africa-better.

potential policy recommendations and approaches to address some of these identified barriers and challenges hindering the development of private capital markets and allow retail savers, regulators, various private market players, financial intermediaries, and other local and international stakeholders to help support the sustainable development of South Africa's private capital markets, complementing and building on the relatively well-established public markets.

The South African public equity markets relative to the rest of the continent are significant, relatively well established, and sophisticated, with the JSE, for instance, representing more than half (USD1.36 trillion) of the roughly USD2 trillion market capitalisation of the 25 African public equity market exchanges, according to the African Securities Exchange Association. The private equity capital markets, however, are at significantly lower levels of relative development, accessibility, and standardisation, all of which can be improved to attract retail and local or foreign investors.

On the debt side, the South African local public bond market is significant but remains dominated by securities issued by the South African central government, local government, municipalities, public enterprises, and other major corporations taking up the bulk of debt issuances, crowding out and leaving very little room for the private debt and equity markets to develop and support SMEs, for example.

Further, private capital markets have historically been limited to mostly institutional domestic sources and overseas investors, via foreign direct investment or other overseas development assistance interventions.

Harnessing Retail Domestic Investors

A source that has largely been overlooked, however, is harnessing retail domestic investors, including overseas remittances by African migrant workers that could be used to create an annuity income for their intended recipients, while supporting private capital market formation through providing patient and long-term funding for various productive sectors of the local economy. Remittances can offer a dual benefit. They can gradually lessen the financial burden of the African diaspora sending money home every month by creating recurring income sources via dividends and other investment distributions. This process can simultaneously support private capital market formation. To fully harness the potential of African migrant workers' remittances, more local market research and investigation will be necessary to inform financial and fit-for-purpose product innovation by banks and private credit and equity players in this space.

According to the World Bank, in 2021, more than USD590 billion in inflows from remittances were received in the global south from the global north, considerably more than overseas development assistance (USD180 billion) and private capital from private investors (USD400 million). Currently, more than 80% of remittances are going into recurring expenditure, with less than 20%

going into savings that could, in turn, be channelled into private capital market formation initiatives. With additional research, insights, and innovation, more of the inflows could be channelled into such initiatives, which would make a significant impact on the development of the local markets and thus the availability of patient long-term capital for both SME funding and infrastructure projects that are currently starved of capital. Additional research on South Africa's and the region's share of these overseas remittances by the diaspora, as well as on their nature and dynamics, should be conducted. Such research should explore innovative ways these inflows can be leveraged into supporting local private capital markets for the equity and debt funding of SMEs, as well as other economy-building infrastructure development projects for the benefit of society overall.

Tax Compliance and the Informal Economy

Tax compliance in the informal economy that employs the majority of workers in South Africa remains a concern. One important and promising proposal is to introduce a universal basic income (UBI) with a tax incentive that covers everyone, including those between the ages of 18 and 60 years, who is not currently covered. This UBI tax incentive would encourage tax compliance by requiring all potential recipients to register with the South African Revenue Service before receiving the tax incentive. This incentive would tie in support for SMEs, many of which operate as sole proprietors initially, with increased tax compliance and revenue collection over time as private capital market formation, increased tax compliance in the informal economy, and SME-driven economic growth gain momentum. The tax incentive would work via the current primary, secondary, and tertiary rebate system, wherein all citizens would be required to aggregate their UBI entitlement or grant to any tax rebate claimed.

The net effect of this proposal would be that only those not in any income-generating activity, whether in the formal or informal sector, would be able to claim their full grant. Similarly, any active economic activity that generates taxable income would result in a tax rebate claim that would be netted off the UBI payment, automatically creating a system that incentivizes net UBI recipients to transition from net grant receivers to tax contributors without a need for means testing over time. This approach takes care of the poverty reduction elements of universal social security while keeping an eye on affordability. It also supports the formalisation of the informal sector and eventually private capital market formation.

Addressing the Structural Need for Skilled Professionals

To further develop the informal sector and, in particular, SMEs, the scarcity of skills, including corporate governance skills, needs to be addressed in order for both small and large companies to scale up production in South Africa. Skills deficits, whether in marketing, finance, audit, or tax planning, are curtailing capital formation, listings, and related corporate finance activity that underpins private market capital formation.

Incentivising the Mobilisation of Domestic Savings through Taxation and Widening the Scope of Possible Investment Solutions

On the venture capital and private equity side, the government should be commended for coming up with innovative policy initiatives, such as Sections 12J and 12B of the South African income tax act, to mobilise domestic savings to support private equity funding from private individuals and corporations. These initiatives provide individual taxpayers and SMEs an additional asset class to invest in, beyond the traditional asset classes held within the institutionalised savings industry (such as equities and bonds).

The Section 12J tax incentive, originally introduced in 2009 before expiring in 2021, resulted in more than ZAR13 billion that went to fund various SMEs. According to the interim Section 12J venture capital association, the initiative was on track to at least create jobs at a cheaper cost compared with other government-sponsored job creation initiatives, such as the Industrial Development Corporation. All these incentives, however, require tax compliance and an increasing tax base. Therefore, they are linked to the UBI tax incentive, which could encourage economic activity in the SME and informal sector and increase financial literacy and capital mobilisation. This could lead to innovative solutions, such as 12B venture capital, and ultimately higher tax revenue collection because market systems with increased compliance work better.

The 12J incentives ended, and the 12B incentive—specifically targeting the energy sector—replaced them. The 12B incentive targets the energy sector to address the country's crippling energy shortages, and it has the stated intention of funding renewable energy infrastructure projects through providing tax incentives to taxpayers. The government could consider introducing or extending the tax incentive to other sectors, supporting SMEs currently starved of funding to unleash their potential to contribute to South Africa's sustainable development and that of the continent as a whole. In addition, the government could explore interventions to reach a wider spectrum of investors, such as initiatives to encourage registered financial advisers and financial institutions to distribute 12B venture capital vehicles, to multiply the intended impact.

However, more research on both the positives and negatives of these initiatives over long trial periods will be required to assess their net effect on the economy broadly, tax collection, and the growth and development of SMEs themselves, and thereby on job creation, reduction in poverty, and inclusive growth for the development of society overall.

Other potential policy recommendations are as follows:

- Digitalised assets and distributed ledger technology platforms could be used to improve the transparency of information, automation, and distribution systems in the process and could also serve as infrastructure for the formation of private capital markets.
- Support of regional trade and linkages of SMEs underpinned by the UN SDGs, the African Union's Agenda 2063 vision, and the National Development Plan, as well as the African Continental Free Trade Area, would encourage cross-border trade between SMEs across the region. This represents another opportunity to support private capital market formation and could be tied with new payment systems that do not require foreign currency between SMEs.
- Other technologies could be used, such as fintech solutions to facilitate capital movement in the economy and cross-border transfers.
- A proposal around supporting financial literacy and inclusion initiatives could be introduced to support higher domestic discretionary savings, which would go towards supporting private capital market development and formation.
- Blended finance models should be explored to tap into the efficiency of the private sector with a developmental mandate of various DFIs, such as SEFA, IDC, and NEF.

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MAURITIUS

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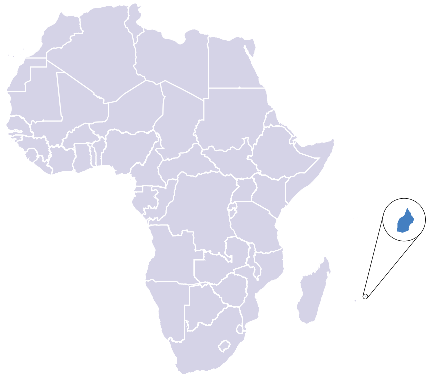

Key Data Points (as at end-December 2023, unless otherwise stated)	
Total population	1,260,379
National currency and exchange rate	Mauritian rupee, MUR46.28 per USD1
GDP and growth rate	MUR651.718 billion, 7%
SME proportion of GDP	34.4%
Annual average inflation	7%
Unemployment rate	7.7%
Total government debt outstanding	MUR451.539 billion
Public debt to GDP ratio	78.6%
Primary stock exchange	Stock Exchange of Mauritius
Number of publicly listed companies	53
Equity market capitalisation	SEMDEX: MUR271,579,357,785.36; SEM-ASI: MUR335,026,250,884.03
Estimated debt market, including bank loans	Debt securities: MUR906.8951 billion; loans: MUR846.8143 billion
Number of marketable corporate debt issuers	5

Sources: Statistics Mauritius; Bank of Mauritius; Ministry of Finance, Economic Planning and Development; Stock Exchange of Mauritius.

1. Introduction and Context

Mauritius, a Small Island Developing State, has a population of approximately 1.2 million as of 2022. It has progressed substantially since gaining independence in 1968 and managed to attain the status of a high-income economy in July 2020. It dropped back to upper-middle-income status in 2021, however, because of the impact of the COVID-19 pandemic on its core economic activities. Mauritius's GDP was USD12.9 billion in 2022, representing annual growth of 8.7%, which marked the rebound of the economy from the slump triggered by the pandemic. The real normalised GDP growth rate hovers around 3.5% to 4%. One of the key challenges for the island is to achieve and sustain a high economic growth rate in the range of 5%–6%.

The economy in Mauritius has been largely driven by the services sector in the past few years. Indeed, the tertiary sector accounts for 74.8% of the gross value added, while the secondary and primary sectors make up only 20.7% and 4.4%, respectively. Within the services sector, "wholesale and retail trade" and "financial and insurance activities" are the key driving forces. Interestingly, the gross value added by financial and insurance activities in the country in 2023 was MUR73.870 billion, which accounts for only 11.75% of GDP.

The financial sector in Mauritius is still heavily dominated by the well-established banking sector. The capital market sector is relatively nascent, with the Stock Exchange of Mauritius (SEM) having been incorporated in 1989. Indeed, in 2020, domestic credit to private sector banks represented 91.8% of GDP, while the market capitalisation ratio of listed domestic companies amounted to 54% of GDP. The liquidity of the stock market, as captured by the turnover ratio of domestic shares, was 5% in 2020. Nevertheless, the sector has evolved rapidly, so much so that Mauritius now touts itself as an investment platform, linking Africa with India, China, and the rest of the world.

Traditionally, the preferred fundraising method in Mauritius involved banks. Fundraising via public markets has been rising exponentially, however, especially following the initial disruption of the COVID-19 pandemic. Interestingly, there is a penchant towards equity securities, rather than debt securities, in the public market. The SEM has gradually started opening up to new securities issuance, however, including debt securities, exchange-traded funds, eurobonds, and structured products, thereby offering a wider range of options to the growing and evolving needs of investors. Additionally, the fintech ecosystem is gaining momentum, with the government and regulators working to create a conducive environment for the growing demand for peer-to-peer lending, crowdfunding, securities token offerings, and virtual assets. Despite the favourable tax and regulatory environment, along with the evolution in the fundraising landscape, some challenges persist that must be addressed to enhance the development of the financial sector and scale up the contribution of the financial services sector to the country's economic development.

Additionally, Mauritius is an international financial centre (IFC), which is recognised by the setup of companies owned either by domestic residents or foreigners who are able to operate either in the country or in another country. Although there is no official recognition of an IFC, there are a number of formalized IFC groupings, such as the Group of International Finance Centre Supervisors (GIFCS). Mauritius's membership in the GIFCS is evidence of its status as an IFC.

2. Raising Funds in the Public Markets

Overview

Since Mauritius gained independence, the country has successfully navigated the global economic landscape to position itself for economic value creation across the globe. It has done so by growing steadily and sustainably and by taking calculated risks. As a result, the growth story of the nation's capital market has followed the same course, with medium and sustainable growth achieved in positioning Mauritius as a rising IFC globally. Today, the country boasts a strong legal framework aligned with global best practices, with the appropriate infrastructure for the country to act as the financier for accelerated GDP growth in Africa, by seeking to contribute to bridging the gap in the continent's funding needs. Mauritius is gearing up to fulfil this role in the coming years.

Current Fundraising Landscape

Fundraising in Mauritius remains predominantly anchored within the traditional banking sector. The contribution of commercial banks in the process of capital raising is substantial relative to fundraising via public markets. The Bank of Mauritius (BoM) reports that in May 2023, the composition of the sectoral balance sheet of banks was MUR904 billion (approximately USD20 billion) in debt securities and MUR817 billion (about USD18 billion) in loans. The market capitalisation of all shares listed on the Official Market of the SEM is only MUR321 billion (USD7 billion). The number of new listings on the Official Market averaged around 28 per year in the pre-COVID-19 period. For the financial year ended 30 June 2022, the Stock Exchange of Mauritius recorded 20 new listings, after registering only 7 new listings for the financial year ended 30 June 2021.

Hence, public fundraising primarily taps into funds generated by the Mauritian economy, although commercial banks are also investing in government and corporate bonds issued in the country. That said, a positive development in the public fundraising arena over the years is the trend of more frequent and consistent corporate bond fundraising for financing major development projects in the country.

The Role of Foreign Direct Investment in Fundraising

Gross foreign direct investment in Mauritius averaged about MUR21 billion (approximately USD460 million) per year over the past five years, 55% of which was used to purchase real estate in Mauritius. Although Mauritius is an IFC with several funds and entities domiciled in the country, the investments are primarily for countries in Africa and India. Mauritius hosts funds either as closed-end funds or open-end funds by domestic residents and foreigners. The fund structures in Mauritius are mainly invested in India. As of 30 June 2023, Mauritius hosted 1,014 such funds, an increase of approximately 1.19%

compared with the previous financial year. These funds were in the following categories: CIS (single fund), CIS (more than one fund), CIS (protected cell company), closed-end fund (single fund), closed-end fund (more than one fund), and closed-end fund (protected cell company).

Funding for Infrastructure

The funding of infrastructure projects emanates from both internal and external government borrowing, with local investor participation in infrastructure being very limited (excluding green energy projects). Based on the Republic of Mauritius's Public Sector Investment Programme for the five financial years from 2021–22 to 2025–26, a total of MUR190 billion (USD4.2 billion) would be invested in the country on social and economic infrastructure spanning across the (1) roads and land transport infrastructure, (2) energy, (3) airport, and (4) port and other sectors (Republic of Mauritius 2021). All these investments are fully funded by the government through borrowing from both the domestic and international markets, as well as grants and loans from other countries.

Funding for SMEs

Traditionally SMEs have raised funds via commercial banks and development banks, with the development of crowdfunding still in a nascent stage. For example, the BoM reported that from December 2011 to June 2022, MUR15.3 billion (USD337 million) was financed by commercial banks in Mauritius under the Small and Medium Enterprises Financing Scheme.

The Regulatory Landscape

Mauritius's geographic location, attractive business framework, sustainable economic growth, strong institutional support, and financial stability contribute to the country's ability to safeguard consumers and maintain financial integrity. Currently, its financial services are overseen by two integrated regulators:

- The Financial Services Commission (FSC), which oversees nonbanking financial services and global business
- The BoM, which oversees banking activities

The Economic Development Board (EDB) is responsible for promoting Mauritius as an attractive investment and business centre. It does so by assisting and supporting investors in raising funds through private markets by providing advisory services and capacity building programmes and acting as a single point of contact for investors.

The country has built a robust regulatory and legal framework to position itself as an IFC, making it attractive for both local and international businesses looking to raise funds in a secure environment. Mauritius thereby is positioning itself as a financial hub for capital formation.

An IFC's strength is characterised by the certainty of its legal framework and its rule-based approach to doing business. Mauritius has a set of laws for financial services that govern operations. The Bank of Mauritius Act 2004 and the Banking Act 2004 govern the banking sector, and the Financial Services Act 2007, Securities Act 2005, Insurance Act 2005, and Virtual Asset Initial Token Offering Services Act 2021 (VAITOS) govern the nonbanking sector. These laws define the overall legal framework for the business to operate under and to act with certainty.

The FSC has developed a set of regulations that define the process through which the elements of the laws are translated into actions, as well as a set of rules that clarify operational matters. Therefore, the Mauritius IFC can demonstrate in the international market the manner within a proven legal framework that operations are conducted, providing legal certainty, which allows investors to trust the jurisdiction. Moreover, to ensure the robustness of its regulatory framework, the FSC and BoM embark on a yearly assessment and benchmarking of these regulations with international best practices with assistance from international bodies, such as the IMF, and whenever required, amendments are made in order to update and facilitate business (Financial Services Commission 2022; Bank of Mauritius 2022a).

The FSC has launched intensive initiatives regarding digital finance. A blueprint for the FSC was commissioned, which outlined the path for financial technologies to be embedded into mainstream activities, and therefore, the FSC licensed the different parts of the activities. The FSC is also aligned with the digital finance movement, which means that systems are enabled and operate as a mix of traditional finance and modern ways of conducting business. The FSC has a fintech cluster that enables startups to test products through sandboxing, under which the necessary regulations will be issued at a later stage after testing. In addition, the VAITOS Act lays out the FSC's legal framework for activities in the cryptoasset and virtual asset space to be regulated and to be licensed (Financial Services Commission 2023). Furthermore, the BoM's revised legislation will pave the way for the digitalisation of the financial sector (Bank of Mauritius 2022a).

The FSC has worked to align and digitally connect its processes in order to ensure end-to-end processing of systems. The FSC, in collaboration with the EDB and the Corporate and Business Registration Department (CBRD), launched the FSC Single Window, a single point of contact for businesspeople to obtain all the authorisation required, whether from the FSC or the CBRD, as well as other work-related permits from the EDB. Moreover, the FSC is in the process of completing the digitalisation of the insurance claims database.

The Registrar of Companies is responsible for the incorporation and registration of companies, as well as the removal of companies in cases of noncompliance with legal requirements.

Challenges

There are several challenges that arise from the increasing regulatory disclosure requirements, upfront costs, liquidity requirements, governance practices, and uncertainty surrounding lenders' reliability. Indeed, meeting regulatory requirements can be time-consuming, and covering upfront costs can be expensive for companies. These undoubtedly act to deter IPOs in Mauritius. Additionally, abiding by the liquidity requirements and implementing robust corporate governance practices can be challenging for companies, especially those transitioning to a public ownership structure. Furthermore, some companies experience more difficulty in attracting reputable investors if they have a limited operating history or industry-specific risks. These challenges are more difficult to overcome for smaller companies with limited resources.

The Impact of COVID-19 Fundraising

The COVID-19 pandemic inevitably impacted the fundraising process in Mauritius, with regulators observing a shift in the financial landscape. It became difficult for businesses to access traditional sources of capital because of the economic uncertainties arising from the pandemic. Private markets thus sought alternative funding solutions, including private equity and debt instruments. This move put considerable pressure on regulatory bodies to ensure that these markets operate efficiently and transparently, even amidst crises. The pandemic necessitated the fast-tracking of the digitalisation process in the financial sector, in terms of both operations and regulatory oversight, so as to accommodate this shift in capital formation. This led to the implementation of various regulatory guidelines to protect investors, a new framework for virtual assets, and the adoption of crowdfunding rules to maintain market integrity and foster a resilient financial ecosystem amid the pandemic. Other rules were introduced to ensure that Mauritius is well positioned in the fintech arena, such as the Peer-to-Peer Lending Rules 2020, the Regulatory Framework for Robotic and Artificial Intelligence Enabled Advisory Services, and the Virtual Asset and Initial Token Offering Services Act 2021.

Moreover, a new set of guidelines has emerged from the adoption of a guide on sustainable bonds by the BoM in June 2021 and the guidelines on corporate and green bonds issued by the FSC in September 2021 to cater to the requirements of African countries.

The guidelines on green bonds issued by the FSC aim to give corporate entities the necessary requirements for those bonds to be qualified as green. They also provide necessary provisions to prevent greenwashing. The requirements for entities to be qualified as green bonds are as follows:

- The proceeds of green bonds are to be used for funding of qualifying green projects.

- Categories of green projects include energy efficiency, clean transportation, sustainable waste management, and green buildings.
- Social cobenefits are required for certain green projects.

Additionally, the EDB has been instrumental in creating awareness about private investment options, thus enabling companies to make informed decisions. Therefore, a robust regulatory framework is required to ensure investor confidence and protect investors' interests.

3. Debt

In Mauritius, the fundraising process in the public markets revolves predominantly around the issuance of stocks and government bonds. Although the government of Mauritius has resorted to the public issuance of debt securities to meet its funding needs for a long time, Mauritian companies are also gradually starting to opt for the issuance of public debt securities in addition to their stock securities. Historically, Mauritian companies have primarily resorted to the issuance of debt with commercial banks and limited private placements, which targeted corporate and institutional investors.[66]

Size

As of December 2023, the central government's total debt as a percentage of GDP was 69.3%, while public sector debt as a percentage of GDP was 78.6%. As expected, the domestic debt accounts for a bigger proportion of central government debt (81.4%) relative to foreign debt. Similarly, public sector debt is also largely oriented towards domestic debt (77.8%). In the wake of the pandemic, the ratio of public sector debt to GDP rapidly rose and peaked at 94.2% in September 2021. Consequently, the government of Mauritius has adopted several economic policies to gradually bring down the public sector debt level.

Cost

The average cost of the Mauritian government's debt was 3.6% in December 2022, a 0.1% decrease from the average cost in September 2022. Its interest payments were 2.4% as a percentage of GDP and 9.6% as a percentage of recurrent revenue.

The interest rate mix differs slightly for the government's external debt and the public sector's external debt. The most common interest rate type used for government external debt is variable, followed by fixed. In contrast, for the public sector external debt, a bigger proportion requires fixed interest payments rather than variable interest payments. Interest-free loans account for an extremely small portion of both government and public sector external debt.

[66]Unless otherwise noted, the data in the following subsections are from CEIC (2024).

Currency

The currency composition of external debt is mostly euros, US dollars, and Japanese yen. In December 2022, the external government debt consisted of 43.1% euro-denominated debt, 19.2% US dollar–denominated debt, and 12.8% yen-denominated debt. Public sector external debt denominated in euros, US dollars, and yen accounted for, respectively, 31.5%, 40.9%, and 9.4% of the total outstanding debt. Interestingly, the amount of external debt denominated in euros has decreased over the past few years. Contrary to the trend in euro-denominated external debt, the amount of external debt denominated in yen has risen.

Risk

The refinancing risk of the government's debt is being reduced, as outlined in the debt management strategy of the island. The average maturity of government debt, both external and domestic, increased to 5.6 years in December 2022. Moreover, interest rate risk has also been curbed. In fact, the average time for refixing of interest for total debt increased to 5.1 years in December 2022.

Government of Mauritius Outstanding Debt

The government of Mauritius and the BoM issue short-term treasury bills through separate auctions. As at May 2023, the government of Mauritius had outstanding treasury bills worth MUR24.7 billion (USD544 million). Additionally, the government of Mauritius issues three-year government notes and bonds with maturities ranging from 5 to 20 years. The outstanding amount of the three-year treasury notes and five-year treasury bonds in May 2023 was MUR59.5 billion (USD1.3 billion) and MUR100.3 billion (USD2.2 billion), respectively. The other outstanding long-term bonds amounted to MUR155.9 billion (USD3.4 billion).

Additionally, since 2019, the government of Mauritius has also started issuing inflation-indexed government bonds, as well as silver bonds (which are solely aimed at retired residents). In May 2023, there was MUR6.2 billion (USD137 million) worth of outstanding silver bonds. Sustainable bonds are also making their way into the debt market of Mauritius, following the 2020–21 national budget, which announced the initiation of a framework for blue and green bonds. In December 2022, the first green bond in Mauritius was issued by CIM Finance, raising capital of MUR500 million (USD11 million).

Publicly Traded Corporate Debt

The Official Market of the SEM now allows the trading of corporate bonds as well. As of 2023, only six different bond securities were listed and traded on the SEM, all denominated in Mauritian rupees except for one, which is in

US dollars. The nominal price ranges from MUR12 to MUR10,000. The US dollar–denominated debt security has a nominal price of USD1,000. Additionally, the SEM allows the listing and trading of about 47 specialist debt securities. Although most of these specialist debt securities are traded in Mauritian rupees, some are denominated in US dollars, pounds sterling, and euros, the nominal values of which range from MUR1,000 to MUR1 million. There are also eight specialist debt securities that are listed on the SEM but not traded. These debt securities are denominated mostly in US dollars, with only one denominated in pounds sterling and one in South African rand. Furthermore, there are nine other structured products that are listed on the SEM, all of which have a nominal price of 1,000. They are traded in Mauritian rupees, euros, and US dollars.

The increase in demand in the number of companies listing and trading their debt securities is mostly caused by the fact that more companies, especially smaller ones, are realising that debt issuance on the public market is an easy alternative for raising funds. Given the current excess liquidity and the recent increases in interest rates in Mauritius, investors are finding debt securities increasingly appealing. Although one would expect that the increasing amount of corporate debt being listed and traded on the SEM will help push liquidity in the fixed-income market upwards, trading in the secondary fixed-income market of the island is almost nonexistent. Investors prefer holding on to the securities given the favourable interest rates.

Challenges

Government bonds and bills have existed for a long time in Mauritius. Liquidity in the secondary market, however, remains limited. Most investors still have a mindset that dictates holding the bonds until maturity, which impedes the growth of the secondary market.

Although corporates in Mauritius have mainly issued bonds through private placements, the bond market has evolved rapidly during the past decade to adapt to the changing needs of the various players. Companies are now gradually opting for publicly traded bonds, and the issuance of green bonds has also been initiated. The corporate bond market, however, which is still at a nascent stage, also has a relatively underdeveloped secondary market, similar to the government bond market. Indeed, the current excess liquidity does not motivate investors to sell their bonds. As such, to ensure that the changing bond market can become more attractive to investors, regulators will need to be proactive in taking steps to reduce both the cost and the time frame of issuance of debt. Indeed, the fees of an initial and further issue of debt and structured products are MUR150,000.

Additionally, there are annual listing fees, starting from MUR76,900 for debt securities and MUR3,200 per tranche for structured products. These costs, which are dependent on market capitalisation, coupled with the lack of trading in the secondary market, might make issuers revert to private placements. Moreover, preparing the prospectus and the review of the application documents by the SEM and FSC can be quite a lengthy process. Nevertheless, issuers can be listed after a minimum of 10 days.

The growing amount of public debt in Mauritius, which is mostly a consequence of government support measures during the pandemic, also poses a risk to the financial system. Indeed, debt peaked at 99.2% of GDP in 2020. Despite a downward trend in the country's debt-to-GDP ratio since 2020, the ratio was still relatively high, at 81.4% during 2021 and 2022. Alarmingly, this debt-to-GDP ratio is higher than that of most nearby African countries. The government targeted a debt level reduction to 71.5% in 2023–24. The remedial measures adopted by the government (such as selling off nonstrategic assets to pay debts and reduce borrowing requirements, and using debt management strategies that will improve the country's debt profile) will probably take some time to lower the debt level.

4. Raising Funds in the Private Markets

The landscape of raising funds in the private markets in Mauritius is very diverse: The country is a solid and credible international financial centre that is compliant with international norms for structuring deals and funds for investments in foreign markets. At the same time, it still has a nascent private market for raising funds for domestic investments. Although the country will continue to consolidate its position as an international financial centre, it will also have to implement the right policies that are conducive for a robust development of the private market for raising funds for domestic investment purposes.

The Regulatory Landscape

The FSC pursues international best practices in its operations, benchmarking itself against prominent global institutions. These include the International Organization of Securities Commissions, the Financial Stability Board, the International Monetary Fund, the World Bank, and the Organisation for Economic Co-operation and Development, all known for their comprehensive regulatory standards and frameworks. By aligning its strategies and regulations with these international bodies, the FSC ensures that the Mauritian financial markets remain competitive and attractive to international investors. This alignment has also facilitated adherence to global norms related to transparency, accountability, and financial stability, underlining Mauritius's commitment to fostering a robust and sustainable financial sector.

The FSC adopted several guidelines, rules, and regulations that outline the licensing requirements and accepted activities for these funds to operate. Those regulatory frameworks, coupled with the commitment of regulators, have significantly contributed to the Mauritius ecosystem, especially in the growth of the private markets.

The main legislation covering private equity funds in Mauritius are

- the Companies Act 2001,
- the Financial Services Act 2007,
- the Securities Act 2005,
- the Limited Partnership Act 2011, and
- any regulations made under these enactments.

The key regulations on private funds have contributed significantly to the rise of private markets, indicating a shift from traditional lending sources (banking loans). Nowadays, nonbanking financial institutions provide loans to borrowers, peer-to-peer lending platforms, and other fintech companies. These regulations ensure that Mauritius maintains its position as an economy of substance by fostering an efficient and transparent market and suppressing financial crime and malpractice.

Mauritius has implemented several favourable policy measures and offers incentives that can stimulate investors' interest and facilitate capital inflows into private markets. These include the following:

- Special purpose acquisition company (SPAC): Mauritius has embraced the concept of the SPAC, a shell corporation to raise capital. When formed, a SPAC is listed on the stock exchange, and the funds raised are used to make acquisitions.
- Variable Capital Company Act 2022: Variable capital companies are used by international investment funds and consist of open- or closed-end investment funds and special funds, such as hedge funds and venture capital funds.
- Financial Services (Special Purpose Fund) Rules 2021: Special Purpose Funds are still tax-exempt and operate under the aegis of the FSC.

Mauritius sets a strong example for capital formation in Africa, largely because of its well-established regulatory bodies, the FSC and the BoM. These institutions have created a regulatory environment that balances the need for security with the flexibility required to attract private funds while at the same time ensuring transparency and protecting investors.

Mauritius's high rankings in the Ease of Doing Business Index Report 2020 reflect these dynamics. The country ranked first in Africa and 13th worldwide—a testament to its conducive regulatory environment.

Mauritius has ensured that its regulations safeguard the right of investors and are tailored to the local market. Moreover, the regulatory bodies in Mauritius have ensured that increased collaboration between regulators, whilst the

EDB helps create more incentives for businesses to invest in capital formation projects and educates investors to make informed decisions about their investments.

Although Mauritius has successfully created a conducive regulatory environment for capital formation, other African countries present a contrasting picture, with regulatory challenges continuing to hinder their ability to attract private investments. The comparison underscores the importance of a flexible and investor-friendly regulatory environment in promoting capital formation.

Size of Private Markets

The size of private markets in Mauritius, although smaller compared with developed economies, shows promising growth, serving as a testament to private markets' role in capital formation. Research from the 2022 African Private Capital Activity Report (AVCA 2023) shows that Africa demonstrated resilience and recorded a significant 46% year-over-year increase in deal volume in 2022, its highest level for the past 10 years. This increase was primarily driven by the greater volume of private equity investments and growth in private debt investments. In Mauritius, private market funding has been recognised as a key contributing factor to the country's economic development, signalling a shift in the traditional debt-raising landscape as businesses increasingly leaned towards private markets for capital formation.

According to Statista (2025), Mauritius is increasingly attracting private equity (PE) investments owing to its strategic location, favorable regulatory environment, and emerging market potential in Africa. The deal value in the PE market is projected to reach USD5.74 million in 2025. Supporting this positive trajectory, both the number of deals and assets under management have shown increasing trends since 2017, despite a temporary dip in 2020 largely attributed to the global impact of the COVID-19 pandemic.

Main Actors

The main actors of private markets are

- investment dealers,
- investment advisers,
- reporting issuers,
- retail investors, and
- institutional investors.

In its 2022 annual statistical bulletin, the FSC reported that in 2021, the total assets of securities/capital market intermediaries amounted to MUR961 million

(USD21.2 million), indicating an increase of MUR127 million (USD2.8 million). The FSC also reported a decrease in the total number of authorised investment funds (including all categories of CISs and closed-end funds), from 1,043 in 2021 to 1,004 in 2022 (Financial Services Commission 2022).

Challenges

There are several challenges associated with raising funds through private markets:

- Investors' ability to accurately assess potential returns: In the domestic markets, the main challenge stems not from the fact we have a lack of qualified personnel but from a number of Mauritians being poached by other jurisdictions—in particular, Luxembourg, which lures many of our talented and locally trained citizens because the Mauritian population is bilingual and has international qualifications.
- Regulatory compliance: Complying with the mandates set out by international trend setters—namely, the Financial Action Task Force and the OECD—on harmful tax practices can be time consuming and costly. Mauritius has to make a compromise between full adherence and the attraction of global players, who would prefer a less compliant jurisdiction. So far, the Mauritian IFC has chosen to be internationally compliant because doing so leads to a long-term return.
- Access to capital: It can be difficult for emerging businesses to attract the attention of private investors, particularly in competitive markets.
- Market volatility: Private markets can be subject to rapid fluctuations, which can impact the viability of investments.
- Lack of transparency: The private nature of these markets can often lead to a lack of transparency, resulting in information asymmetry, which makes it challenging for investors to make informed decisions.
- Limited liquidity: Investments in private markets are often illiquid, making it difficult for investors to pull out their capital when needed.

These challenges represent potential hurdles to private capital formation in Mauritius and need to be addressed so the country can harness the full potential of private markets.

5. The Challenges to Capital Market Formation

Like any other market, Mauritius has several challenges that must be addressed and turned into strengths and opportunities so that its financial services industry can migrate to the next level of development. Although Mauritius offers great opportunities for capital formation in Africa, the key issues range from market resiliency to external shocks, internal human capital development, enhanced financial literacy, and a lower regulatory burden.

Institutional Settings and Regulatory Frameworks

Government policy in Mauritius has always favoured a high level of openness, both in terms of trade and investment. Mauritius has a high number of double-taxation avoidance agreements and trade treaties with several countries, and it maintains a high rank on the Ease of Doing Business Index and good governance indexes. Although the country's legal and institutional frameworks are satisfactory, there is a lack of clarity in the regulatory frameworks for the various investment vehicles. Additionally, the recent slowdown in economic growth experienced from 2020 to 2023 due to the COVID-19 pandemic, coupled with the ensuing social and political risks, may have had a negative impact on the investment landscape. This predicament might result in corporate governance complications (unfair treatment among shareholders, inaccurate and untimely corporate disclosures, and inadequate measurement of risks) in Mauritius, where disclosures required for adherence to the codes of corporate governance are made on a voluntary, rather than compulsory, basis. Additionally, investor confidence might also be dampened.

Consequently, Mauritius has to take additional steps to improve transparency and accountability, while simultaneously enhancing the power of its regulatory bodies. Furthermore, the efficiency and the effectiveness of the regulatory procedures must be enhanced by reducing the delays and hurdles in the regulatory processes, as well as promoting digitalisation of processes and service offerings. These institutional settings and regulatory frameworks must be reviewed regularly to identify and rectify gaps and adapt to ever-changing market dynamics. These steps will simultaneously help address the current lack of trust between financial institutions and potential investors, a predominant barrier to private capital formation.

Nevertheless, the frameworks put in place to ensure the fair and orderly functioning of the market activities might also unintentionally contribute to "failures" in these markets resulting from framework weaknesses. These structures are not able to withstand every situation, especially when faced with external forces, which may result in misinformation, fraud, or preferential treatment. They are also reaction-based frameworks, meaning they have been designed following a particular circumstance that arose, so their effectiveness can be tested in new situations.

Health of Markets: Market Liquidity and Volatility

As a Small Island Developing State, with its own unique specificities, Mauritius is highly susceptible to sudden, unexpected disruptions to the global economic climate. In general, the markets in Mauritius exhibit relatively high liquidity and an acceptable level of volatility. As they did elsewhere in the world, the COVID-19 pandemic and the Russia–Ukraine war caused Mauritius to face challenges, such as a heightened level of market volatility and reduced market liquidity. The consequences are magnified for the relatively small public and private markets prevalent in the country. Indeed, volatility caused the asset value of the life insurance industry to contract during the first half of 2022, while that of the general insurance industry expanded. The decrease in life insurance assets was primarily caused by a 6.5% drop in equity investment in Q2 2022, which reflected a drop in the SEMDEX over the same period. Similarly, life insurers' investment preferences changed towards debt securities, which increased by 3.7% in the first half of 2022.

Rising interest rates and significant global financial market volatility posed challenges for the nonbank financial services sector in Mauritius, which includes the insurance and private pension plan businesses. The asset value of the life insurance and private pension fund industries fell in the first half of 2022 as global stock markets fell. The volatility of financial markets increased significantly in the first half of 2022. Global equity prices fell because of increased uncertainty about the economic future, while investor risk appetite declined. Between the end of December 2021 and the end of June 2022, the MSCI World Index, MSCI Emerging Markets Index, and MSCI Frontier Index fell by 21%, 19%, and 20%, respectively.

Moreover, the investment flows through the Mauritian financial sector were also highly volatile because of the uncertainties created by the pandemic and the Russia–Ukraine war. In February 2022, the beginning of the war temporarily harmed investors' confidence and risk appetite. The SEMDEX fell between the end of February 2022 and mid-March 2022 but rebounded strongly at the start of the second quarter of 2022, consolidating first-quarter gains to peak at 2,304 points in early May 2022—a level not seen since March 2018. Following that, stock market indexes decreased as a result of increased global market volatility, the strengthening of the US dollar against key currencies, and growing domestic inflation. The SEMDEX finished the second quarter of 2022 with a value of 2,127 points (Bank of Mauritius 2022b).

Similarly, the uncertainties caused by these setbacks have accentuated the level of asymmetric information among investors, thereby causing an abrupt drop in market liquidity and subsequently a shift in the investment pattern. Potential investors favour markets with higher liquidity and lower volatility in times of crisis, making improvements in the currently unappealing market conditions of the country more challenging.

Diversification in the Types of Investors

Diversification of investor type allows for the development of emerging markets. This is caused by the demand for yields derived from a high interest rate environment, resulting mainly from institutional investors. Interestingly, Mauritius has an abundance of pension funds, insurance companies, mutual funds, and investment management companies. Institutional investors are attracted to the fairly liquid markets, the existence of substitute services, the tax advantages, and the relatively simple and barrier-free cross-border activities that the country offers. Mauritius has a relatively low number of retail investors, however. Although the investment promotion strategies adopted by Mauritius have been particularly helpful in attracting retail foreign investors, especially in the real estate sector, domestic retail investors are relatively few in number. This situation is mostly because of a lack of an investment culture in the country and an inadequate level of financial education: Only 39% of the adult population in Mauritius is financially literate, and the country has a slower pace of development in financial innovations.

The insurance sector in Mauritius has performed relatively well over the past several years and has shown resilience. The contribution of insurance, reinsurance, and pensions to GDP in 2022 was 2.1%, with a growth rate of 4.1%, and this contribution is expected to remain stable. In 2022, the total value of assets for the long-term insurance sector was MUR106 billion. Similarly, gross premiums for the long-term insurance saw an increase of 9%, reaching MUR13 billion. The number of long-term policies increased by 5%, reaching 583,002 (Statistics Mauritius 2023).

The Bond Market

Although the country's equity market has witnessed a rapid growth, its bond market, especially the corporate bond market, is still at a nascent stage. Furthermore, the investor base is very narrow for the bond market, even for the treasury bills, notes, and bonds. This situation results in thinly traded instruments and liquidity concerns for potential investors. Additionally, a benchmark yield curve is not available. As such, along with providing financial education to the population, Mauritius needs greater visibility of and accessibility to debt products.

The Private Market

The private market in Mauritius is not easily accessible to new and smaller businesses/funds because of the complex regulatory compliance requirements and difficulty to attract private investors. Moreover, the inherent lack of transparency and illiquid nature of the market make it less appealing to certain investors. On top of that, most local investors, especially individual investors, lack the necessary knowledge to value and assess private market investments. As such, a supportive environment for private funds and other alternative financing options must be created so that more coordination occurs between the private and public sectors.

Size of the Mauritian Economy

The structure and size of the Mauritian economy are also limiting factors in the development of a highly liquid and efficient capital market. Although the country is well diversified, with activities ranging from agriculture and textile manufacturing to tourism and financial and ICT services, the number of deals and transactions that emanate from domestic economic activities may be insufficient to enable the formation of a liquid and efficient market.

The challenge ahead is significant, but with sustained effort and cooperation between the public and private sectors, Mauritius can position itself as an attractive destination for capital formation in Africa.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

To tackle the key challenges facing Mauritius and unlock the country's potential to enhance its financial markets and financial services sector, a series of policy actions is required. These actions would encompass education, codes of practice and ethics, and collaboration with other stakeholders domestically and internationally.

Focus on Financial Literacy

Raising capital efficiently and swiftly is crucial for enhanced growth in the corporate sector in Mauritius. To increase the investor base and improve the liquidity of the secondary markets, increasing public knowledge through consistent educational campaigns on the functioning of the financial system is necessary (Yartey and Adjasi 2007). Financial literacy initiatives could be devised to increase awareness about the various types of funding available and thus increase the pool of local and international investors.

Moreover, the government of Mauritius could launch clear guidelines for capital formation to alleviate any obstacles to private funds. This effort could also include a comprehensive review of regulatory policies, and the FSC and BoM could spearhead this process. In addition, the EDB could assist businesses to invest in capital formation.

To encourage both internal and external investment and to maintain a favourable business environment, the EDB serves as the primary entity in charge of country branding for investment promotion. It also serves as the point of contact for all investors and coordinates with the appropriate authorities to register investors. In addition, the EDB provides assistance and guidance to Mauritius-based companies, finds opportunities in emerging economic sectors, collaborates with global partners to form strategic alliances, constructs the right ecosystem for these sectors, improves the business environment, and initiates and conducts the macroeconomic research that is needed.

Attracting Investors, Both Domestic and International

Mauritius could actively promote the benefits of investing in private markets, both domestically and internationally, to attract more private funds. Such a promotional effort could entail providing incentives for private investment, such as tax breaks or subsidies. Additionally, Yartey and Adjasi (2007) argued that foreign participation should be further encouraged to boost capital formation.

Although there are no restrictions on foreign investment in companies listed in Mauritius, and foreigners benefit from several incentives (including free repatriation revenue on sales of trade and no taxes on dividends and capital gains), additional steps should be taken to increase the visibility of not only the stock market but also the bond market. Additionally, emphasis should be given to creating the right environment with the appropriate financial products, with different maturity spectrums, for funds that are domiciled in Mauritius. In the long term, policies should also aim at further developing real sectors of economic activities that could prompt businesses, particularly from Africa, to shift their financing, deal making, and private wealth requirements to Mauritius.

Further Capitalise on Ethical Behaviour and Practices

The members of the Stock Exchange of Mauritius would benefit from an ethical framework that is in line with international standards and reflects local needs (Yartey and Adjasi 2007; Adelegan 2008). This framework would set out the behaviour that will govern the activities of the exchange. Indeed, while the SEM has already set up various mechanisms with the aim of safeguarding the interests of investors (such as ensuring the financial integrity of participants, compensating investors in cases of fraud, obligation to disclose interest, separate dealing rules for employees and directors, and segregation of client and broker accounts), it is also important to create a formal code of conduct for the exchange that will specifically address the level of professionalism expected. This code of conduct would demonstrate a professional commitment to uphold the highest standards, act ethically, avoid conflicts of interest and abuses of power, and abide by the laws and regulations of the country. This measure would simultaneously boost investor confidence and help in attracting foreign investors.

Advance the Integration of African Capital Markets

Yartey and Adjasi (2007) and Adelegan (2008) both proposed the regional integration of markets to solve problems faced by African markets. In the same vein, Tumwebaze, Uwanziga, and Kirezi (2016) argued that integration can "promote the movement of capital across the continent, increase investment opportunities, encourage optimum financing for firms irrespective of where they are, and increase the attractiveness of Africa as an investment area both by local and foreign investors." Indeed, Mauritius can also benefit from integration because it can foster synergies, reduce trading complexities, and improve risk management. This will, in turn, result in the harmonisation of legislation, trading days, settlement, and reporting standards with international standards, thereby enhancing the attractiveness of the market to foreign investors. Integrated markets will also make it easier for Mauritian companies to raise capital in the region on a larger scale, which would not be achievable in the Mauritian market alone.

The African Exchanges Linkage Project (AELP), launched in December 2022, links seven African exchanges across 14 African countries, including the SEM, representing a market capitalisation of approximately USD1.5 trillion. The aim is to facilitate cross-border trading, improve the depth and liquidity of the African market, and support free movement of investment in Africa. In 2023, an agreement was reached to expand the AELP network to 15 African exchanges. Additionally, discussions are ongoing about collaborating with the Pan-African Payment and Settlement System with the aim of streamlining the payment and settlement process.

Additionally, the African Continental Free Trade Area (AfCFTA) agreement, signed in January 2021, has the potential to unlock and spark Africa's growth. It binds 55 countries together. In February 2023, a protocol related to investment within the AfCFTA was adopted. It aims at fostering intra-African investment. Raga, Velde, Kimosop, and Mashiwa (2022) expect that the protocol will indirectly attract more external investment from the rest of the world through the Most-Favoured Nation principles and improved governance in AfCFTA.

Additionally, Mauritius is an economy that promotes trade openness. Its trade-to-GDP ratio was 86% in 2021. The country is a member of the World Trade Organization and a beneficiary of the Generalized System of Preferences (GSP) Scheme, and it has eight regional trade agreements[67] (excluding the AfCFTA agreement) and five bilateral trade agreements.[68] These agreements enhance the island's endeavour to increase its competitiveness and openness to trade. Undoubtedly, this openness to trade triggers foreign direct investment in the country (see Baltagi, Egger, and Pfaffermayr 2008; Bengoa, Sanchez-Robles, and Shachmurove 2020).

A Needed Collaboration Between Key Players

Ultimately, the key to success lies in creating an environment that encourages capital formation while promoting trust between financial institutions and investors. By leveraging digital infrastructure, improving access to financing instruments, and encouraging collaboration with other stakeholders, the FSC and BoM can work together to ensure capital formation in Mauritius and across Africa.

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[67]The regional trade agreements are the African Growth and Opportunity Act, which offers duty-free and quota-free market access to the United States for approximately 7,000 products; the interim Economic Partnership Agreement with the EU, which removes barriers to trade and enhances cooperation; the Indian Ocean Commission, an intergovernmental organisation that strengthens commercial ties for the islands of the Indian Ocean; the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area, a major marketplace facilitating internal and external trading; the COMESA–EAC–SADC Tripartite Free Trade Area, which deals with the challenges of multiple Regional Economic Communities memberships and conflicting trade regimes; the SADC Free Trade Area, which eliminates customs duties; the Indian Ocean Rim Association, which promotes liberalisation and reduces barriers to trade; and the United Kingdom–Eastern Southern Africa Economic Partnership Agreement, which provides duty-free access on all products.

[68]The bilateral trade agreements are a Preferential Trade Area between Mauritius and Pakistan, a trade and investment framework agreement between Mauritius and the United States, a Comprehensive Economic Cooperation and Partnership Agreement between Mauritius and India, and free trade agreements between Mauritius and Turkey and between Mauritius and China.

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WEST AFRICA: FOCUS ON CÔTE D'IVOIRE AND SENEGAL

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Key Data Points (as at end-December 2023, unless otherwise stated, covering the whole West African region)	
Total population	154,011,056
National currency	West African CFA franc (XOF)
Currency exchange rate	XOF655.957 per EUR1
GDP	EUR182.8 billion
GDP growth rate (recent)	5.2%
Annual average inflation	4.6%
Unemployment rate	2.6%
Public debt to GDP ratio	59.8%
Total government debt outstanding	EUR109.3 billion
Primary stock exchange	BRVM
Number of publicly listed companies	46
Equity market capitalisation	EUR12.1 billion
Equity market capitalisation % of GDP	6.6%
Number of marketable corporate debt issuers	10

Sources: BRVM (2023); World Bank.

1. Introduction and Context

The main objective of the West African Economic and Monetary Union (WAEMU), founded in 1994, is to create a harmonised and integrated economic zone where people, goods, and factors of production can freely circulate and where nationals from member countries can freely establish and exercise their professions everywhere within the economic union.

This union consists of eight countries: Côte d'Ivoire, Senegal, Mali, Burkina Faso, Togo, Benin, Niger, and Guinea-Bissau. This mix of coastal and landlocked countries shares a common currency; a common central bank, the Central Bank of West African States (Banque Centrale des Etats de l'Afrique de l'Ouest, or BCEAO); and common economic policies and regulatory bodies. See **Exhibit 54** for a detailed economic breakdown.

In addition to sharing a common currency, the West African CFA franc (XOF), WAEMU countries also share a common language (French); a colonial legacy; and similar cultural traditions. WAEMU covers 3,506,126 square kilometres and has a total population of more than 145 million people. See **Exhibit 55** for details.

WAEMU's total GDP was estimated at USD198.7 billion as of 2023, according to the World Bank.[69] The region accounts for about 9% of the GDP of

Exhibit 54. Detailed Breakdown of WAEMU Economic Statistics

Country	Population	GDP (2023 USD bn)	GDP per capita (2023 USD)	Real GDP Growth	Inflation (Annual Average, Q2 2024)
Côte d'Ivoire	28,873,034	78.8	2728.8	6.5%	4.20%
Senegal	17,763,163	31	1746,00	4.6%	1.90%
Burkina Faso	23,251,485	20.3	874.1	3.6%	3.20%
Mali	23,293,698	20.9	897.4	4.7%	2.10%
Togo	9,053,799	9.2	1013,00	6.4%	3.60%
Benin	13,712,828	19.7	1434.7	6.4%	3.20%
Niger	27,202,843	16.8	618.3	2.5%	13.20%
Guinea-Bissau	2,150,842	2	914.3	5.2%	2.90%
Total	**145,301,692**	**198.7**	**1,367.5**	**5.3%**	**4.10%**

Note: Data are as of 2023 except for inflation.

Sources: World Bank data for population, GDP, and GDP per capita; BCEAO (2024) for real GDP growth and inflation.

[69]https://data.worldbank.org/?locations=BF-CI-GW-ML-NE-SN-TG-BJ.

Exhibit 55. Economic Overview and Statistics of WAEMU

Members	Côte d'Ivoire, Senegal, Benin, Burkina Faso, Guinea-Bissau, Mali, Niger, Togo
Creation date	10 January 1994
Official language	French
Surface area	3,506,126 km^2
Population size	145 million
Population density	41.37 per km^2
Currency	West African CFA franc (XOF)
GDP (in 2023 USD)	198.70 bn
GDP per capita (in 2023 USD)	1,367.50

Sources: WAEMU official website for surface area; World Bank data for population size and GDP.

sub-Saharan Africa and is one of the world's fastest-growing economies: Average GDP growth over the 10-year period from 2012 to 2021 was 6.9% per annum, positioning WAEMU as the fastest-growing economic zone in Africa (UNCTAD 2024a). The union's largest economies are Côte d'Ivoire and Senegal, which represent 39% and 15% of the regional GDP, respectively.

WAEMU has proved to be resilient amid significant adverse shocks, maintaining strong growth GDP of 5.1% in 2023 and estimated at 5.9% in September 2024. Inflation in WAEMU fell rapidly from its 2022 peak of 7.4%, down to 3.7% in 2023; as of Q2 2024, it was 4.1% (BCEAO 2024). Growth is projected to rise to about 6.8% in 2024–2025, because of the start of new hydrocarbon production, and to hover near 6% in the longer term (IMF 2024).

Despite this positive economic trajectory, the region faces significant challenges in capital formation. This chapter will explore the dynamics of raising funds in public markets, where local governments often struggle to secure adequate financing for infrastructure and development projects. We will also examine the role of private market financing.

Building on these discussions, this chapter offers policy recommendations for market participants and regulators. These recommendations aim to enhance access to SME financing, cultivate a more robust regulatory environment, and stimulate greater participation from the private sector. By addressing these key issues, we can better position WAEMU for sustainable economic growth and development.

Overview of Market Participants

The major participants in the financial sector are as follows:

- *The central bank (Dakar, Senegal):* The common central bank of WAEMU, the BCEAO, was created in 1962, about two years after independence from France for most of the WAEMU countries. The central bank is headquartered in Dakar, Senegal, with country offices in each member country. Its main missions are to (1) define and implement monetary policies and (2) maintain regional inflation within a range of 1%–3%.
- *The regional exchange (Abidjan, Côte d'Ivoire):* The Bourse Régionale des Valeurs Mobilières (BRVM) is the WAEMU regional bourse that lists and trades bonds and equity issued by local governments and corporations. The bourse is located in Abidjan, Côte d'Ivoire, with country offices in the other seven member countries.
- *The regulator (Abidjan, Côte d'Ivoire):* L'Autorité des Marchés Financiers de l'Union Monétaire Ouest Africaine (AMF-UMOA, formerly known as CREPMF) is the financial regulator of WAEMU and was founded in 1996. Located in Abidjan, Côte d'Ivoire, the AMF-UMOA is the capital market authority, with a mandate to protect public savings by granting/renewing/withdrawing licences to brokers and asset managers. It approves public listings and issuances of bonds and stocks (IPOs).
- *Banks:* The banking sector in WAEMU is very dynamic, with 155 banks and microfinance institutions. These companies have a total balance sheet size of more than EUR84 billion, collecting EUR59.9 billion of deposits and granting more than EUR42 billion of credit.
- *Broker/dealers:* In WAEMU, the Sociétés de Gestion et d'Intermédiation (SGI) play the role of broker/dealer and act as the main distribution agent of the securities (bonds and stocks) listed on BRVM. Thirty-five SGIs deal in both primary and secondary markets across WAEMU.
- *Investors:* The buy side of the market consists of both retail and institutional organisations, such as banks, insurance companies, and pension funds, that access the market through SGI-licensed broker/dealers. Although most investors are local, the public market of WAEMU attracts more and more international investor interest.

2. Raising Funds in the Public Markets

The BRVM, the regional exchange, is the issuance and listing venue for all public equity and bonds. From 1998 to 2023, XOF20.2 trillion (EUR31.01 billion) was raised on the BRVM (AMF-UMOA 2024).

Public Equity Market on the BRVM

Corporates can raise public equity through the BRVM. To do so, they need to partner up with a licensed broker for the issuance and submit a filing to the securities markets regulator, the AMF-UMOA. The regulator has defined a set of rules to allow any specific stocks to be distributed to the public.

These rules include, for instance, a minimum level of shared capital, a minimum targeted market capital, a minimum number of years of existence, and a viable business plan over the next three years. **Exhibit 56** shows the detailed conditions for the large (and mature), medium, and small companies listed on the BRVM.

In the BRVM equity market, the number of IPOs varies significantly from one year to the next, primarily driven by the rarer pipeline of companies. The year 2022 was an outlier, with XOF141 billion (USD215 million) raised in the IPO of

Exhibit 56. BRVM Equity Listing Requirements

	Market Segment		
Criteria	**Prestige (large)**	**Main (medium)**	**Growth (small)**
Legal Form	Société Anonyme (public limited company)	Société Anonyme (public limited company)	Société Anonyme (public limited company)
Minimum Share Capital	XOF100 million	XOF100 million	XOF10 million
Minimum Market Capitalisation	XOF100 billion	XOF10 billion	Not required
Minimum Operating History	10 years	3 years	2 years
Audited Financial Statements	10 years	3 years	2 years
Net Margin Requirement	Positive over the last 3 years	Not required	Not required
Minimum Distribution of Share Capital	20% and a minimum of 4 million shares and 200 shareholders	15% and a minimum of 2 million shares and 100 shareholders	10% and a minimum of 500,000 shares
Periodic Disclosure Obligations	Corporate Actions; annual, semi-annual, quarterly	Corporate Actions; annual, semi-annual, quarterly	Corporate Actions; annual, semi-annual
Market Making Agreement	Required	Required	Not required
3-Year Business Plan	Required	Required	Required
Listing Sponsor	Not required	Not required	Required

Sources: Adapted from the AMF-UMOA and the BRVM.

Orange Côte d'Ivoire, the legacy mobile and telecommunication company, on the back of the strong political will of the government of Côte d'Ivoire to sell its stake via IPO and help grow the public equity market (Reuters 2022). In 2023, only a meagre XOF300 million (approximately USD0.5 million) was raised. As of June 2024, of the 46 listed companies, 35 companies, accounting for about 60% of the total equity market capitalisation, are based in Côte d'Ivoire and 3 companies, accounting for more than 20% of the market capitalisation, are based in Senegal (BRVM 2024).

Companies willing to raise equity in public markets face several challenges, however (see **Exhibit 57**).

Public Bond Market on the BRVM

The BRVM primary market is dominated by bond issuances, mostly from the WAEMU governments.[70] The types of debt instruments are government bonds and sukuk[71] (Islamic bonds) issued by the sovereigns; regional and multilateral institution bonds; and corporate bonds. These instruments are either public listings or private placements.

As of June 2024, there were 155 listed bonds on BRVM: 125 are government issuances, with 74 by the government of Côte d'Ivoire; 2 are government sukuk; 12 are regional and multilateral institution bonds; and 16 are corporate bonds

Exhibit 57. Challenges Faced by Companies Raising Equity in Public Markets

Regulatory hurdles	Many SMEs struggle to meet regulatory requirements for an IPO, such as minimum shared capital and financial reporting standards.
Dilution of ownership	Business owners often fear losing full control of their companies once they go public. For example, short-term investor pressure for immediate returns might conflict with long-term strategic goals.
Cultural barriers	Cultural attitudes towards transparency can pose challenges. Business owners, in particular family-owned businesses, may be reluctant to publicly disclose their operations and financial performance.
Dividend pressure	The market expects companies to distribute dividends and hence tends to punish companies with low dividend yields or high retained earnings.
Transaction costs	Public offerings often incur substantial issuance and transaction costs, including fees for syndicates managing fundraising and IPO processes, as well as listing fees.

[70]There are two markets for debt instruments: One is the syndicated debt market ("marché par syndication") on the BRVM, with broker/dealers marketing and syndicating the fundraising; and the other is the auction-based market ("marché par adjudication") operated by the central bank.

[71]A sukuk is an Islamic financial certificate, similar to a bond in Western finance, that complies with Islamic religious law, commonly known as shari'a. Because the traditional Western interest-paying bond structure is not permissible, the issuer of a sukuk essentially sells an investor group a certificate and then uses the proceeds to purchase an asset in which the investor group has direct partial ownership interest. The issuer must also make a contractual promise to buy back the bond at a future date at par value.

(BRVM 2024). Nine of the 16 corporate bonds are receivables securitisation vehicles (*fonds commun de titrisation de créances*), 1 from a government agency and 2 from large utility companies. Very little issuance activity took place for medium or small companies.

In **Exhibit 58**, we can see that bond issuances dwarf equity issuances: for example, XOF2.08 trillion (EUR3.18 billion) for bond issuances versus XOF308 billion for equity in 2023. Primary market bond issuance is dominated by government bonds: 86% issued by governments, mostly the government of Côte d'Ivoire given that the market is increasingly used by sovereigns to meet their funding needs; 9% by regional and multilateral institutions; and the remainder by corporates. Debt issuance fell 36% from 2022 to 2023, with governments and corporates issuing less.

The outstanding amount of WAEMU governments' listed bonds on BRVM was XOF9,353.3 billion, with Côte d'Ivoire accounting for XOF5,455.9 billion (58%) and Senegal accounting for only XOF388.1 billion (4%; BCEAO 2024). Most of these bonds are long dated and fixed rate; however, an inaugural floating-rate note was issued in 2022. Maturities of preference in the last three years are skewed toward the long end and include 7 years, 10 years, 15 years, and even 20-years.

Exhibit 58. BRVM Equity and Bond Primary Market Issuance, 2018–2023 (XOF billions)

Resources	2018	2019	2020	2021	2022	2023
Bond Market (a)	944,174	1,568,496	1,937,040	1,804,404	3,255,011	2,079,111
Sovereign debt	811,974	1,493,496	1,745,040	1,716,474	3,072,271	1,796,040
Regional and international organisations	30,200	45,000	0	50,000	140,000	178,944
Private sector	63,750	10,000	192,000	73,930	427,400	104,127
State-owned enterprises (SOEs)	38,250	20,000	0	0	0	0
Stock Market (b)	56,920	51,718	8,605	5,272	141,852	308
Public offerings	56,920	51,134	8,199	3,278	140,982	308
Foreign investments	0	583	406	1,915	871	0
Other capital operations	0	0	0	0	0	0
Savings and Collective Investment Schemes (c)	83,550	0	72,800	105,000	370,000	208,500
Total (a) + (b) + (c)	**1,084,644**	**1,620,214**	**2,018,445**	**1,950,677**	**3,766,863**	**2,287,919**

Source: AMF-UMOA (2024).

Development of a Sukuk Segment in the Bond Market

Islamic financial products, or sukuk, have gotten a lot of traction in the region. Since March 2010, a cumulative amount of XOF1,145.9 billion (EUR1.76 billion) was raised through sukuk, under the regulatory framework of securitized funds. Senegal has the largest issuance to date, raising XOF330 billion in a sukuk in 2022, with three tranches maturing in 7, 10, and 15 years. With its Muslim-majority population, Senegal has an extensive history of issuing shari'a-compliant bonds during the last decade.

With the success of the sukuk issuances from member states (Côte d'Ivoire, Senegal, Mali, and Togo), AMF-UMOA has undertaken to provide a specific regulatory framework for the Islamic capital market. The framework for the Islamic capital market within WAEMU was approved by the Council of Ministers of the Union held on 30 September 2022.

Funding for Infrastructure

As in most other developing countries in the world, infrastructure is developed and funded by the central government because such projects are capital intensive and require large and long-dated financing instruments. In WAEMU, only local governments have the balance sheet capacity to effectively raise financing of such nature in public markets to fund infrastructure projects. There are currently no dedicated infrastructure bonds or project finance bonds issued; instead, capital is raised by local governments on the public market to fund their general needs, which, to some extent, also includes financing for development projects and infrastructure.

The absence of specialised financial instruments for infrastructure limits the ability of local governments to tap into broader investment opportunities specifically designed for long-term development. The capacity of central governments in the region to mobilize the necessary funds is often limited. Consequently, funding for large infrastructure projects is usually secured via bilateral loans, loans from multilateral development organisations, loans from commercial lenders (local and international banks), or eurobonds (issued on global markets).

A diversified approach to financing—incorporating a mix of local and international sources—will be essential to address the pressing infrastructure needs in WAEMU and facilitate more sustainable economic growth.

Funding for SMEs

The growth segment of the BRVM is meant to help SMEs source capital through the public equity market. This initiative holds great promise for SMEs seeking to elevate their financing options—particularly for those that have already been shortlisted. Its launch has been delayed, however, to give SMEs ample time to prepare their entries and ensure they can fully meet the listing requirements of the stock exchange, which include the following:

- Adopting a specific legal structure as public limited companies
- Demonstrating a track record of operational history
- Producing audited financial statements on both a semi-annual and an annual basis

Although in theory SMEs could issue public bonds for financing, the reality is that most of them currently rely on heavily collateralised term loans and debt financing, predominantly extended by local banks to fund their activities. This type of financing often comes with extremely high costs, which can significantly constrain their growth and operational flexibility. Better access to and understanding of the capital market as a viable alternative could help reduce their costs of financing and help them gain access to longer-term financing than banks would be comfortable providing.

The Role of Foreign Direct Investment in Fundraising

WAEMU is among the fastest-growing regions in Africa and in the world. Indeed, despite challenges posed by COVID-19 and the ongoing conflict in Ukraine, WAEMU countries have set up policies to attract foreign direct investment. These policies have led to a significant surge in FDI flows, with figures more than tripling since 2007 and nearly doubling since 2013, totalling USD5.5 billion in 2022. A significant portion of this FDI is directed towards the extractive industries, which include such sectors as mining and oil extraction. This focus highlights the region's rich natural resources and the potential for economic growth, yet it also reveals disparities in FDI distribution. In 2022, four countries—Côte d'Ivoire, Mali, Niger, and Senegal—accounted for 85% of the total FDI stock (UNCTAD 2024b). Nevertheless, it is noteworthy that the BRVM regional exchange has been unable to attract much of these FDI flows because they tend to be directed straight to target ventures and private companies, bypassing the public markets. See **Exhibit 59**.

An additional reason for this remarkable increase in FDI is the stability of the currency. Indeed, the local currency (the West African CFA franc) is pegged to the euro, mitigating the risk associated with strong depreciation over time. Local public markets still face challenges, however, in increasing their visibility and credibility in the eyes of international investors. For many foreign investors, the perceived risks associated with repatriating funds after the investment period can be a deterrent. WAEMU has to continue to prioritize transparency and implement robust mechanisms accordingly.

Exhibit 59. Foreign Direct Investment in WAEMU

	Average Inward Flows of Foreign Direct Investment								Stock of Foreign Direct Investment		
	Millions of USD		Per Capita (USD)		Per USD1,000 of GDP		Percentage of Gross Fixed Capital Expenditures		Total in Millions of USD	Per Capita (USD)	Percentage of GDP
Country	2013–2017	2018–2022	2013–2017	2018–2022	2013–2017	2018–2022	2013–2017	2018–2022	2022		
Benin	250	240	23	19	20	15	9	6	3,044	228	18
Burkina Faso	294	74	16	4	22	5	11	2	2,441	108	12
Côte d'Ivoire	579	1,046	24	39	12	16	6	7	13,675	486	20
Guinea-Bissau	21	31	12	15	19	22	32	31	315	150	26
Mali	329	524	18	25	23	29	13	15	6,272	278	34
Niger	542	544	27	22	52	40	17	14	8,238	314	57
Senegal	437	1,787	30	107	23	69	10	22	12,837	677	43
Togo	108	−52	15	−6	18	−6	4	−2	1,331	150	17
WAEMU	561	4,193	22	31	21	26	10	10	48,152	341	28
ECOWAS	11,059	8,973	31	22	15	12	10	5	199,231	470	25
CEMAC	4,649	5,903	91	103	50	59	20	33	82,043	1,339	73
PMAs	26,746	23,116	28	22	26	19	10	7	408,431	383	32
PMAs: Africa	18,913	13,559	31	19	32	22	12	9	280,722	404	44

Source: UNCTAD (2024a).

3. Debt

Domestic Government Debt Market

Organisation and Structure

In addition to the listed debt instruments at the BRVM (*marché obligataire*), the auction-based market (*marché par adjudication*) is the other main debt market for sovereign issuers and private sectors.[72] The auction-based market segment is regulated and operated by the regional central bank, BCEAO (Banque Centrale des États de l'Afrique de l'Ouest), with assistance from UMOA-Titres, a dedicated agency created by BCEAO, to manage the issuance process of government debt securities and assist WAEMU governments in tapping the capital markets.

BCEAO acts as the central depository/settlement bank and handles the clearing, settlement, and delivery of transactions between participants holding an account in its books. The direct/authorized participants in this market are entities with a settlement account at BCEAO, usually banks, regional financial institutions, and brokerage firms (SGI).[73] The secondary market for these securities is over the counter among these direct/authorized participants. Local and international investors can invest by bidding through the authorized participants.

The two main types of government debt securities issued on the money market are shown in **Exhibit 60**.[74]

Issuance and Outstanding Debt

Côte d'Ivoire is a major participant in this market, regularly issuing securities. As of June 2024, WAEMU's total new issuance for 2024 was XOF3.79 trillion, with Côte d'Ivoire raising XOF1.34 trillion and Senegal raising XOF343 billion. The outstanding auction-based debt for all the WAEMU countries was XOF15.79 trillion (UMOA-Titres 2024a, 2024b):

- XOF14.12 trillion or 89% is held by authorized participants, mostly banks for their own account, and only 11% is held for their clients and other investors.
- XOF4.08 trillion for Côte d'Ivoire (25.8% of WAEMU), including 73% in fungible treasury bonds.
- XOF2.83 trillion for Senegal (17.9% of WAEMU), with 94% in fungible treasury bonds.

[72]Except for the few listed bonds on the BRVM, quasi-governmental and government agencies or local authorities seldom raise capital from financial markets. Their financing needs are mostly served through loans from banking, bilateral, or multilateral organisations.

[73]Securities issued on the BCEAO auction-based markets have several advantages compared with BRVM listed government debt securities: They are cheaper to issue (because they do not have syndication costs or listing fees) and easier to use as eligible collateral for central bank open market and refinancing operations, a feature that is highly desirable for banks. BRVM listed government bonds are also eligible collateral for central bank operations, but they require an administrative process between the central bank and the central depository/settlement bank at BRVM.

[74]There is a third type of security, called *obligations synthétiques* (synthetic bonds). These are structured products consisting of several underlying securities (fungible treasury bills and fungible treasury bonds).

Exhibit 60. Key Features of BATs and OATs (government debt securities)

	BATs: *Bons Assimilables du Trésor* (fungible treasury bills)	OATs: *Obligations Assimilables du Trésor* (fungible treasury bonds)
Description	Short-term debt instruments, used for governments' cash management needs They are issued by public tender at a discount rate.	Medium- to long-term instruments for governments' borrowing needs and budget financing They are issued by public tender at a fixed rate.
Bid amount	Multiples of XOF1 m	Multiples of XOF10,000 and minimum amount of XOF1 m
Issuance	Discount rate, auctioned on multiple rates	Fixed rate, auctioned on multiple prices
Tenor	7 days, 28 days, 91 days, 182 days, 364 days, 728 days	3 years, 5 years, 7 years, 10 years, 15 years, or longer
Auction	Open tender: Competitive auction open to all authorized participants Targeted tender: Only primary dealers can participate in the auction.	
Liquidity	Secondary market is over the counter through primary dealers and other authorized participants; for synthetic bonds, each underlying security is detachable and can trade over the counter.	

Source: UMOA-Titres (www.umoatitres.org/en/a-propos-des-titres-publics/le-marche/).

Secondary Market

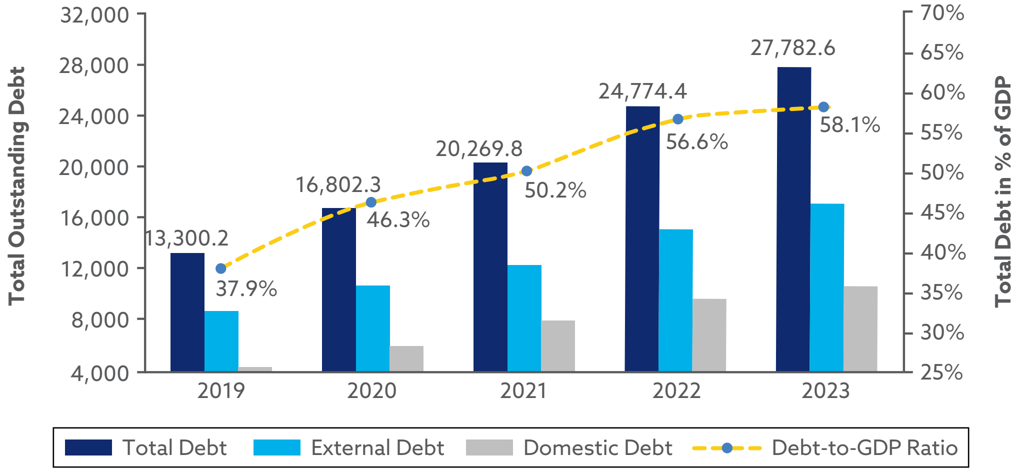
Secondary market trading in WAEMU is still very shallow by transaction volume and by number of transactions or market participants. During the first half of 2024, the trading volume on the secondary market was XOF1,542.86 billion, 40% of which was Côte d'Ivoire government securities and 17% was for Senegal (UMOA-Titres 2024b). The average monthly volume traded of XOF257 billion is roughly 1.6% of the outstanding WAEMU government debt (of XOF15,793 at Q2 2024). During Q2 2024, the top 10 most traded securities had a total of 108 secondary market transactions, or on average less than 4 transactions per month per security.

Côte d'Ivoire: External Debt and the Overall Government Debt

As of December 2023, outstanding debt was estimated at XOF27,782.6 billion (roughly USD46.18 billion), with external debt accounting for 61.75% of the outstanding amount.[75] The debt-to-GDP ratio rose to 58.1%, a significant increase from 37.9% in 2019. During the same period, total outstanding debt grew by 109%, with domestic debt increasing by 140% and external debt by 93%. The increase in public debt reflects the financing needs of the extensive

[75]For this section, the latest numbers are as of December 2023, based on the latest (at the time of writing) released data by the Ministry of Finance (2023).

Exhibit 61. Government of Côte d'Ivoire Domestic and External Debt Developments (XOF billions and %)



Source: Ministry of Finance and Budget, Côte d'Ivoire (2023), "Public Debt Statistical Bulletin as of 31 December 2023," www.dgf.gouv.ci/images/app/contenu/167/public-debt-statistical-bulletin-q4-2023.pdf.

public investment programs outlined in the National Development Plans for 2016–2020 and 2021–2025. See **Exhibits 61 and 62** for details.

Domestic Debt

At the end of 2023, the domestic debt stock totalled XOF10,626.3 billion, with 87% in government debt securities (52% in BRVM listed government bonds by syndication, 28% in fungible treasury bonds, and 7% in shorter-term fungible treasury bills) and the balance in other forms of borrowing (see **Exhibit 63**).

External Debt

The external debt of Côte d'Ivoire amounted to XOF17,156.3 billion at the end of 2023 (see **Exhibit 64**). External private creditors accounted for 49.9% of outstanding external debt, with XOF5,184.9 billion in eurobonds and XOF3,377.8 billion from other private creditors. Debt owed to multilateral creditors, mainly loans from the IMF and the World Bank, totalled XOF5,655 billion (33%).

At the end of December 2023, 71% of the external debt was denominated in euros (the euro has a fixed parity with the West African CFA franc), 12% in US dollars, and 11% in West African CFA francs. Côte d'Ivoire proactively uses swaps to hedge the debt service denominated in US dollars into euros as a way to further reduce currency risk. So, although currency risk is actively managed, the key risk will be a devaluation of the domestic currency (the West African CFA franc) or a loss of the peg to euro.

Exhibit 62. Outstanding Debt Amounts, Drawings/Issuance, and Debt Service

	2019		2020		2021		2022		2023	
	USD (millions)	XOF (billions)	USD (millions)	XOF (billions)	USD (millions)	XOF (billions)	USD (millions)	XOF (billions)	USD (millions)	XOF (billions)
Total Debt	22,701.0	13,300.2	29,234.7	16,802.3	34,929.9	20,269.8	39,992.2	24,774.4	46,179.2	27,782.6
External debt	15,135.2	8,867.5	18,718.8	10,756.7	21,214.2	12,310.6	24,325.3	15,069.1	28,516.6	17,156.3
o/w arrears	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Domestic debt	7,565.9	4,432.7	10,518.9	6,045.6	13,715.7	7,959.2	15,666.9	9,705.3	17,662.6	10,626.3
o/w arrears	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Total drawings/ issuances	6,386.8	3,742.0	9,428.2	5,596.4	8,208.7	4,763.5	10,435.0	6,464.3	8,992.4	5,368.0
External debt	4,037.6	2,365.6	4,302.0	2,650.2	3,319.5	1,926.3	5,378.8	3,332.0	4,836.5	2,909.8
Domestic debt	2,349.2	1,376.4	5,126.2	2,946.2	4,889.2	2,837.2	5,056.2	3,132.2	4,085.9	2,458.2

Source: Ministry of Finance and Budget, Côte d'Ivoire (2023).

Exhibit 63. Government of Côte d'Ivoire Outstanding Domestic Debt (XOF billions)

	Outstanding as of End-Dec 2022	Drawings/ Issuances as of Year-End 2023	Principal Transactions as of Year-End 2023	Outstanding as of Year-End 2023	Percentage of Total Outstanding as of Year-End 2023
Treasury bills	240.7	742.6	240.7	742.6	7.0%
Treasury bonds (by auction)	2,431.9	1,054.3	487.8	2,998.3	28.2%
Treasury bonds (by syndication)	5,595.2	611.3	689.6	5,516.9	51.9%
Bond certificates	523.8	50.0	114.2	459.7	4.3%
Other borrowings	913.7	–	5.0	908.7	8.6%
Total	**9,705.3**	**2,458.2**	**1,537.3**	**10,626.3**	**100.0%**

Source: Ministry of Finance and Budget, Côte d'Ivoire (2023).

Exhibit 64. Outstanding External Debt by Type of Creditor (XOF billions)

	2019	2020	2021	2022	Year-End 2023	Percentage of Total, Year-End 2023
Bilateral creditors	1,604.0	1,872.9	2,032.6	2,526.9	2,938.6	17.1%
Multilateral creditors	2,258.8	3,386.4	3,700.2	4,452.1	5,655.0	33.0%
Bondholders	4,435.0	4,572.8	5,208.1	5,296.2	5,184.9	30.2%
Other creditors	569.8	924.6	1,369.7	2,793.8	3,377.8	19.7%
Total	**8,867.5**	**10,756.7**	**12,310.6**	**15,069.1**	**17,156.3**	**100.0%**

Source: Ministry of Finance and Budget, Côte d'Ivoire (2023).

Debt Profile and Servicing

The credit ratings, maturity profile, and debt service profile of Côte d'Ivoire are as follows:

- *Credit ratings:* Côte d'Ivoire was upgraded to Ba2 by Moody's in March 2024 and is rated BB– by Fitch and S&P.
- *Maturity profile:* Côte d'Ivoire's debt is primarily from long-term borrowing, with an average time to maturity of 7.1 years on its overall debt (8.8 years and 4.3 years on the external and domestic debt, respectively). This indicator shows that the government prefers longer-dated borrowing, more suitable to finance the investments needed in the National Development Plan.

- *Debt service profile:* Debt service has increased significantly since 2019, from XOF2,764.6 billion to XOF3,879.2 billion in 2023, largely driven by the domestic debt service that went up by 80% to reach XOF2,123.6 billion in 2023. Local currency debt is more expensive (weighted average interest rate of 5.3% versus 4.4% for external debt) and has a shorter average life to maturity.

The Debt Strategy Going Forward

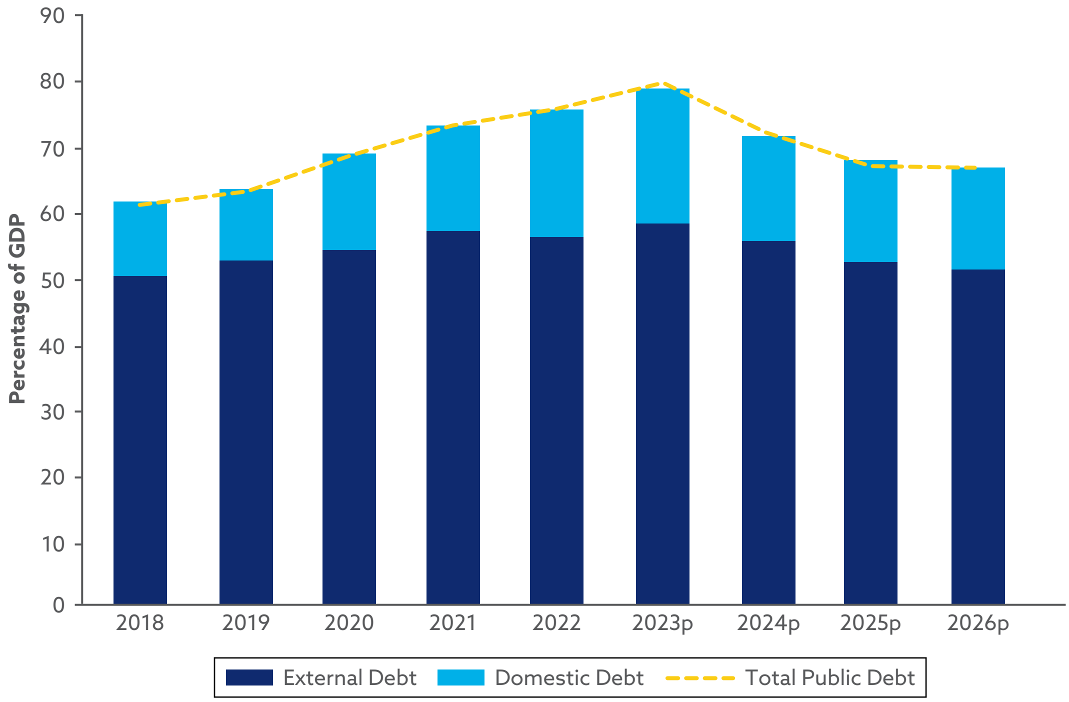
According to the government's Medium-Term Debt Management Strategy (SDMT, or *Stratégie de Gestion de la Dette à Moyen Terme*) for the period 2019–2023, the government has been trying to diversify investors and seize new financing opportunities across the international financial market, Islamic loans, and the regional public securities market. The goal is to secure more favourable financing terms that would extend the maturity profile of the outstanding debt and prioritize external financing for large-scale projects. In the 2023–2025 SDMT, Côte d'Ivoire intends to further reorient its market financing focus towards the regional market because of tighter financing conditions in the international bond market given decade-high monetary interest rates in advanced economies. Since 2011, the institutional framework for public debt management has undergone reform. In 2021, the government created a General Directorate for Financing (*Direction Générale des Financements*) within the Ministry of Economy and Finance, which is now the main body in charge of coordinating and implementing the national debt strategy, negotiating financings, and monitoring the debt of the government and state-owned enterprises.

A vibrant domestic debt market is crucial for the country's future financial strategies because it will enable access to local resources to meet domestic needs and enhance resilience against external debt dependency. To stimulate this market, UMOA-Titres, in collaboration with BCEAO, has undertaken reforms, notably the introduction of primary dealers. These measures are designed to facilitate the issuance of larger government bonds, thereby deepening the domestic debt market.

Senegal: External Debt and the Overall Government Debt

As of December 2023, the outstanding debt of the Senegalese central administration was estimated at XOF13.8 trillion, with external debt accounting for 66% of the outstanding amount; the debt-to-GDP ratio of the overall public sector (central administration and parapublic sector) amounted to 79.9%, versus 47% of GDP in 2016. During the same period, the total outstanding debt grew, largely from the external debt.

Exhibit 65. Senegal's Total, Domestic, and External Public Debt as a Percentage of GDP, 2018–2026 (projected)



Source: World Bank Group (2024).

According to a 2023 Debt Sustainability Analysis report published by the IMF in 2023, Senegal's debt is considered sustainable, with a moderate risk of debt distress for both its external and overall public debt, but with limited room for absorption of new shocks in the near term.[76] The ratio should gradually decrease in the coming years as investments in the gas and oil sector start bearing fruit. **Exhibit 65** illustrates a projected decrease in the public debt to GDP ratio.

Domestic Debt

On 31 December 2023, Senegal's domestic debt stock was XOF4,681 billion. The stock of government securities was XOF3,258 billion, or 70% of the outstanding domestic debt, almost entirely in treasury bonds (XOF3,146 billion). The balance of XOF1,423 billion was mostly loans from the IMF through BCEAO (XOF1,246.7 billion) and the WAEMU Development Bank (BOAD, or Banque Ouest Africaine de Dévelopement; XOF164 billion). See **Exhibit 66** for details.

[76]IMF, "Senegal: Requests for an Extended Arrangement Under the Extended Fund Facility, an Arrangement Under the Extended Credit Facility, and an Arrangement Under the Resilience and Sustainability Facility—Debt Sustainability Analysis" (2023), www.elibrary.imf.org/view/journals/002/2023/250/article-A002-en.xml.

Exhibit 66. Government of Senegal Domestic and External Debt Developments (XOF billions)

	Q4 2023	Total	2022	Variation
Total Public Debt	**13,772.86**	**100%**	**11,783**	**17%**
Domestic Debt	*4,680.55*	*34%*	*3,541*	*32%*
Treasury bills	112	1%	109	3%
Treasury bonds	3,146	23%	2,361	33%
By public entities, including sukuks	502.62	4%	204	146%
By auction	2,643.19	19%	2,156	23%
Bank loans	13	0.1%	24	−48%
BCEAO (IMF)	1,246.7	9%	860	45%
Standardized insurance, retirement, and guarantee schemes	0	0%	0	
Other debts (BOAD)	164	1%	187	−13%
External Debt	*9,092.31*	*66%*	*8,242*	*10%*
Multilateral (excluding IMF and BOAD)	3,601.91	26%	3,263	11%
Bilateral	1,706	12%	1,713	0%
Export credits	425	3%	432	−1%
Commercial	3,359	24%	2,861	17%
Eurobonds	2,546	18%	2,506	2%

Source: Ministry of Finance and Budget, Senegal (2023).

External Debt

As of December 2023, external debt totalled XOF9,092.31 billion, broken down as follows:

- External private creditors amounted to XOF3,784 billion (41.6% of outstanding), with XOF3,359 billion in commercial debt (including XOF2,546 billion in outstanding eurobonds) and the balance (XOF425 billion) in export credits.
- Multilateral debt totalled XOF3,601.9 billion (39.6% of outstanding). The lenders are the World Bank, the African Development Bank (AfDB), and the Islamic Development Bank, among others. Indeed, the multilateral organisations are key pillars of the financing strategy of Plan Senegal Emergent, the flagship country development plan.
- Bilateral debt amounted to XOF1,706 billion (18.8% of outstanding), with China (China Eximbank) as the biggest bilateral lender, followed by Agence Française de Développement (XOF563 billion).

Exhibit 67. Outstanding Debt Amounts per Currency (XOF billions)

	Q4 2023	Total	2022	Variation
Total Public Debt	**13,772.90**	**100%**	**11,783**	**17%**
Domestic Debt	*4,680.55*	*34%*	*3,541*	*32%*
External Debt	*9,092.31*	*66%*	*8,242*	*10%*
EUR	4,712	34%	3,810	24%
USD	3,306	24%	3,377	−2%
CNY	411	3%	429	−4%
XOF (BIDC + CITI)	101	1%	71	42%
Others (including JPY)	562	4%	555	1%

Source: Ministry of Finance and Budget, Senegal (2023).

As of December 2023, 46% of the external debt was in euros (the West African CFA franc has a fixed peg with the euro), 41% in US dollars, and 5% in Chinese yuan. Senegal has entered currency hedging on some eurobond transactions but still carries currency risk largely from its US dollar exposures. See **Exhibit 67** for details.

Debt Profile and Servicing

In this section, we discuss the credit ratings, maturity profile, and debt service profile of Senegal.

- *Credit ratings:* Senegal is rated Ba3 by Moody's and B+ by S&P.[77]
- *Maturity profile:* Senegal's debt is medium- to long-term borrowing. Debt of more than one-year accounts for 97% and 100% of domestic and external debt, respectively. See **Exhibit 68** for details.
- *Debt service profile:* Debt service has increased significantly since 2016, from XOF593 billion to XOF2,117 billion in 2023. External debt servicing soared from XOF205.5 billion to XOF1,092.33 billion, as a result of eurobond loans servicing. It is a new regime with higher servicing costs, which raises questions around debt sustainability (see the earlier analysis). This high debt service is because of large investments by the government in infrastructure; the impact of these projects on GDP growth will determine the sustainability of the debt. See **Exhibit 69** for details.

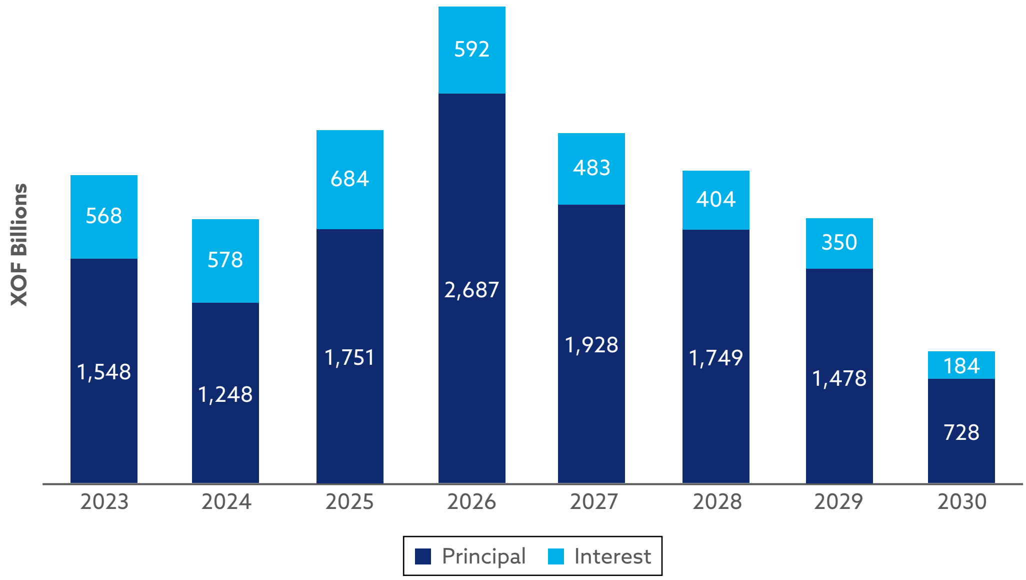
[77]https://tradingeconomics.com/senegal/rating.

Exhibit 68. Government of Senegal Debt Maturity Profile (XOF billions)

	Q4 2023	Total	2022	Variation
Total Public Debt	**13,772.86**	**100%**	**11,783**	**17%**
Domestic Debt	*4,680.55*	*34%*	*3,541*	*32%*
Short term (<1 year)	112	1%	109	3%
Long term (>1 year)	4,569	33%	3,432	33%
External Debt	*9,092.31*	*66%*	*8,242*	*10%*
Short term (<1 year)	0	0%	253	−100%
Long term (>1 year)	9,092	66%	7,990	14%

Source: Ministry of Finance and Budget, Senegal (2023).

Exhibit 69. Debt Service Profile, 2023–2030 (XOF billions)



Source: Ministry of Finance and Budget, Senegal (2023).

The Debt Strategy Going Forward

As in the case of Côte d'Ivoire, Senegal's public debt is essentially external. The country has greater currency risk because of its US dollar–denominated debt, however, exposing the country to external movements in exchange rates that could increase the debt service in West African CFA francs. In the meantime, exchange rate risk should be actively managed by the government.

Senegal's total public debt is expected to reach 79.91% of GDP by the end of 2023, impacted by multiple shocks, additional borrowing by state-owned enterprises, and the appreciation of the US dollar. It is essential for the country to place public debt on a resolutely downward trajectory to rebuild some operating margin.

In 2023, public debt was a vulnerability for the country. To reduce debt-related vulnerabilities, the authorities have initiated debt management operations aimed at mitigating risks related to the external debt profile. The recent strengthening of public debt surveillance by the National Public Debt Committee is a step in the right direction. Implementation of the authorities' action plan to follow up on the recent debt audit is progressing, but additional resources are needed to improve the quality and regularity of debt data provided by public enterprises.

The Senegalese government has begun to turn to the regional bond market and seek concessional and semiconcessional loans from multilateral and bilateral partners to finance budget deficits.

Private Sector Debt Market

Although the Central Bank–regulated over-the-counter market offers an alternative to issuing debt on the BRVM, it has not gained significant traction among private companies. The private debt market, which allows for insurance of negotiable debt securities (*titres de créances négociables*), such as commercial paper, certificates of deposit, and notes, appears promising in theory: Companies can issue these instruments relatively easily once they receive program approval by the central bank. This market, however, never took off (Dingui 2020). Between 1996 and 2019, there were only 69 issuances totalling XOF1.3 trillion raised, a striking 65% of which came from a single issuer, BOAD, through regional financial institution bonds. This small number of issuances highlights a lack of activity and private sector participation in the market.

4. Raising Funds in the Private Markets

Overview of Private Markets in the Region

Despite being the primary destination for private capital deals in WAEMU, Côte d'Ivoire and Senegal still represent a very small market.

From 2016 to 2021, Côte d'Ivoire was the primary destination for private capital deals in WAEMU. See **Exhibit 70**.

On average, Côte d'Ivoire sees less than seven deals and only USD160 million invested every year, highlighting how small the industry is at this stage. Both Côte d'Ivoire and Senegal lag the regional powerhouses, Nigeria and Ghana.

Exhibit 70. Number of Transactions and Deal Value for Côte d'Ivoire and Senegal, 2016–2021

	Number of Transactions	Percentage of West Africa's Total Deals	Deal Value (millions)	Percentage of West Africa's Total Deal Value
Côte d'Ivoire	33	8%	USD792	11%
Senegal	25	6%	USD432	6%

How Private Markets Work

The private equity funds are domiciled offshore, usually in Mauritius. In 2021, AMF-UMOA published new rules allowing for Alternative Investment Funds (AIF) as a fund regime (Droit des Marchés Financiers 2022), alongside the legacy fund regime that only allowed for investments in liquid securities (a UCITS-like regime). In 2022, AMF-UMOA approved the first AIF, a partnership between an insurance group and a local asset manager.[78] The AIF will manage exclusively assets from the insurance company's subsidiaries in the region and can invest between 70% and 100% of its assets in SME debt, quasi-equity, and equity. This could pave the way for insurance companies to diversify their investments in private assets and invest in alternative funds.

Challenges

Most business owners harbour reservations about private equity funds in their shareholding. The common reservations that business leaders have are as follows (Té-Léssia Assoko 2017):

- *Discomfort with external shareholding:* Many business owners, especially those running family businesses, struggle to accept or integrate external influences on their operations and decision-making processes.
- *Scepticism about value addition:* There is a prevalent belief that private equity funds may not provide significant value beyond capital. Many owners are uncertain about the strategic benefits and operational improvements that PE partnerships can offer.
- *Mismatch in expectations and communication:* A frequent challenge is the disconnect between private equity funds and target companies regarding objectives, often driven by a lack of familiarity with the PE investing process, including valuation negotiations, deal structuring, and exit strategies.

Deal size is an issue for large PE funds, given the scale of the economies and the pool of potential targets. From 2016 to 2021, the median deal size in West Africa

[78]See http://www.brvm.org/sites/default/files/decision_ndegpamf-umoa-2022-268_-_enregistrement_du_fonds_commun_de_placement_a_risque_fcpr_allianz_africa_en_qualite_fonds_dinvestissement_alternatif_fia_sur_le_mfr_de_lumoa.pdf.

was only USD3.8 million, highlighting the limitations that funds face in pursuing larger investments in the region.

Additionally, unlike Ghana or Nigeria, in Côte d'Ivoire and Senegal, interest rates on bank loans are comparatively low. Low interest rates mean that local businesses with access to bank financing can take on more debt—before reaching the point where debt service could be an issue—allowing them to explore various financing options without immediately resorting to equity financing. As such, compared with their counterparts in Ghana or Nigeria, companies in WAEMU have fewer potential deals for PE firms to consider, putting them in a stronger negotiating position.

Who Are the Main Actors?

Private markets in the region are still nascent and relatively small. They are dominated by development finance institutions (DFIs), although private equity funds are increasingly visible and capturing a growing market share.

Next, we examine the main players:

- DFIs, the traditional source of private capital in WAEMU, remain the largest source.
    - *International DFIs:* A report by the International Finance Corporation (IFC) on DFI financing trends in four African countries[79] from 2008 to 2016 found the following (IFC 2018): (1) Loans are the most frequently used financial instruments (89% in loan commitments vs. 1% for equity), and (2) in Côte d'Ivoire, the commitments totalled more than USD1.0 billion, with IFC as the largest DFI investor, followed by AfDB and Proparco (a French DFI), and about 60% of commitments were to the infrastructure and natural resources sectors, showing their key role in project and infrastructure financing.
    - *BOAD:* The WAEMU Development Bank is also very active in the region, with XOF7,227.3 billion (BOAD 2023) in outstanding exposure to the region as of December 2022 (94.8% in loans, 2.4% in equity). Côte d'Ivoire accounted for XOF1,442.9 billion (20% of the total), with XOF621 billion for the private sector, and Senegal accounted for XOF1,255.4 billion (17.4% of the total), with XOF359.7 billion for the private sector.
- Private equity funds consist of two main groups:
    - *Large pan-African funds:* Emerging Capital Partners, AfricInvest, DPI, Amethis Finance
    - *Local or regional funds:* Investisseurs & Partenaires, Cauris Invest, Phoenix Capital Partners, Adenia Partners. Interestingly, many of these private equity funds have DFIs as their anchor limited partners (AfDB,

[79]The four countries are Côte d'Ivoire, the Democratic Republic of the Congo, Liberia, and Sudan.

Proparco, BIO, EIB, and IFC are backing Cauris Management, and AfDB, AFD are backing Investisseurs & Partenaires), meaning that a significant portion of private equity funding is coming from DFIs rather than private institutional capital.

- Impact investors have deep roots and have been on the ground for decades. They invest in equity and debt. Two of the most active are OikoCredit, a global social impact investor, and Aga Khan Development Network.
- Pension funds and sovereign wealth funds (SWFs) are becoming more active in private capital investments. They tend to invest in equity and debt.
    - Côte d'Ivoire—CNPS (Caisse Nationale de Prévoyance Sociale): The private sector pension fund has co-invested with PE firms AfricInvest and Amethis Finance and taken stakes in Eranove, a subsidiary of PE fund Emerging Capital Partners, in Ivorian banking groups BICICI and NSIA and in local oil product distribution company Petro Ivoire (providing exit liquidity to Amethis Finance).
    - Senegal—FONSIS (Fonds Souverain d'Investissements Stratégiques): The SWF launched in 2013 has invested in 30 deals (FONSIS 2021). It invests directly in certain priority sectors, seed or start funds, and investment vehicles (10 such deals so far, including an agriculture fund and a women's economic empowerment fund). FONSIS plans to invest XOF250 billion from 2022 to 2026, which is roughly the same as the USD431 million in total private capital investments in Senegal from 2016 to 2021.
- Private institutional investors, such as insurance companies, especially with the new alternative investment funds regime, and family offices, started by successful local entrepreneurs, are increasingly active. They invest in funds or directly in companies.

5. The Challenges to Capital Market Formation

The capital markets in WAEMU face several interconnected challenges related to market structure, maturity, liquidity, level of savings, and investor literacy, to name a few. These issues not only limit the growth potential of the markets but also hinder broader economic development. The following are the core challenges:

- Market structure and maturity
    - Strict listing requirements: The stringent criteria for listing on exchanges inhibit the growth of listed companies, limiting investment opportunities.
    - Low free float and weak governance: It was not until 2015 that BRVM mandated a minimum free float of a mere 20%. Consequently, many companies are closely held and ownership is highly concentrated, which undermines protections for minority shareholders. This lack of

transparency, coupled with limited reporting, results in stale prices and poor price discovery.

- Dominance of local governments: The regional debt capital market is primarily dominated by local governments, limiting the presence of nonsovereign issuance activities. Although governments have successfully extended the maturity of sovereign debt to 20 years, the longest bond issuance for private companies is only seven years. Additionally, these governments have historically relied on external debt for longer-dated borrowings, instead of the local market. This reliance hinders the development of a robust local capital market.
- Underutilisation of state-owned enterprises (SOEs): SOEs are some of the largest and most mature institutions in WAEMU. Nevertheless, there is a notable absence of bond issuance from state-owned companies and their agencies, which could otherwise serve as significant issuers and provide a balanced risk/return profile between sovereign and private companies bonds. Indeed, some of these entities are large enough to tap the international capital markets.
- Crowding out the private sector: Governments are the biggest issuers in the bond market, potentially crowding out private sector participation. As of 2022, outstanding private sector bonds totalled XOF320 billion, compared with XOF21,000 billion in government securities, which benefit from favourable regulatory and tax treatment.

- Market liquidity and efficiency
    - Weak secondary market: The secondary market for listed securities remains underdeveloped, characterized by low postissuance liquidity and weak investor participation, except for a select few. This is primarily because of low liquidity in the secondary market caused by limited organic inflows and outflows from investors, higher transaction costs, and a lack of market-making activity from brokers and dealers. This weakness is a major concern for sophisticated institutional investors that do not operate under a buy-and-hold strategy and that calibrate their positions based on liquidity considerations. Improving secondary market liquidity could unlock potential investment in the market. The regional debt capital market is largely dominated by the local governments, with very limited nonsovereign issuance activities.
    - Market fragmentation: There are two separate government debt securities markets—one on the BRVM, as listed bonds traded through brokers, and another operated by the central bank, as an over-the-counter market traded through banks and primary dealers. The different sets of rules and infrastructure create unnecessary complexity and fragmentation, hindering market efficiency.
- Market attractiveness and participation
    - Underdeveloped equity market: The WAEMU equity market is small in proportion to the economy and hardly captures the breadth and

depth of it. Senegal has only 3 listed companies, while Côte d'Ivoire has 35. According to Sika Finance (2020), of the top 10 non-government-owned companies in Côte d'Ivoire, only 4 are listed on the BRVM (CIE, Orange, Total, Vivo Energy/Shell). In addition, the largest private sector conglomerate, SIFCA, has not returned to the market since its bond matured in 2021. To be compelling to the public, the market ought to adequately reflect the size of the economy.

    - Limited high-growth SMEs: SMEs need the most access to long-term capital for growth, and the capital market could fill the gap. But these issuers face significant hurdles, including a lack of understanding about capital markets at the management level, exclusive focus on bank financing, onerous issuance processes, and a mismatch between the company's governance and market requirements. The SMEs and growth companies often require substantial support and handholding to navigate the capital markets effectively.

- Financial literacy and capacity

    - Lack of financial education: A widespread lack of financial literacy and appreciation among company executives in WAEMU countries suggests that they may often view bank loans or DFI financing as their only options. This lack of awareness limits the potential for capital market participation.

    - Capacity concerns: Private companies face higher transparency and corporate governance standards relative to banks and DFI financing. In addition to these explicit costs, many companies are hesitant about the increased financial disclosures required for a public listing.

    - Challenges for retail investors: A key challenge for WAEMU countries is the lack of financial and investment education among retail investors, many of whom seek short-term gains. Additionally, accessing the market through brokers can be expensive and opaque. A customer-centric approach, including improved digital investing platforms and experience, could enhance retail participation.

- Mobilising local investors and savings

    - Low investment in corporate debt: IFC (2020) captures the conundrum:

        > Institutional investors in Côte d'Ivoire invest little in corporate debt securities and equities; their portfolios are dominated by sovereign debt securities, short-term liquid investments (bank term deposits, short-term securities) and the more speculative land and real estate assets. Their asset allocation partly reflects the restrictive rules imposed by regulators, but also a lack of expertise in capital markets and risk management techniques.[80]

[80]IFC (2020, p. 58).

The largest institutional investors in Côte d'Ivoire are the private sector and the government employee retirement funds. A new pool of long-term assets for capital markets could be created by improving (diversifying) institutional investors' asset allocation while increasing the level of expertise of regulators on broader and more sophisticated forms of investment.

- Small and unsophisticated fund management industry: The total AUM in the WAEMU fund management industry amount to approximately XOF1,300 billion (≈EUR2 billion), representing only about 7% of the BRVM market capitalisation (XOF17,600 billion) and about 9% of the total outstanding T-bills and T-bonds (XOF14,351 billion). Restrictive regulations and a lack of product innovation and capabilities from local fund managers are key concerns. A more innovative fund management industry could better tap into local savings, from both institutional and retail investors.

- Unlocking foreign capital
    - Market risks for foreign investors: Foreign investors are particularly concerned about devaluation risk (i.e., the risk of a de-pegging between the local currency and the euro) and liquidity risks stemming from underdeveloped secondary markets. The lack of hedging products against such outcomes exacerbates these concerns.
    - Quality of financial information: Investors often cite issues with the quality and timeliness of financial information; inadequate fundamental research capabilities from local brokerage firms, especially given language barriers; high trading and custody fees; and the complexities involved in repatriating proceeds.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

The following is a series of policy recommendations and developments that could be adopted to alleviate the current barriers and challenges to capital formation we have discussed in this chapter.

- **Develop a government mandate to deepen the local bond market by creating a long-term yield curve and a secondary bond market.**

  Creating a long-term yield curve will increase government ability to borrow local long-term funds among WAEMU markets and minimise exposure to external debt and foreign currency risk.

  One approach that could foster a more liquid government bond market is for governments to issue fewer securities and in larger size. For instance, instead of coming to market five times in a single year to float different 10-year bonds, it could issue a single 10-year benchmark bond and re-tap the same issuance throughout the year every time it needs to raise funds in the 10-year tenor. That approach would help anchor the secondary markets' trading levels, with concentrated liquidity and price discovery on bigger and fewer bond issuance sizes.

Implementing this approach will require a more active primary dealer network to support the provision of liquidity and price discovery. As a matter of public policy, governments could first incentivize well-capitalised banks with sufficient balance sheet capacity to become more active in robust market making. Secondly, governments could support smaller and more entrepreneurial brokerage firms dedicated to the capital markets, particularly those with expertise in bonds and money markets. This support could involve favourable rules, especially concerning liquidity and capital requirements during their initial growth stages, recognizing that larger bank-affiliated brokers may face internal constraints.

- **A robust and deep government bond market will create a benchmark and be the key building block for quasi-sovereign and corporate debt markets to develop.**

  However, there is a need to build capacity and demand on the issuer side to consider the bond market as an alternative for their funding needs, especially for longer-term needs where bank financing is harder to find. Starting with specific sectors (government-owned enterprises, government agencies, and quasi-sovereigns given their better risk profile, implicit government backing, and adequate internal human capital to help them navigate the capital markets), infrastructure financing or securitisation instruments with clear revenue sources or enhanced credit ratings could help build this market in the initial years.

- **Develop and mobilize local long-term capital by unlocking local institutional investors and mobilising local pools of long-term capital.**
  - One key action is to further leverage local institutional investors (local pension funds and sovereign wealth funds) as anchor and long-term investors in the capital markets because they can serve as smart money and provide a stamp of approval. This will require educating these investors and helping them broaden their asset allocation frameworks.
  - Additionally, there is a need to foster a more vibrant fund management and private pension fund industry (workplace retirement schemes). Through product innovation, financial education, and local distribution capabilities, these fund managers can mobilize new pools of local capital currently on the sidelines or in banking channels (bank deposits, savings accounts), thereby increasing demand for capital markets securities and helping develop the secondary bond and equity markets. As the local fund management industry develops and builds a track record, it could also become a compelling alternative for international investors or the diaspora to invest in the local capital markets.
- **Encourage regulatory innovation.**
  - Enable and encourage local asset owners, pension funds, and insurance companies to invest in public and private assets, through changes in

eligible assets and capital charges regimes for regulated entities. This can also be done through education and capacity building (1) to help investors assess the value of allocation to new sectors in private or public assets in the context of their overall portfolio and asset allocation (improved diversification, modern portfolio structuring techniques) and (2) to build operational capabilities guiding the governance of investing in these new assets.

- Create a private placement regime for debt and equity issuance, targeting qualified investors only. Given their target investor base, these securities will be less onerous to issue and list for companies (simpler requirements, cheaper) and will help increase the number of companies accessing the market, including primary markets. This will also correspond to a gradual step up for companies, progressively helping them build their knowledge and expertise regarding the multitude of financing techniques available through capital markets.

How can we develop private markets without breaking public markets? There is a range of policy recommendations and development activities that could boost the private markets, in terms of SME participation and also investors’ ability to access private markets assets. As private markets become more vibrant, they will provide a robust pipeline to the public markets.

- **Create a stronger pipeline in private debt and equity markets through business and investor education.**
    - Business education: One of the recurrent issues from the business side is a lack of awareness of private market processes and how to work with the funds and institutional investors. The first step would be to create a comprehensive education program for business owners to help them (1) understand and navigate a debt or equity fundraising process, (2) understand how to work with private market investors and their requirements for transparency and financial information, and (3) appreciate the benefits and how they compare to other alternatives.
    - Investor education: Especially for local institutional investors, family offices, and high-net-worth individuals—who could invest in the private markets—education is also crucial. Such education programmes could focus on the role of private assets in portfolios, the diversification and return benefits, valuation considerations, and working with or investing in private market funds.
- **Support emerging local alternative fund managers that focus on SME financing, agriculture, infrastructure, and other priority sectors for the country.**

  Dedicated managers can build the unique skill set needed to operate these funds and over time build the credibility and track record necessary to convince institutional and retail investors to allocate. Such managers or funds could benefit from support from the government, sovereign wealth funds, retirement funds, and development organisations as anchor investors or limited partners.

- **Leverage technology to fast-track private market development.**

  In particular, an alternative listing venue that could manage the whole issuance and investing workflow would be a major game changer in democratising access to private assets, in a simpler and potentially cheaper setup. On the one hand, companies could issue equity and debt, share relevant financial statements and legal documents, and launch fundraising; on the other hand, investors could get vetted and prequalified and bid competitively on the deal on offers. Additionally, the platform could help manage the entire life cycle of the transaction with repayments and/or updates.

- **Expand the market with publicly listed alternative funds (for example, REITs, private debt funds, or funds investing in agriculture, SMEs, or receivables).**

  Indeed, these underlying asset classes have large funding needs but cannot be easily accessed or understood by most investors; these listed funds would help connect the savings with these opportunities.

- **Regulatory innovation could also help on several fronts.**

  - Allow funds with exposure to private assets to fundraise from qualified retail investors, with the wealth and the sophistication required to hold assets with such a risk profile. The funds would also need to meet the relevant risk and suitability criteria for their target investors.

  - Create a regulatory regime for crowdfunding to give investors and companies more clarity, protection, and guidelines in raising equity and debt through crowdfunding.

  - Support the effective implementation of the Alternative Investment Fund regime. AIFs allow funds to directly invest in private debt and SMEs. It is a meaningful step in unlocking capital for private markets and SMEs, and it will be important for the regulator and fund managers to make it grow, as the fund wrapper of choice for alternative and private market assets.

What role can the private sector or investment professionals play in shaping a framework that will facilitate capital raising in the region?

- **Build capacity for institutional investors and fund managers, and expand the pool of qualified professionals.**

  - Train the industry on new asset classes to help build capabilities in managing these more complex portfolios (investing in equity, private, and alternative assets), and help make internal governance systems comfortable with them.

  - Increase the number of investment professionals proficient in valuation, portfolio, and risk management tools for private and alternative assets.

  - Share best practices for brokerage firms in the areas of fundamental research and information dissemination, investor protection, and client engagement and experience.

- **Conduct advocacy efforts with stakeholders.**
  - Work with local institutional investors, especially the public sector and private sector pension funds that are the largest capital owners in the region, to update or broaden their investment mandates and adopt strategic asset allocation models that allow them to invest in public and private assets, while strengthening standards of quality and care.
  - Work with regulators—in particular, AMF-UMOA, la Conférence Interafricaine des Marchés d'Assurances (CIMA), and la Conférence Interafricaine de la Prévoyance Sociale (CIPRES)—governments, and industry associations to promote a more active role for local institutional asset owners (pension funds, insurance companies, SWFs) as anchor investors in local fund managers and in the local capital markets.
  - Engage regulatory bodies to review eligible asset rules and capital charges for pension funds and insurance companies' balance sheet assets to enable them to invest in broader asset classes.
  - Work with the stock exchange, regulators, and market participants to develop financial literacy and financial education content, targeting both companies and investors.

- **Build a strong and capable fund management industry in order to enhance its contribution to the local economy and its financing.**
  - A vibrant local fund management industry, through product innovation, can boost collective investment schemes' assets under management and offer a compelling alternative to banks in financing the economy.
  - A savvy industrial policy by the government would go a long way in setting the asset management industry up for success—in particular, by providing seed capital and support to emerging fund managers (especially geared towards innovative and private market strategies), by enabling third countries fund managers (i.e., based or domiciled in countries outside of the primary country) from reputable jurisdictions to launch on a fast track, or by providing regulatory sandboxes to try new tech-enabled solutions or fund vehicles.

- **Leverage technology to digitize the client journey and experience for the existing offerings of investment products or to launch fully digital offerings (e-brokers or digital advisers/robo-advisers).**

  Technology can lower costs of and barriers to entry for investors and can change the way clients are educated, onboarded, serviced, and engaged. The following are potential use cases:

  - Enable investors to invest small amounts, purchase assets through fractional investing, settle their investments, or top up their brokerage account from a mobile money wallet.

- Leverage the ubiquitous mobile money accounts, and enable retail investors to invest in government bonds or to participate in crowdfunding.
- Increase the dissemination of financial education, and enable investors to receive financial advice remotely.

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CONCLUSION AND PERSPECTIVES

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Abundant in natural resources and with vibrant, youthful demographics, Africa stands on the brink of becoming a global economic powerhouse. With a median age of just 19 and an estimated 60% of the world's arable land, the continent holds unparalleled potential for growth and development. Yet despite its wealth, Africa currently contributes only about 3% to global GDP, indicating a significant reservoir of untapped economic opportunity.

A central challenge is advancing intra-African trade on equitable terms rather than relying on less favourable external trade. To unlock this potential, Africa must cultivate sustainable capital formation, sow the seeds of intra-African trade, enhance the fabric of regional integration, and nurture financial independence.

A significant milestone towards this vision is the African Continental Free Trade Area, launched in 2021. This ambitious initiative aims to unify 54 countries into a single market, creating the world's largest free-trade area by number of participating countries. By eliminating tariffs on 90% of goods, AfCFTA has the potential to boost intra-African trade more than 50% by 2030 and facilitate economic integration, injecting an estimated USD450 billion into the continent's economy. If fully realised, AfCFTA could lift 30 million people out of extreme poverty and increase income by 7% by 2035, according to World Bank estimates. Achieving this vision, however, requires resolute political will to tackle security challenges, bridge infrastructure gaps, and establish structured financial systems.

Complementing AfCFTA, the Pan-African Payment and Settlement System aims to facilitate faster and more cost-effective cross-border transactions by reducing dependence on foreign currencies and avoiding the high transaction costs imposed by Western institutions. Although PAPSS requires greater adoption and regulatory alignment to function continent-wide, its potential to streamline payments across African markets and lower transaction costs by an average of 10%–20% is critical. By mobilising and integrating their systems under this umbrella, major African banks can lay the groundwork for strengthened intracontinental capital flows and formation. Additionally, African central banks should consider implementing direct currency swaps under PAPSS to facilitate cross-border transactions, thereby driving capital creation, reducing reliance on foreign institutions, and mitigating exchange rate volatility.

Although many African nations operate with their own currencies, the absence of a unified monetary framework often ties them to external monetary policies and shocks. The development of regional economic blocs, such as ECOWAS and the East African Community, to create regional common currencies shows promise and, if pursued with commitment, could pave the way for a unified monetary system for the continent.

Despite having their own currencies, African nations remain tied to foreign monetary policies. More than 80% of their debt is held in external currencies, such as the US dollar and the euro, leaving these countries vulnerable to foreign policy shifts. This dependency raises borrowing costs and limits funds for education and health care, even for countries with low debt-to-GDP ratios. Thus far, efforts for a unified monetary system, such as the African Central Bank and African Monetary Fund, have faced delays.

To build a stronger and integrated securities market across the continent, the African Securities Exchanges Association has launched the African Exchanges Linkage Project (AELP). This initiative aims to connect seven of Africa's largest securities exchanges, creating a single platform that allows investors to trade securities across borders more seamlessly. By integrating the markets of major economies, such as South Africa, Nigeria, and Egypt, the AELP can significantly boost capital formation, encourage foreign direct investment, and promote the development of sophisticated financial products within Africa. When fully realised, this project will allow any African to participate in any part of the continent's securities exchange.

Infrastructure investment remains a critical element in driving sustainable capital formation. Africa faces an infrastructure financing gap of roughly USD68 billion to USD108 billion annually, spanning the transportation, energy, and technology sectors. The African Development Bank (AfDB) and the African Export-Import Bank could prioritize financing infrastructure projects in local currencies and safeguard the country's monetary sovereignty. For example, the Africa50 initiative under the AfDB aims to mobilize more than USD3 billion in investments for high-impact infrastructure projects. Regional cooperation, including frameworks for currency swaps and borrowing between countries, could further reduce currency volatility and transaction costs.

On the other end of the spectrum are private markets, which are pivotal in bridging Africa's economic development and infrastructure gaps. In 2022, private equity and venture capital investments in Africa reached USD7.7 billion, a remarkable 66% increase from the previous year. This influx of capital supports key sectors, such as health care, technology, and infrastructure, all of which are vital for sustainable development. By addressing infrastructure deficits, private markets—often in partnership with development finance institutions—provide long-term financing solutions essential for economic growth. Additionally, private equity firms demonstrate resilience through effective risk management strategies, ensuring a steady flow of investment even amid global challenges.

Innovative financing solutions, such as blended finance, are instrumental in mobilising investments by integrating public and private funding while de-risking projects. The growing private credit markets offer alternative lending options that benefit mid-market companies, which often are unable to secure traditional bank financing. An increasing focus on environmental, social, and governance criteria among private investors is helping to channel investments into sectors that drive social impact. With a long-term investment horizon, private markets support businesses at various stages of growth, fostering economic stability and job creation across Africa. This holistic approach positions private markets as essential players in addressing the continent's structural investment needs.

To promote free movement of ideas, goods, services, and skilled labour across borders, African nations could consider lifting visa restrictions. Currently, only 25% of African countries allow visa-free travel for citizens from other African nations, hindering collaboration and exchange of knowledge and technology.

As Africa weaves together the threads of trade, financial independence, and critical infrastructure, it stands to craft a tapestry of transformation and growth. The continent is ready to harness the winds of regional collaboration, reimagine its future, and amplify its influence on the global stage. With a concerted cross-national effort, Africa could experience annual GDP growth of 4%–6% through 2035. This collective momentum could transform the continent into the "Roaring Lion" of the 21st century—an economic force charting its own path to prosperity and resilience.

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