



EXECUTIVE SUMMARY

Capital Market Impact Report

SUSTAINABLE CAPITAL MARKETS
DEVELOPMENT IN AFRICA

August 2022



Africa's economic recovery from the recession-inducing Covid-19 pandemic remains fragile. The pandemic caused an estimated 6.1% fall in per capita incomes in 2020 alone – setting living standards back by a decade in a quarter of Sub-Saharan Africa. The recovery now faces headwinds due to the limited fiscal space governments have for countercyclical support, the temporary collapse in private investment early in the pandemic, the rumbling African government debt crisis – exacerbated by rising global interest rates – and the unprovoked Russian invasion of Ukraine which has brought turmoil and inflationary pressures to global markets. As the war in Ukraine continues, a key risk factor for African economies will be the impact of sharply rising global costs for fuel, food staples and critical agricultural inputs such as fertiliser.

Many African countries also face the twin challenge of climate change and biodiversity loss, which threatens to erode developmental gains across the continent. As the sixth assessment report by the Intergovernmental Panel on Climate Change confirms, Africa is a natural capital-reliant continent and remains one of the most vulnerable to climate change. The Climate Policy Initiative has recently quantified the financing needed by African countries to reduce greenhouse gas emissions and adapt to climate change as approximately USD 2.8 trillion between 2020 and 2030. This climate financing need represents more than 93% of Africa's GDP.

But this moment of crisis also presents an opportunity to build back better. By efficiently channelling growing pools of domestic and international savings towards critical parts of the real economy, capital markets can be a key enabler to achieving the UN Sustainable Development Goals (SDGs). Capital markets play a pivotal role in managing systemic risks, diversifying sources of capital, meeting Africa's vast long-term financing needs for the real and social sectors, including capital needed to unlock the 'urbanisation dividend' available to a rapidly urbanising continent. Capital markets also support the mobilisation of green finance to fund mitigation, adaptation and resilience to climate change and biodiversity loss. Furthermore, local currency capital markets can reduce currency and refinancing risks, improve the financial sector's resilience to external shocks, and support efficient intermediation of scarce domestic savings.

In most African countries, the building blocks of efficient capital markets are not yet in place. Capital markets remain under-developed, characterised by a limited number of bankable projects, high transactions costs, weak regulation, inappropriate tax regimes, low availability of market data, lack of competent and motivated intermediaries, and a narrow investor base.

In addition, private investments are often crowded out by governments which compete with the private sector for limited private savings. These challenges require a fresh approach to capital market development with greater contextualisation of market interventions, development of new market infrastructure and intermediaries, solving critical data bottlenecks, and pioneering new financing instruments and products. FSD Africa has been a leader in applying these innovative approaches, helping to put in place the foundations required to build capital markets that serve the long-term financing needs of the continent.

We work with our partners to build effective capital markets in four main ways:



Enable markets through policy and regulatory reform and market infrastructure development.



Demonstrate use of development capital and technical assistance to support pioneering models (products and platforms) that can work at scale.



Strengthen capacity of government and private sector players across geographies.



Catalyse new partnerships to develop and scale up new and good ideas.

Since 2015, from our headquarters in Kenya, FSD Africa's dedicated team of Capital Markets development professionals has been driving capital markets innovation and development. We engage with stakeholders across the entire ecosystem – from regulatory agencies and market infrastructure providers (such as securities exchanges and central depositories) to market participants, including investment advisors, investment banks, brokers, fund managers and investors. The team operates across the continent, leading over 50 initiatives in more than 30 countries. We work in close partnership with private sector leaders and governments on a range of programmes – from product development in areas such as gender, green and carbon-linked sustainability bonds to regulatory support, policy development, market infrastructure development, engaging with institutional investors and institutional strengthening.

Examples of our flagship programmes include the Green Bond Programmes in Kenya and Nigeria, the Africa Regulatory Support Programme, the ground-breaking African Local Currency Bond Fund, and the Frontclear Interbank Credit Guarantee Fund. In-depth profiles of these programmes are available in the full version of this report. Most recently, the team has launched new programmes such as our work on conservation finance and natural capital, climate finance training for financial sector professionals, capital market development in Ethiopia, a green bond development programme for the SADC region, developing private equity and private debt markets in Africa, developing gender bonds markets in Morocco and Tanzania and our support for the Africa Pension Supervisors Network, among others.



We are set apart by our agility, the strength of our relationships with decision-makers across Africa's private and public capital markets ecosystem, our willingness to take risks, and our role as a neutral and trusted convener.

As part of FSD Africa's new strategic approach, our Capital Markets team will also focus its efforts geographically. We will concentrate on five priority countries – Ethiopia, Ghana, Kenya, Morocco, and Nigeria – whilst maintaining a regional footprint across Africa. Capital markets in each of these priority countries vary in terms of their existing depth, breadth, and maturity.

As such, our approach to capital market development is guided by the specific market failures and challenges identified in each jurisdiction. In the full version of this impact report, we assess the unique challenges and opportunities in each priority country and explain how this context informs a customised, locally relevant approach to programming.

Our key achievements

We have supported or facilitated:



At least **14 innovative transactions**, helping sovereign and corporate issuers in Kenya, Nigeria, Mauritius, Morocco, Rwanda, and Tanzania raise an equivalent of approximately **£320** million in local currency.



Over **30 regulatory development initiatives** to develop legislation, regulations, guidelines, and policy documents that form the foundation for product development and transactions in African capital markets.



Over **15 knowledge products** including toolkits, feasibility and diagnostic studies and data tools to provide thought leadership in African capital markets.



Training of over 6,000 regulators, policymakers, and market participants across Africa's capital markets, to provide thought leadership and build the capacity of market actors.



Over **6 peer learning platforms or forums** for African regulators and supervisors to benchmark and learn from peers in other African capital markets.



Over **4 market infrastructure development** initiatives across Africa including Over-the-Counter exchanges for trading fixed income securities, stock exchanges, credit enhancement facilities and electronic trading platforms.



FSD Africa's Capital Markets team are a fast-paced and dynamic group, always looking to form new partnerships to increase our footprint and impact. If you would like to learn more about our work or discuss new opportunities, please contact us:

 Riverside Green Suites (Palm Suite), Riverside Drive, Nairobi.

 +254204024000, +254729729111

 info@fsdafrica.org

 www.fsdafrica.org

 @FSDAfrica

