

Creating Efficient Capital Markets in Africa

Liquid, diverse and well-regulated local capital markets are an essential source of local-currency financing for the government, financial sector participants, and end users such as small businesses. Better developed domestic capital markets, particularly debt markets, can help allocate investment more efficiently and allow for better risk-sharing, while providing an alternative funding source to complement bank financing.

Capital markets in Africa have the potential to support the financing of priority activities in vital development sectors such as housing, infrastructure, agribusiness, and small businesses. However, many African markets are still at a nascent stage. Equity markets are small, with low liquidity and few listed securities. Bond markets suffer from limited benchmarks for pricing securities, low liquidity, rigid regulatory frameworks, and inefficient infrastructure. The underdevelopment of capital markets in Africa is attributable to both supply and demand factors. On the supply side, few institutions have the capacity and willingness to raise capital through capital markets. High cost and onerous regulatory requirements have prevented companies from coming to capital markets. On the demand side, the investor base is narrow and dominated by local banks. Capacity is weak among domestic institutional investors for dealing in fixed income instruments, while regulators need to strengthen their skills to ensure effective market supervision.

About IFC in Africa

IFC has established a leading position promoting private sector investment in Africa. Over six decades, IFC has invested more than \$60 billion in long-term finance in African businesses and financial institutions, of which more than \$40 billion is from IFC's own account. We are a leading provider of advice to promote a sustainable private sector and mobilize capital from other investors who invest alongside IFC in critical sectors for Africa's future. IFC's work is increasing access to finance for small businesses, supporting innovative startups, bridging the power gap, enabling sustainable manufacturing, bolstering resilient health systems and expanding regional trade. We are also deploying fast-track funding and advisory support to help African businesses recover from the COVID-19 pandemic.

Overview of IFC's work in African Capital Markets

To address these challenges, IFC works through initiatives aimed at improving overall efficiency of capital markets in Africa and creating a solid enabling environment for crowding in private sector finance into key sectors for economic development.

Transaction support is also provided to issuers to develop and bring to market a series of new and replicable issuances.

IFC supports capital market development in Africa through:

- advice and capacity building of key market actors
- issuing local currency bonds
- helping first-time issuers access capital markets

IFC invests in securities that facilitate access to capital markets for existing and prospective clients, including anchor investments, credit enhancements, and warehousing of securities.

IFC issues local currency bonds in local markets to create catalytic impact for future corporate bonds and facilitate financing through demonstration and signaling effect.

IFC connects clients to international capital markets through anchor investments in Eurobonds, or indirectly through IFC's local currency offshore issuances.

Examples of IFC's work in African Capital Markets

- **IFC – World Bank Joint Capital Markets Program (J-CAP).** J-CAP aims to deepen capital market development by developing the policy and regulatory environment that enables capital markets transactions; leveraging World Bank operations and financing when state interventions are needed to develop capital market reforms; and working with regulators and institutional investors to diversify investments beyond sovereign bonds and into the private sector. Since 2018, IFC has invested a total of \$218 million in Kenya and West Africa region in ten capital market transactions through J-CAP's support, mobilizing an additional \$505 million of investment for infrastructure, housing, and SMEs for the sustainable development of African economies. In Africa, J-CAP is focused on the eight West African Economic and Monetary Union (WAEMU) countries (Benin, Burkina Faso, Côte D'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo) plus Kenya, Morocco and South Africa.
- **IFC is building capacity of African regulators.** 201 African regulators have been trained in the English and French offerings of IFC-sponsored Capital Markets Postgraduate Programs at Georgetown University (with Milken Institute) and at Université Paris-Dauphine (with Paris Europlace) respectively.
- **IFC provided a US\$20 million loan to the Africa Local Currency Bond Fund.** The Fund has invested over \$220 million in local currency bonds of 42 issuers, bringing 12 first-time issuers to market and mobilizing an over \$1.4 billion co-investment.
- **Rwanda Capital Market Development Project.** This joint IFC-World Bank engagement is providing advice on increasing secondary market liquidity in the government bond market; increasing supply and issuance of non-government bonds; and developing a more diversified, professional investor base.
- **Ethiopia Capital Market Development Project.** IFC is working with the World Bank (and IMF) to support development of a new capital market in Ethiopia by providing advice on implementing reforms to the government bond market; developing a

sound legal, regulatory, and institutional framework; developing institutional and retail investor base; and supporting demonstration transactions with catalytic impact on provision of long-term capital.

Notable IFC Investments in African Capital Markets

- IFC invested \$8.5 million in Togo-based mortgage refinance company, **Caisse Régionale de Refinancement Hypothécaire's**, first 15-year tenor corporate bond to help deepen the regional market and extend the yield curve, promoting housing lending, extending the maturity of liabilities, and reducing costs.
- IFC invested \$2 million in equity and mobilized \$19 million to capitalize **Kenya Mortgage Refinance Company**, and invested \$1 million and mobilized \$12 million for KMRC's debut corporate bond, to increase access to longer-term, affordable mortgages and housing in Kenya.
- IFC invested \$10 million in the **first gender bond in Sub-Saharan Africa issued by NMB Bank Tanzania.** Through the Jasiri Bond, NMB Bank extends affordable financing for women-owned enterprises and/or businesses whose products or services directly impact a woman.
- IFC invested approximately \$30 million in the **first securitization of loans in the West African Monetary Union originated by NSIA Banque Côte d'Ivoire** and listed in the regional stock exchange BRVM to increase lending to local small and medium-sized enterprises.
- IFC invested €135 million in the 10-year **first green bond issuance in foreign currency by Banque Centrale Populaire in Morocco** including €35 million mobilized from Proparco to finance climate projects and encourage more private sector investment in long-term renewable energy projects.
- IFC invested \$100 million in **Egypt's first private sector green bond by Commercial International Bank (CIB)** to boost climate finance and help unlock finance for climate-smart projects, reduce greenhouse gas emissions, and support the country's transition to a greener economy.

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