

Promoting Sustainable Capital Markets in Africa

Biannual Progress Update

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NOVEMBER 2024



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Context

Africa - 2050

- Population 1.4 billion (2020) – Median age 19.7yrs
- Population – 2.5 billion (2050) – 740mn rise in working age population in 30 years.
- Urban population 44% (2020) and 60% (2050) – home to 1bn people

2022

- Weak recovery from C-19 pandemic
- War in Ukraine
- Global economic challenges – inflation, interest rates, currencies
- Sovereign debt crisis
- Climate crisis & biodiversity loss

[I am an African child - YouTube](#)

2024

- Growth has recovered, unevenly
- War in Ukraine + Middle East + Sudan
- Global economic recovery, fragile – lower inflation & interest rates
- Sovereign debt crisis – tight financing conditions
- Youth unrest – poverty, low per capita incomes, limited opportunities
- Climate crisis & biodiversity loss

Why Do Capital Markets Matter to Africa?

INVESTMENT GAPS...

Need for long-term financing for priority sectors

E.g., infrastructure, housing, social sectors (education, health) and 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 & refinancing risks
- Resilience to financial crises

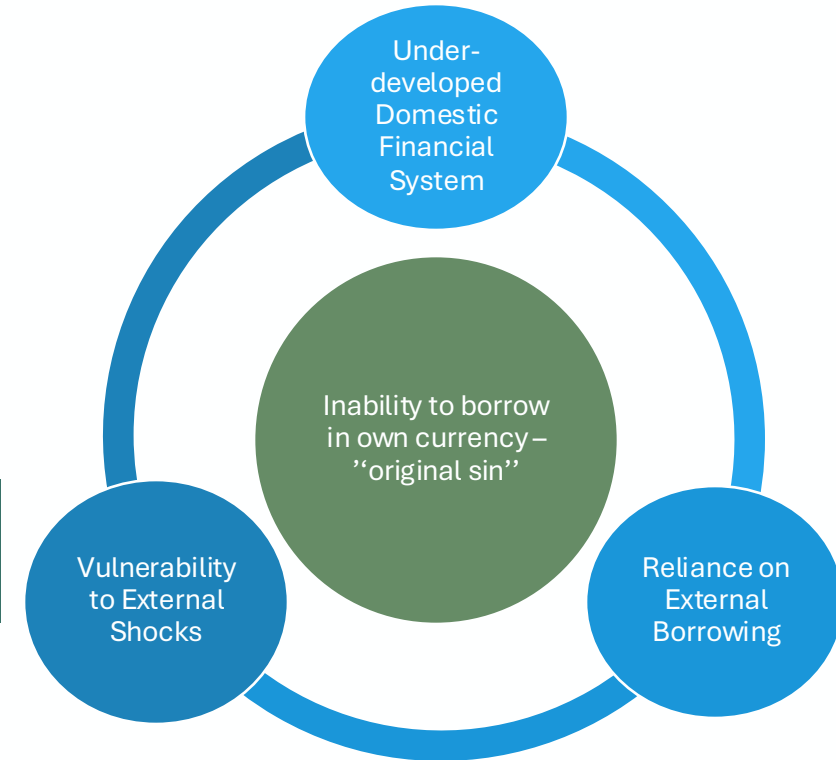
LONG-TERM SAVINGS...

Create opportunities for investors

(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”

Why Local Currency Debt is Important

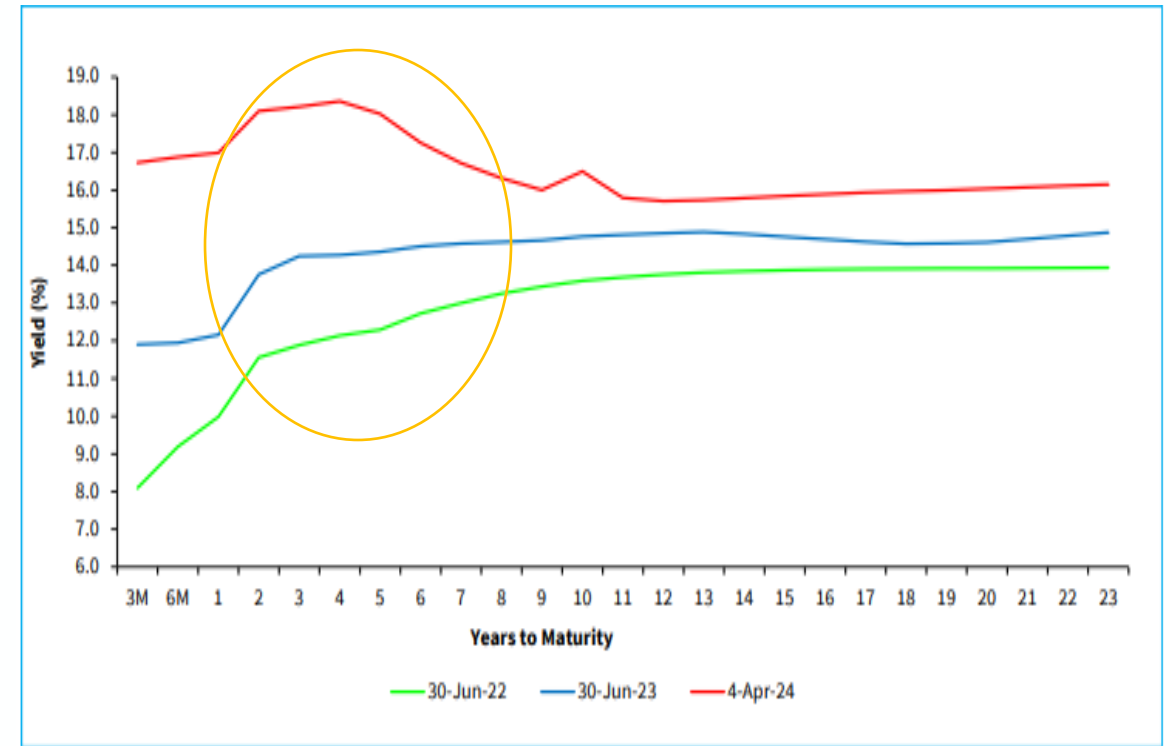
USD to NGN Chart +283.31% (2Y)

1 USD = 1,657.36 NGN Oct 3, 2024, 03:43 UTC

US Dollar to Nigerian Naira



Kenya Yield Curve

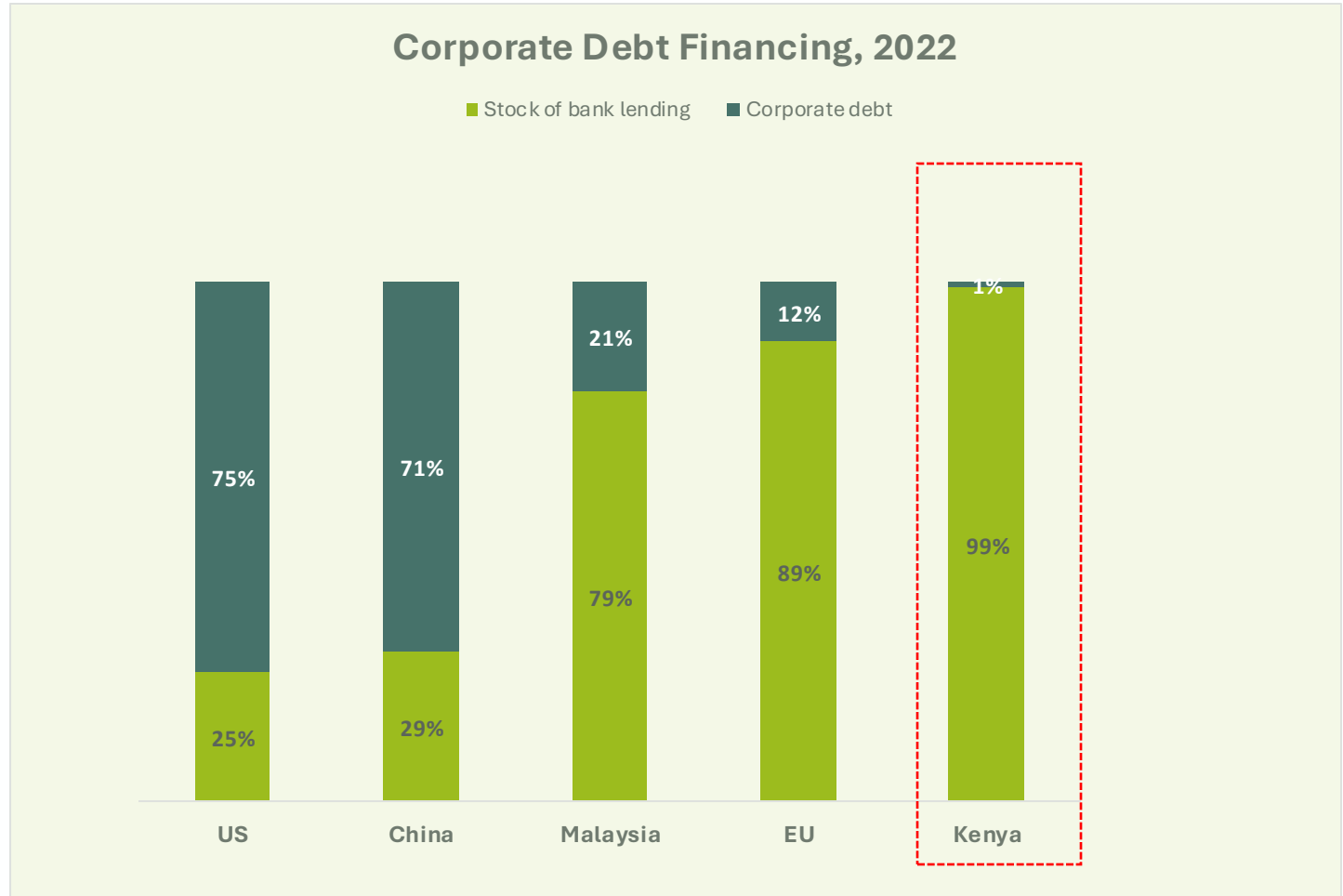
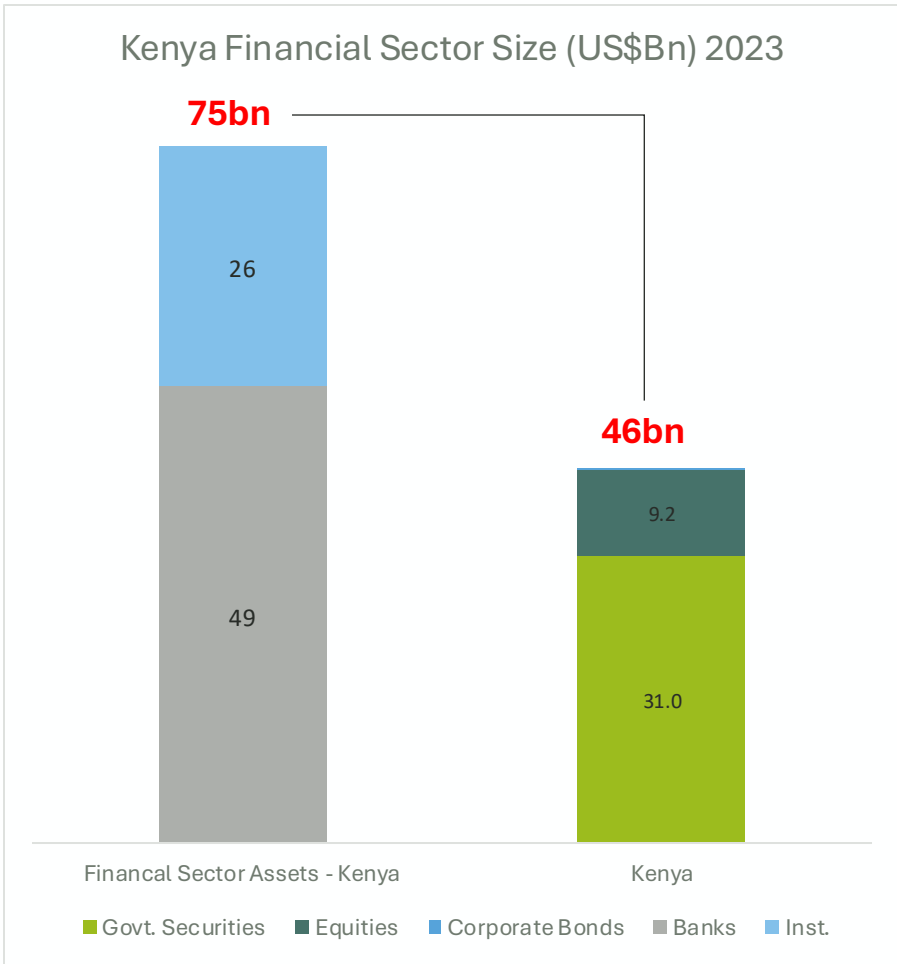


- Foreign currency risk is real
- LCY financing is important

Two Original Sins

- Refinancing risk is real
- Long-term finance is important

Why Focus on Capital Markets Products is Important

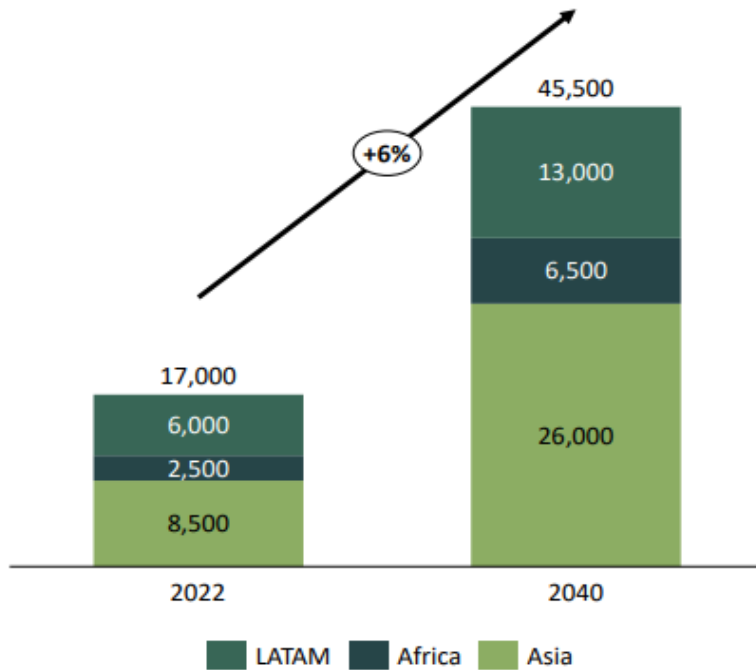


Size of the Public market in Kenya is small – Equity market is now only 9% of GDP; corporate bonds (0.2% of GDP)

How can we leverage PRIVATE CAPITAL?

Private Domestic Assets under Management per region – Emerging Markets and Developing Economies (excl. China)

USD billion; 2022 (actual); 2040 (forecast)



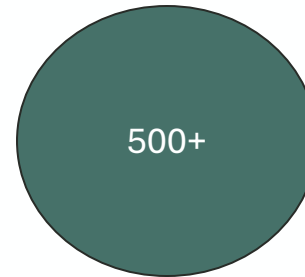
Source: Blended Finance Taskforce

Growing pool of international green capital

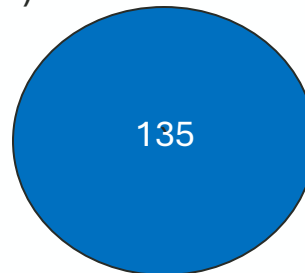
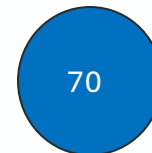
GFANZ membership

APRIL 2021

JUNE 2022



Total financial assets (\$trillions)



How to unlock



Demonstration transactions



De-risking through blended finance and guarantees



Development of investment vehicles e.g. gender bonds, gender debt funds



Address short-termism



Policy support and networks

Our capital market development approach

- Our approach
- CM portfolio
- Key achievements
- Progress since 2022 (over last 2 years)



‘It is not so much about the legs. It’s about the heart and the mind’



Eliud Kipchoge

Eliud Kipchoge runs on his way to break the historic two hour barrier for a marathon in Vienna, Saturday, Oct. 12, 2019. Eliud Kipchoge has become the first athlete to run a marathon in less than two hours, although it will not count as a world record. The Olympic champion and world record holder from Kenya clocked 1 hour, 59 minutes and 40 seconds Saturday at the INEOS 1:59 Challenge, an event set up for the attempt. (Jed Leicester/The INEOS 1:59 Challenge via AP) ORG XMIT: LFP204

The role of FSD AFRICA

FSD Africa is a specialist development agency working to build and strengthen financial markets across Africa. We work in over 30 African countries to mobilise “green plus” finance that will power economic and social development while delivering environmental gains and building Africa’s resilience.

How we work



Grants and returnable grants

We provide grants without the expectation of a financial return where a business is high potential but high risk. We also give grants to non-commercial projects with the potential for system-wide impact.



Data and knowledge management

FSD Africa invests in research, analysis and intelligence-gathering initiatives that give financial sector stakeholders access to market data and knowledge so they can make better investment decisions and manage risk more effectively.



Investment capital

We finance high-risk businesses and funds operating in the financial sector that have the potential for high impact in financing green initiatives and are able to utilise a variety of different transaction structures including loans, guarantees and equity or quasi-equity.



Technical assistance

We provide advisory services and technical support to the public and private sectors. We collaborate with financial sector experts and co-design with partners technical assistance initiatives and capacity-building support programmes.



Networks and partnerships

We have a wide and growing network of national, regional and international stakeholders to crowdfund, pool ideas and share risk, while expanding reach and building sustainability.

Where we work



Capital Markets Approach – reinforcing support for market development

Policy, regulations, incentives

- Reforms to reduce cost of capital, complexity, speed of approvals
- Thematic bonds guidelines and incentives (e.g. taxes)
- Stewardship codes & ESG investment guidelines

Market Infrastructure

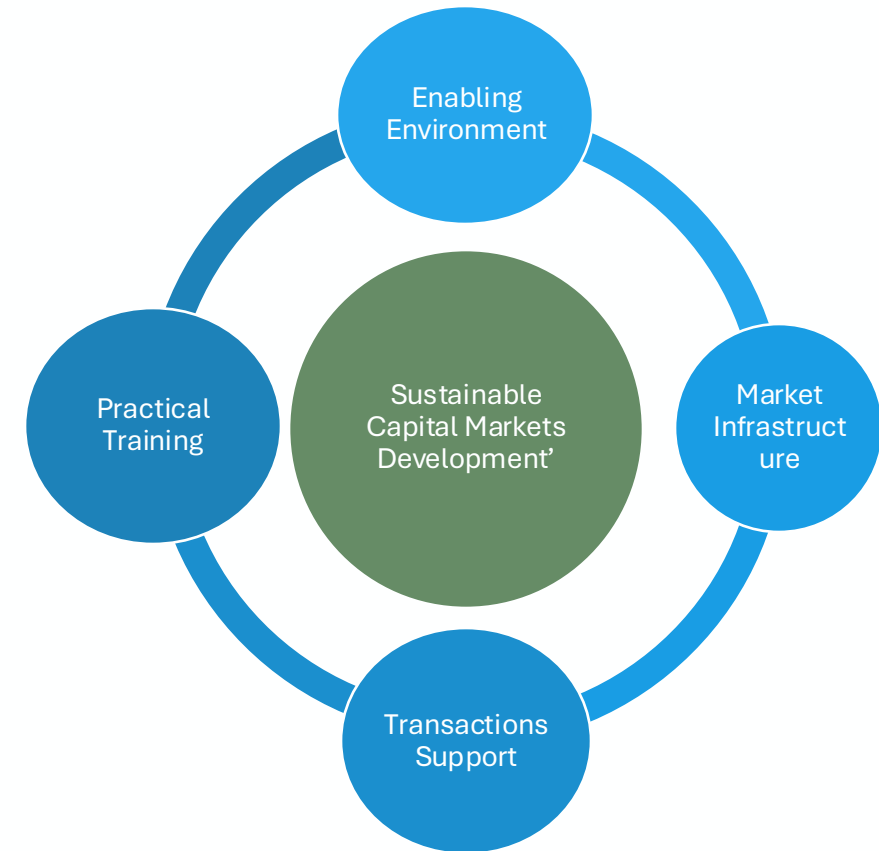
- Credit enhancement and risk-sharing facilities (incentivize green transactions)
- Bond exchanges (improve liquidity, reduce transaction costs, esp. for thematic bonds)

Products/Transactions

- Thematic bonds development (e.g. green, sustainability-linked), carbon-linked bonds; fund structures (private & listed); pooled vehicles & green securitizations

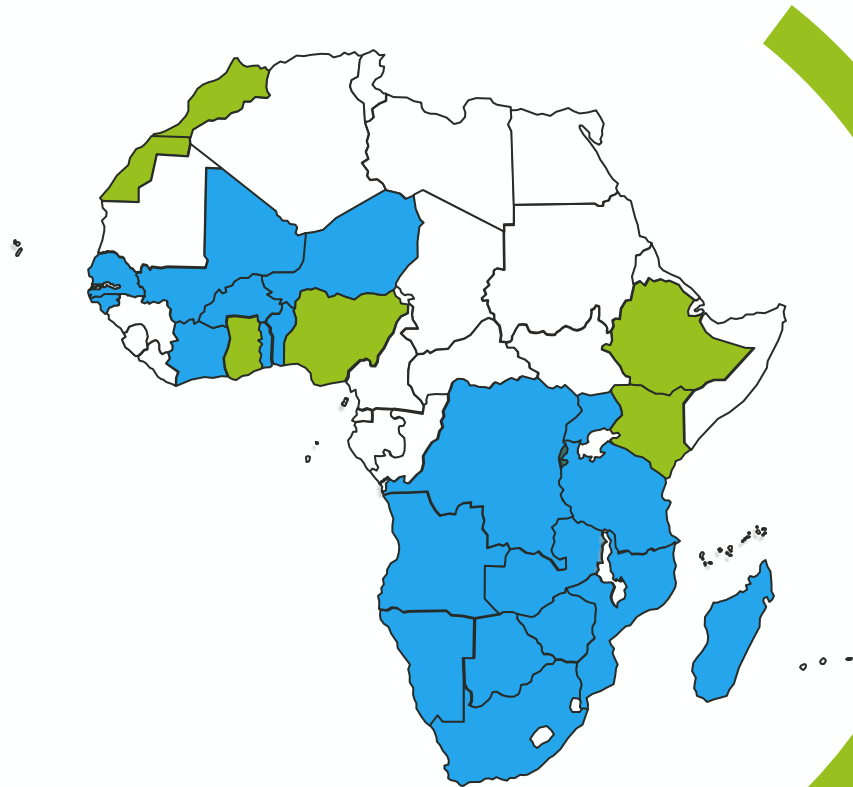
Hand-holding Support

- Transaction structuring
- Green framework development
 - Impact reporting
- Co-investment/consortium opportunities



Our Capital Markets Footprint

Implementing over 60 projects in 33 countries across Africa



- FCDO Priority countries
- Other countries with projects

Product Development

Green Bonds; Gender Bonds; Islamic Finance; Green SME Listed Funds; Private Equity & Debt, CISs; REITs; Debt for Nature Swaps; Carbon-Secured Sustainability-Linked Bonds; Local Currency Solution for MDB Portfolio Transfer

Capacity building

AVCA Academy, Climate Finance Training (ESAMI, IIED & CISL)

Market infrastructure

EABX; ESX, CSD (Ethiopia); Frontclear; WAEMU ETP; Credit Enhancement Facilities (DGCo)

Institutional & Regulatory support

Africa Pension Supervisors Association (APSA), PAFMA, ARSP I&I; Sovereign Debt Advisory

Thought Leadership

Toolkits: Islamic Finance; Green Bonds; Gender Bonds; PE; IOSCO Listings Report; Research on Fiscal Consequences of COVID 19.

FSD Africa's key Capital Markets achievements

Regulatory Initiatives

Regulatory

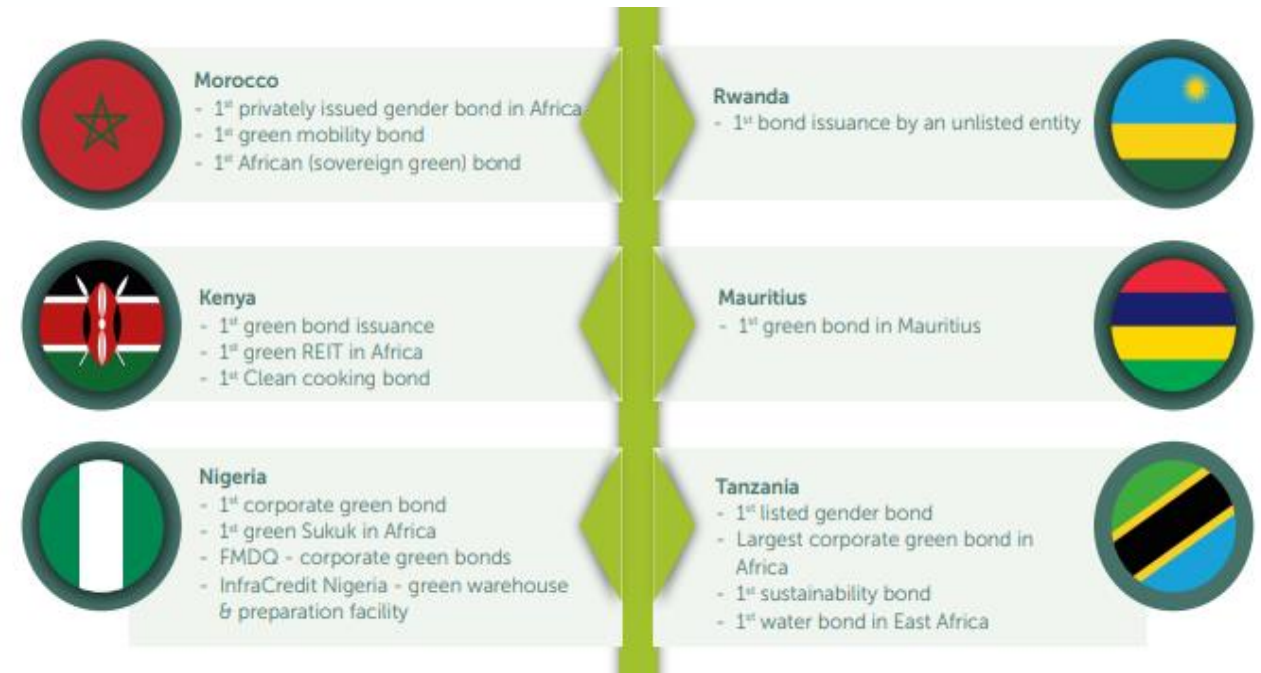
- Ethiopia
- Ghana
- Kenya
- Morocco
- Nigeria
- Rwanda
- Tanzania
- UEMOA
- Uganda
- Zambia
- Zimbabwe



Market Infrastructure



Ground-breaking Thematic Bonds Supported by FSD Africa – US\$1.2 bn



Exchanges/CSDs

- ESX
- Ethiopia CSD
- EABX – Bond Exchange
- ETP - WAEMU

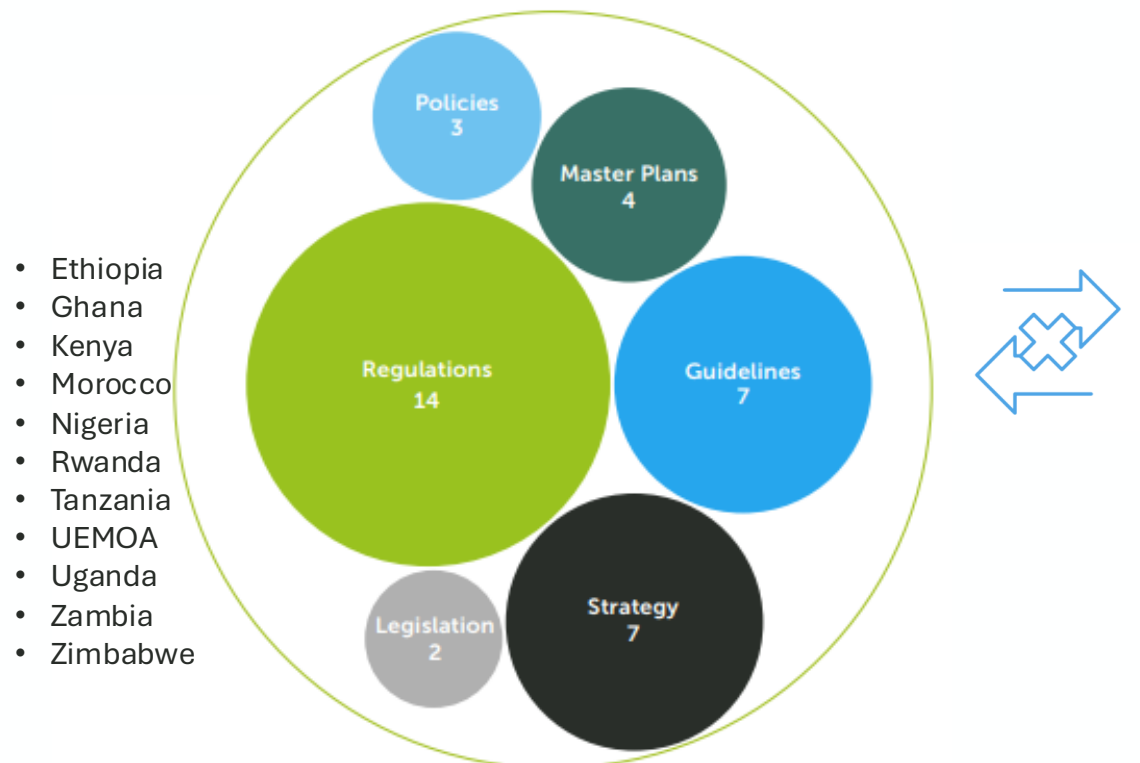
Guarantee Facilities

- Dhamana Guarantee Co. (East Africa)
- Infracredit Nigeria

FSD Africa's key Capital Markets achievements

Regulatory Initiatives

Regulatory



Ground-breaking Thematic Bonds Supported by FSD Africa – US\$1.2 bn



Market Infrastructure



Progress and highlights over the last 2 years

Policy & Regulatory Support

- ARSP II approved; launch of Zambia CM Master Plan & CIS regs in Kenya
- SEC Nigeria – Digital & HR transformation
- PAFMA launch– membership 16 countries
- APSA – membership up to 22 countries

Market Infrastructure

- ESX – capital raise & operationalisation
- EABX – capital raise, CMA license
- ETP – WAEMU (operationalisation)
- CSD Ethiopia

Products Development

- Thematic/Green Bonds: 9 bonds – \$780 million (MTN programme)
- MSME Debt & Equity Funds (Ghana and Kenya)

Thought Leadership

- Local Currency Solution for MDB Portfolio Transfer
- Landscape of Climate Finance
- Financial sustainability & regulatory proportionality
- Gender bonds toolkit

Case Studies

- Ethiopia Capital Markets Development
- Transformative Market Infrastructure; Credit Enhancement Facilities



‘If you love your cows,
you must be prepared
to sleep with them in
the rain’

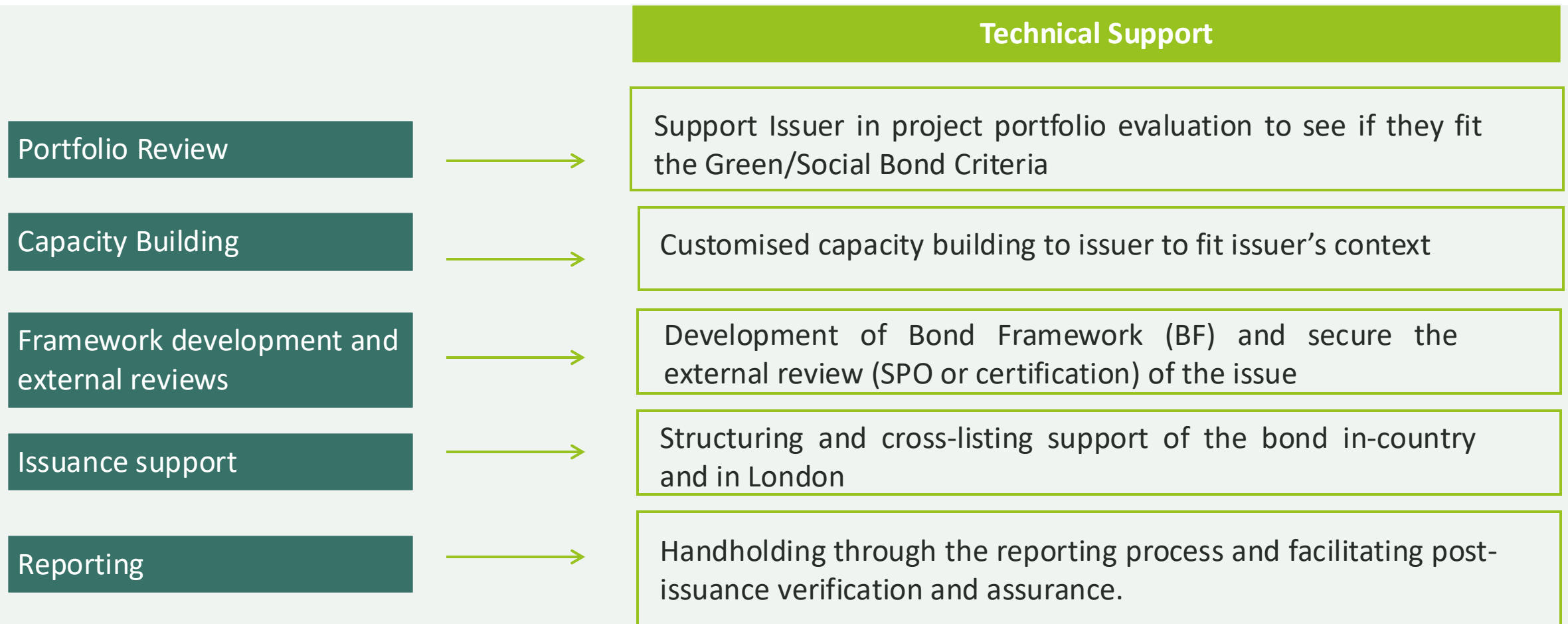
Rwandese Proverb



Ethiopia Capital Markets Development – Case Study



FSD Africa's Technical Assistance - Thematic Bonds



FSD Africa Gender Bonds Support

Regulatory Support – Case Studies

Supported the Morocco capital market regulator, AMMC, in the development of its gender bond issuance guidelines.

Morocco

Provided technical assistance to develop green bonds and social bonds guidelines in Ghana.

Ghana

Provided technical assistance to develop green bonds and social bonds guidelines in Tanzania. The social bond guidelines are being referenced in the further development of thematic bonds issuances across the continent.

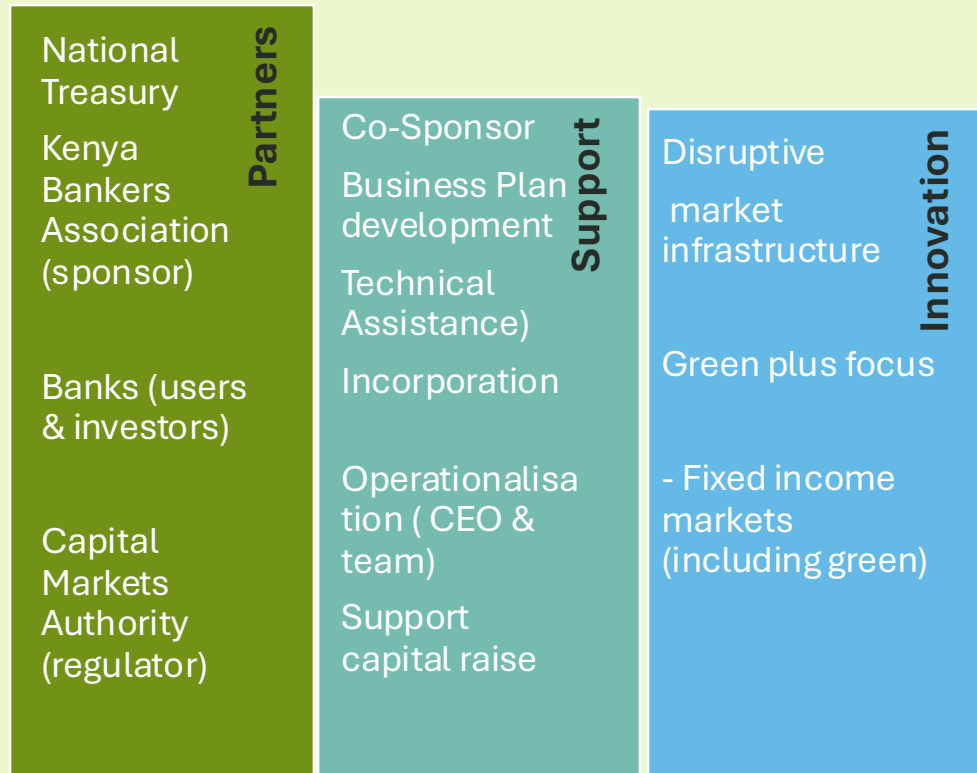
Tanzania

Transactions – Case Study

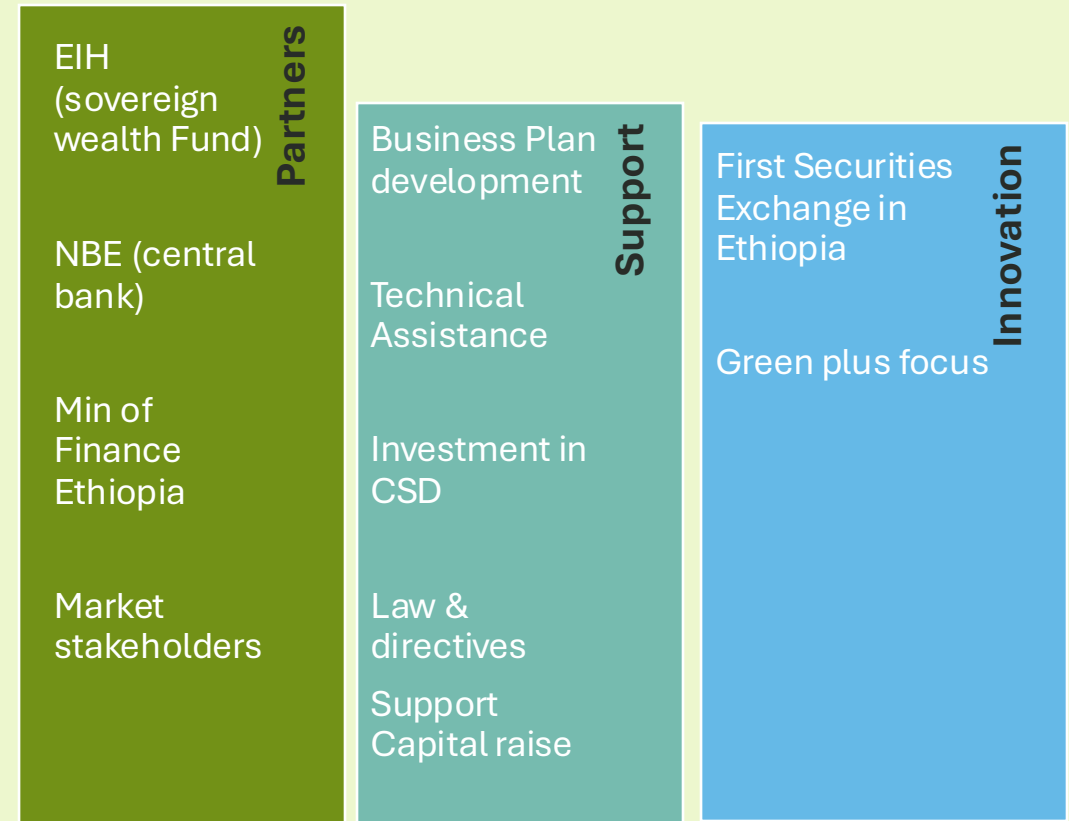
| | |
|--------------------------|--|
| Issuer | NMB Bank Plc |
| Date of issue | February 2022 |
| Country of issue | Tanzania |
| Amount raised | TZS 73.8bn (\$30 million) |
| Tenor | 3 years |
| Coupon rate | 8.5% per annum |
| Use of proceeds | Lending to women-led or women-owned MSMEs or to MSMEs that manufacture goods that disproportionately benefit women |
| Listing authority | Dar es Salaam & Luxembourg Stock Exchanges |

Case Studies – Transformative Market Infrastructure

EABX– East Africa Bond Exchange



ESX – Ethiopia Securities Exchange

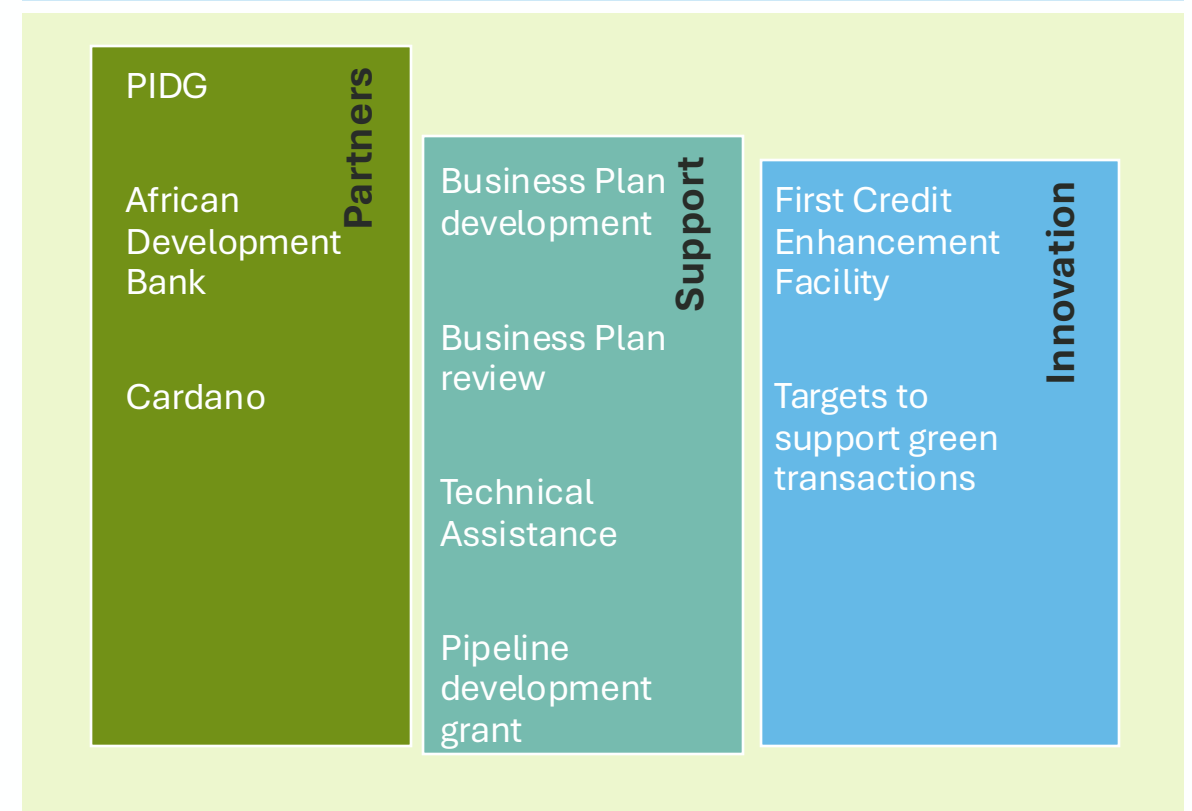


Case Studies – Credit Enhancement Facilities

Infracredit Nigeria – Credit Enhancement Facility



Dhamana Guarantee Co – Credit Enhancement Facility



New Initiatives

- MDB Challenge Fund
- SME Debt Funds –Kenya



“When putting on my running shoes, I feel something nice”

Faith Kipyegon

3 World Records Holder



Local Currency Solution for MDB Portfolio Transfer

In June 2023, FSD Africa was selected by the MDB Challenge Fund to develop a “**Local Currency Solution for Multilateral Development Bank Portfolio Transfer**”. **Dual objectives** of transferring parts of the MDB’s portfolios to local institutional investors in emerging markets:

1 Free up MDB capital

- Freed up capital is recycled to finance the real economy and projects with SDGs and climate-aligned impact e.g. SMEs, infrastructure, renewable energy and climate.

2 Transfer investment assets to local institutional investors

- Develop local capital markets
- Improve affordability for users/off-takers with local currency incomes

Our Approach

- **Transfer of brownfield assets moving from originate-and-hold to originate-and distribute**, while at the same time building on MDBs’ strong expertise in project preparation
- **Pooling assets across MDBs** to create critical mass portfolios (within sub-regions)
- **Establish robust institutional structure** to support widespread adoption and replication
- **Transferring portfolios financing designated objectives**, such as ESG or urban investments, to increase attractiveness to institutional investors

Local Currency Solution for MSME Finance – MSME Debt Fund (Kenya)

Listed intermediated MSME debt fund aims to unlock domestic capital, especially from institutional investors (e.g., pension funds), to increase and improve the financing provided to MSMEs, including women-led micro-enterprises:

1 Improve financing for MSMEs

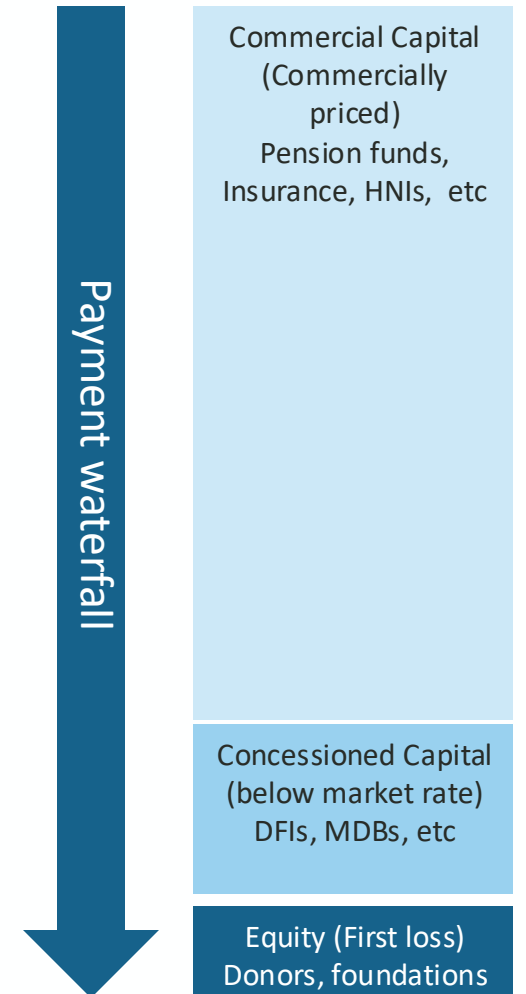
- Lower cost, longer tenors
- Local currency solution for MFIs
- Create jobs

2 New investment assets to local institutional investors

- Diversification opportunity into real sector
- Improved returns

Our Approach

- **Listed vehicle**, regulated by CMA Kenya
- **Capital structure:** Blended finance, with first loss and guarantees – manage credit risks for institutional investors
- **Size** – Up to \$300 million (LCY equivalent) – issued over time
- **Investment Strategy** – Direct (25%), indirect investment (75%) into MSMEs



‘It is better to do things when you can prevent them than to cry when you are already suffering, and nothing can be done anymore.’

Amharic Proverb

