FFD4 SEVILLE

SIDE EVENT CONCEPT (DRAFT)

Boosting Domestic Private Capital in Africa - what the development community can usefully do to strengthen financial markets in Africa to accelerate investment and growth

Headline idea and elevator pitch

Following the recent cuts in international aid budgets, there has been sharply increased recognition that developing countries will have to become more economically self-reliant and find their own ways to pay for the provision of basic services out of domestic resources. For this to happen, domestic financial markets need to be more innovative, efficient and diversified. Donors and philanthropies have a role to play in making this happen and there is also a strong value for money argument to be made for public money to be used to help build markets, especially if it succeeds in crowding in large-scale private investment to boost economic growth. Here, domestic institutional investors (e.g. African pension funds, insurance companies) are important sources of funding – but their capacity is weak, and they have a very conservative investment approach.

In a two-hour "by invitation" event, FSD Africa will convene a group of 30-40 senior stakeholders from the African and international financial community to discuss how donor funding, even if constrained by budget cuts, can play a more strategic and impactful role in boosting investment and growth. The discussion will explore possible upstream and downstream interventions and rally broader interest in what is still a relatively specialised field.

How this would link to and deliver FS priorities

This topic speaks directly to the growth and climate financing agendas and can also incorporate content relevant to the topic of reforming the global financial system – where reforms will only succeed in channelling larger volumes of funding to Africa to the extent domestic financial markets can absorb the new money.

Initial thoughts on co-host and invitees

We would likely use this as an opportunity to work with Proparco and EDFI again, with whom we worked on a similar event in December. At that event, there was an expressed desire for the group to reconvene and FFD4 was proposed as a platform for this.

Invitees:

- *African investors*: Nigerian Sovereign Investment Authority, PE firms (e.g. ARM Harith, Helios), asset managers (e.g. Gen Africa, Sanlam, RMB)

- *African banks and insurers*: Standard Bank, KCB, Britam, Old Mutual
- *African regulators and industry associations*: Pan African Fund Managers Association, African Pensions Supervisors Network
- *DFIs*: Proparco, FMO, Swedfund, Norfund, Nordic Development Fund, BII, [DFC]
- *Private investors and intermediaries*: Gaia Fund/MUFG, European pension funds, Cygnum, Aviva
- *Donors*: Luxembourg, Norad, BMZ, AFD
- *Technical experts*: ODI, ECPDM, ENABEL, CAP-A

Expected tangible outcomes

- Greater awareness of opportunities for collaboration
- Enhanced appreciation of the "business case" for financial market development
- New partnerships and networks built
- Agreement(s) to collaborate on specific initiatives
- Showcase UK suite of financing vehicles (FSD Africa, BII, PIDG, UKEF etc)

What kind of event this would be

- Closed door round table – perhaps people seated in groups at small tables
- 2-hour session – architecture to be determined but tentative flow suggested below,
    (i) opening remarks
    (ii) Session 1 (a panel)
    (iii) Session 2 (ideas generation in small tables
    (iv) Report-back
    (v) Closing remarks

ANNEX

Concept for FFD4 side event

Following the recent cuts in international aid budgets, there has been sharply increased recognition that developing countries will have to become more economically self-reliant and find their own ways to pay for the provision of basic services out of domestic resources. Donors and philanthropies have a role to play in this and there is also a strong value for money argument to be made for public money to be used to help build markets, especially if it succeeds in crowding in large-scale private investment to boost economic growth.

The current crisis reinforces the economic argument that poor countries cannot borrow their way to prosperity: the only way to achieve sustained growth is to boost domestic savings and, through more efficient intermediation, use those savings to accelerate investment. And for this to happen, financial markets need to be more innovative, diversified and efficient - better able to offer savers attractive product choices and allow households and businesses the opportunity to access capital at an affordable price.

Africa is not growing as fast as it needs to. The World Bank is projecting SSA growth at only 4.2% in 2025 (5.3% excluding South Africa and Nigeria) which is too low in per capita terms. This translates into anaemic job creation. For example, in 2023, the Kenyan economy created 848,000 new jobs of which 721,000 (85%) were in the informal sector. High levels of government borrowing almost everywhere in the continent are pushing up the cost of finance and crowding capital out of the private sector. It means there is now a heavy burden of expectation on the private sector to deliver the enormous sums of money that finance that the continent needs for its development – for example, $170 billion each year[1] to address shortfalls in energy, water, and transport infrastructure.

Much of this investment should come from domestic sources – the pension funds, insurance companies, banks and sovereign wealth funds in Africa which, collectively, manage an estimated $2.4 trillion of funds. Asset managers are looking to diversify away from their very heavy exposure to government securities but they lack the products that meet their conservative risk return criteria, allow them to invest at scale and give them the liquidity they need. At the same time, project promoters need domestic institutional investors to play a more active role in financing the real sector: they need access to long term, local currency financing and they want to work with finance providers from the local market who understand local risks and can price those risks appropriately. If domestic institutional investors become more active investors in the real economy, it is likely there will be more interest from international investors too.

Two important questions therefore are:

1. What can donor funding do more of to accelerate private investment in Africa, mobilising domestic private capital alongside development finance?
    - Which "upstream" interventions, funded with grants and technical assistance, have worked well to build an investor-friendly financial ecosystem – for example, policy and regulatory reform, capacity building?

[1] UNECA

2. If development budgets are to be "lower for longer", does this mean we should be allocating more, or less, to these financial market-building efforts?
    - What value for money do we get from financial market development?

In partnership with Proparco and the Association of European Development Finance Institutions, FSD Africa proposes to convene a side event at FFD4 to answer these questions and encourage greater interest from a wider group of stakeholders in the financial market building agenda. An important role that FSD Africa would play would be to bring an African voice to the event – i.e. African fund managers, bankers and possibly government representatives to engage meaningfully with European and other international stakeholders.

In December 2024, Proparco and FSD Africa convened a private, round table event on Mobilising African Capital. We envisage inviting the same core group but expanding this to include other relevant stakeholders. While the December discussion was largely aimed at showcasing investment innovations (i.e. downstream) and exploring DFIs' different attitudes towards domestic capital mobilisation, we envisage the Seville meeting to be broader in scope, aimed at identifying any kind of donor-funded intervention (policy, regulation, project development, knowledge sharing etc.) that would make it easier for capital providers to make investments.

We would aim to ensure that domestic investors (e.g. asset managers but also local development banks) concerns and interests are given due prominence at this event. But it is undoubtedly the case that European (and potentially other international) DFIs have much to offer by way of technical, transacting expertise and will continue to play a critical role in bringing investment innovation to African financial markets. Therefore, it is also important to understand what they see as the main upstream bottlenecks that collaborative partnerships can help unblock.