



# WHY DO INCLUSIVE CAPITAL MARKETS MATTER TO AFRICA?

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REDUCING POVERTY  
THROUGH FINANCIAL SECTOR DEVELOPMENT



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# What Are Capital Markets?



**Capital Markets** are a part of the financial markets that facilitate raising of long-term capital (over 1 year) by use of various instruments.

## CAPITAL MARKETS PRODUCT STRUCTURE

### Equity Markets

- ✓ Shares/Stock
- ✓ Unit Trusts (CIS)
- ✓ REITs
- ✓ Exchange Traded Funds
- ✓ Global Depository receipts
- ✓ Etc.

### Debt Markets

- ✓ Treasury Bonds
- ✓ Corporate Bonds
- ✓ Preference Shares
- ✓ Infrastructure Bonds
- ✓ Commercial Papers
- ✓ Fixed Income Funds
- ✓ County and Municipal Bonds
- ✓ Asset Backed Securities
- ✓ Islamic Capital Markets Bonds (Sukuk, etc.)
- ✓ Global Depository Notes

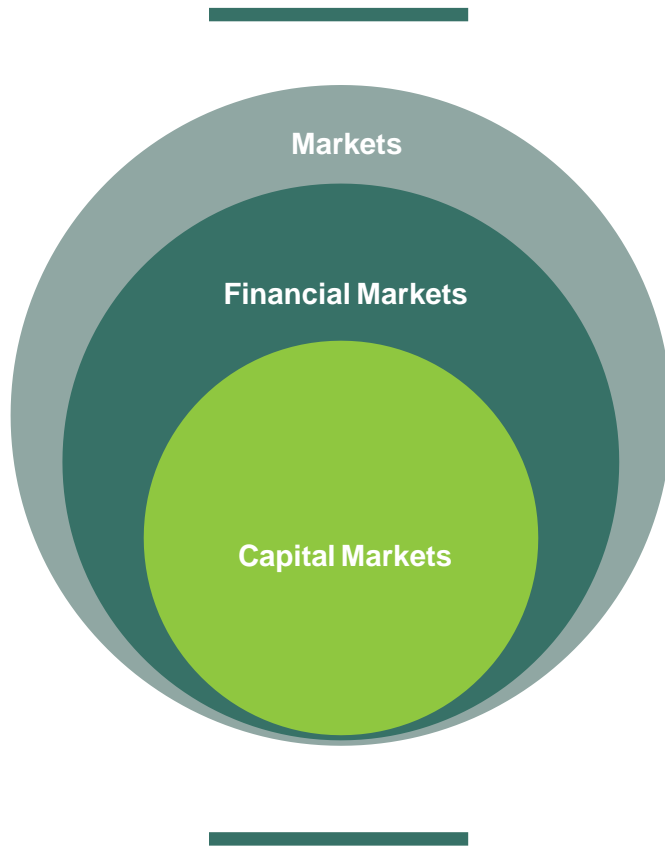
### Derivative Markets

- ✓ Futures
- ✓ Swaps
- ✓ Options
- ✓ Swaptions

- » Primarily comprise debt and equity markets
- » Debt securities (or “bonds”) - issued by governments, municipalities and companies – similar to loans but have standard features.
- » Equity securities (or shares) represent ownership in a company
- » Securities can be issued in public markets (such as stock exchanges) or in private professional markets
- » Primary and secondary markets

Public markets represent only a small fraction of long-term finance markets

# What's the Role of Capital Markets?



Mobilization of long-term savings	Facilitates financing of priority sectors (real and social sectors, public and private)	Improves risk management – by reducing foreign currency and refinancing risks	Encourages efficient allocation of capital in the economy – are productivity enhancing
Improves corporate governance	Democratises ownership of assets in an economy	Reduces transaction costs	Provides a signalling effect on the economy

# What are the Connections Between Inclusive Finance & Capital Markets?



Since early 2000s, strong focus on inclusive finance, also known as 'financial inclusion', 'access to finance', but collectively understood as 'finance for all'



In recent years, increasing appreciation of the broader poverty reducing role of financial sector through inclusive capital markets



Long term financing supports growth (productivity, infrastructure, financing for corporates), creating jobs and improving incomes



Long-term financing improves access to services (health, education, markets) – improving livelihoods



Provide savings instruments for underserved – i.e. through mobile enabled platforms



Finance intermediaries in debt and equity (banks and MFIs) – focused on inclusive finance

**“Inclusive finance and capital markets are both required to reduce poverty and create opportunities for underserved populations”**

# Why Do Capital Markets Matter to Africa?



## INVESTMENT GAPS...

**Need for long-term financing for priority sectors such as infrastructure, housing, social sectors (education and health), private sector**



## FUNDRAISING PRESSURES...

**Expected reduction in concessional lending**

- Reduction in donor flows
- Constrained market conditions (Eurobonds)



## FINANCE FOR DEVELOPMENT...

**Fund global challenges**

- Climate change
- Urbanization



## RISK MANAGEMENT...

**Improved risk management**

- Reduced exposure to FX and refinancing risks
- Greater ability to deal with financial crises



## LONG-TERM SAVINGS...

**Create opportunities for investor base (pensions, insurance, CISs and retail)**



## DIVERSIFICATION...

**Diversify financial sector (currently bank-dominated)**

**“Drives long-term, productive investment that can create jobs, and drive inclusive private sector-led growth”**

# Capital Markets Landscape in Africa



**CAPITAL MARKETS IN SSA  
(excluding South Africa)  
REMAIN UNDERDEVELOPED  
- SHALLOW, ILLIQUID,  
INEFFICIENT**

**BUT, A DECADE OF GROWTH  
AND GREATER  
MACROECONOMIC  
STABILITY ACROSS SSA HAS  
CREATED A BETTER  
ENVIRONMENT...**

## AFRICAN CAPITAL MARKET SCALE (2016)



**USD 1 trillion**

Institutional investor base  
(Pensions, Insurance,  
other Collective Investment  
Schemes)



**USD 388 billion**

Outstanding local  
currency government  
bonds



**USD 100 billion**

Outstanding local  
currency private debt

## AFRICAN CAPITAL MARKET DYNAMICS (2013 – 2017)



**USD 53 billion**

raised on equity  
markets



**USD 22 billion**

raised on private  
equity markets



**USD 128 billion**

raised in Eurobonds  
(85% sovereign)



**4-21**

Stock exchanges  
from 4 in 1989 to 21  
today

# Developmental Issues in Capital Markets in Africa



## PUBLIC EQUITY MARKETS

- **Small number of listings, high concentration**
- **Low** – but improving liquidity
- **Limited fund raising ability** – limited IPOs – but secondary issues have been more robust.
- **Low market depth** – major economic sectors unrepresented

## PRIVATE EQUITY MARKETS

- **Fund raising DFI-led**
- **Limited progress towards home-grown industry**
- **Limited exits through public markets**
- **Large deal sizes** – SMEs underfunded

## GOVERNMENT BOND MARKETS

- **Fragmented issues**
- **Low or unpredictable liquidity**
- **Underdeveloped money markets**
- **Settlement risks**

## CORPORATE BONDS

- **Bond issuance frameworks** – requirements, speed and cost
- **Highly liquid banks, disincentive to issue bonds**
- **Corporations not prepared to meet disclosure requirements**
- **Weak credit culture**

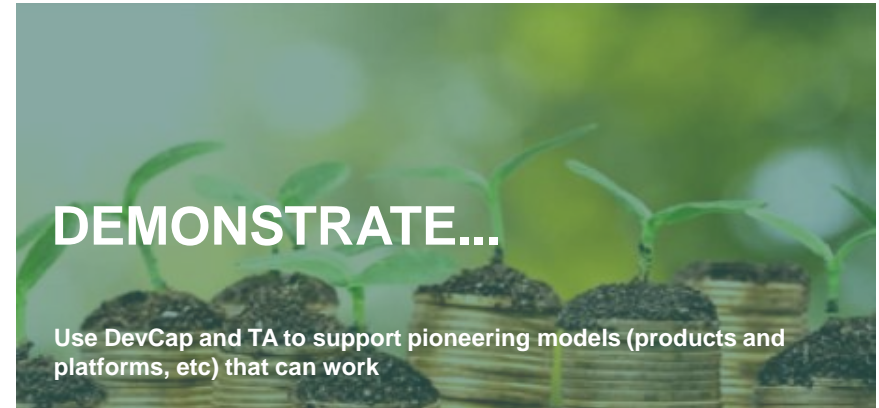


# FSD Africa

## - Accelerating inclusive capital markets



The FSD Africa team works with its partners in four main ways through a market building approach:



“FSD Africa is **different** because we are an **African, neutral, nimble, risk-bearing, hands-on** delivery partner”

# FSD Africa's Current Capital Markets Portfolio



## Vision and strategy

**Goal is to transform sub-Saharan Africa capital markets into a credible source of long-term financing.**

We enable markets through



## Who we are

**Evans Osano**  
Director, Financial Markets

**Mary Njuguna**  
Senior Financial Markets Specialist

**Vimal Parmar**  
Senior Financial Markets Specialist

**Victor Nkiiri**  
Senior Financial Markets Specialist

**Brian Yalla**  
Capital Markets Analyst

**Carol Mugadi**  
Project Manager

**Cecilia Murai**  
Programme Manager

## Overview

Team is implementing 14 projects in 24 countries across SSA

## TECHNICAL ASSISTANCE

- Regulator support – Kenya (CMA, NIFCA), Uganda, (CMA), WAMU (AUT)
- New Products – Green Bonds (Kenya & Nigeria), Islamic Finance (Kenya)
- Bond Market Infrastructure – Nigeria, Kenya
- Money Markets – SSA (with Fronclear TA)
- Professional Certification – SSA (with CISI)
- Market Information & Knowledge Management– EAVCA (fintech & PE investment toolkit), Long-Term Finance (AfDB, GIZ), M-Akiba Post Issuance Survey, ASEA (information portal)

## INVESTMENTS

- Africa Local Currency Bond Fund
- Fronclear
- Sofala – Affordable housing finance

## Where we work



**Francophone West Africa • Regional**  
Centre for Affordable Housing Finance, Agence UMOA-Titres (AUT), CISI certification

**SSA • Regional Projects**

African Local Currency Bond Fund: Long Term Finance Research; Capital Markets Regulator Support; African Securities Exchanges Association; Fronclear Guarantee Fund for Interbank Liquidity; East Africa Venture Capital Association

# Nigerian Portfolio



Name	Description
SEC Nigeria	Institutional capacity building, CISI, Fintech (sandboxes)
Green Bonds Programme Nigeria	Enabling environment, pipeline development for green issuances training of verifiers, issuers, investors and regulators
FMDQ OTC Exchange	Institutional capacity assessment, potential investment
Frontclear	Money markets development (TA and guarantees)
Africa Local Currency Bond Fund	Anchor investor in local currency issuances in Africa – Nigeria represents 9% of portfolio (inc: Mixta, Lapo Microfinance, Dufil Prima Foods and MWFL)
Africa Securities Exchanges Association (ASEA)	Information portal development. Capacity strengthening of the Secretariat (secondment programme)

# Africa Regulator Support Programme



Interventions	Countries Targeted
Capital Markets Development Master Plan	Tanzania, Zambia, Zimbabwe, Mozambique
Institutional Capacity Assessment	Ghana, Nigeria, Tanzania, Zambia, Zimbabwe, Rwanda
Knowledge management/IOSCO – AMERC engagement	Kenya, Nigeria, Ghana, Tanzania, Zambia, Zimbabwe, Uganda, Rwanda, Mozambique
Debt Capital Markets development	Ghana
Institutional Capacity Strengthening	Kenya, Nigeria

**GBP 3 million umbrella programme supporting 9 regulators in Africa**

# Pathway to Impacts



Our capital market portfolio is young (est. 2017), but early results are encouraging...



## CMA KENYA

**32 new policies and procedures** implemented to strengthen regulator



## NIFCA

**NIFCA Act passed**



## ISLAMIC FINANCE

Various **laws amended**, **tax neutrality** attained



## KENYA GREEN BONDS

**Listing guidelines**  
**Strong pipeline** – sovereign and corporate  
**Online course** on green bonds



## NIGERIA GREEN BONDS

Sovereign issue – **US\$30mn** (First CBI certified in Africa)  
**Corporate Issue** of Access Bank and NSP



## CISI AFRICA

Implemented in **5 countries**, mandated in Kenya  
About **3,000** trained to date



## CMA UGANDA

**Master plan launched** – under implementation  
Recommendations from **Institutional capacity assessment** implemented

# Conclusions

## What has the FSD Africa team learned so far?



1

**Role of capital markets increasingly recognised as central to development in Africa:**

- African Union Agenda 2063
- Reflected in national visions of various countries (Kenya, Uganda, Rwanda, Nigeria)
- Capital markets master plans in several markets (Kenya, Uganda, Rwanda, Nigeria)

2

**Markets may be small, but have significant potential for growth**

3

**FSD Africa's capital markets development portfolio has increased significantly in a short space of time**

- **Strong demand** from clients across the private and public sectors in Africa
- Expanded **geographic reach** (country and regional programmes), covering 24 countries
- **Interesting mix** of projects
- **New partnerships** (FMO, AfDB, Climate Bonds Initiative, FMDQ, WWF)
- **Encouraging results** from our programming



# Thank You

## Q&A

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