

Africa's Growth Engine: Why Deepening the Financial Sector Matters

Africa stands at a critical juncture. The continent faces an enormous financing gap in meeting its development priorities, from building resilient infrastructure and expanding healthcare, to creating jobs, advancing food security, and adapting to climate change. Yet these needs are emerging against the backdrop of a mounting debt crisis that has left many governments fiscally constrained, with limited room to borrow for development without worsening debt distress. At the same time, local savings remain under-utilised, international flows are volatile and slow to mobilise, and too often investment bypasses high-impact opportunities such as MSMEs, housing, climate-resilient agriculture, among others. This persistent mismatch between capital supply and development needs threatens to stall progress on inclusive growth and climate resilience.

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Addressing these structural challenges requires more than incremental funding; it demands a coordinated approach that positions governments, domestic investors, international financiers, and development partners to act in concert. Financial sector deepening initiatives play a critical role in this process by creating transparent, investible markets, reducing risk perceptions, and ensuring capital flows efficiently into productive use. By aligning incentives across stakeholders, these initiatives lay the groundwork for Africa to mobilise its own resources alongside international capital, turning fragmented efforts into scalable solutions for sustainable growth. This is why strengthening and deepening Africa's financial sector presents such a compelling strategy for funders—especially when viewed through the lens of mobilising both domestic and international capital.

As of 2020, Africa's private institutional assets under management (AUM) were estimated at approximately USD 2.4 trillion¹, with projections indicating a rise to USD 6.4 trillion by 2040. This represents a vast and rapidly growing pool of investable capital. Yet much of this wealth remains either underutilised, tied up in low-yield assets, or invested outside sectors that could drive inclusive growth such as infrastructure, MSMEs, and climate resilience.

PRIVATE DOMESTIC ASSETS UNDER MANAGEMENT (AUM)

2020
ESTIMATED USD 2.4 trillion¹

2040
PROJECTED USD 6.4 trillion

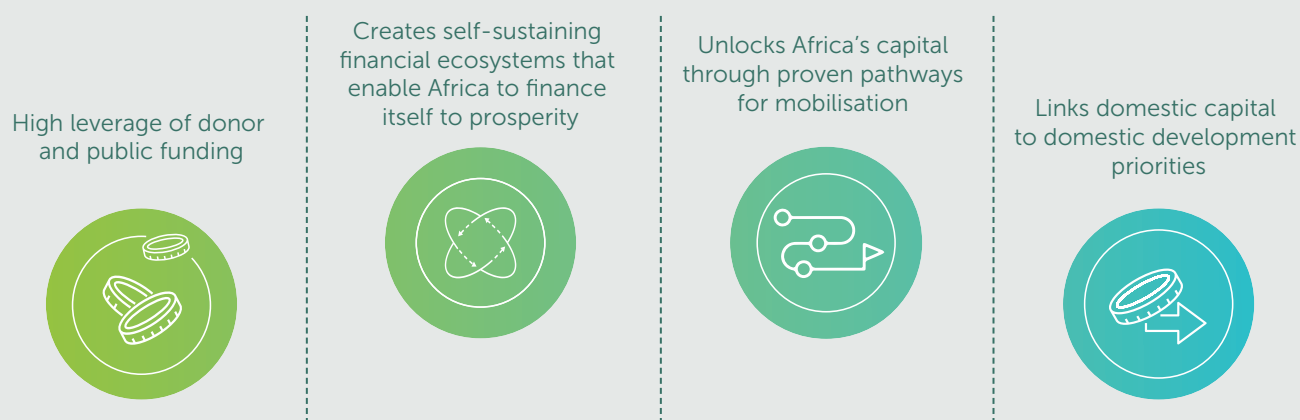
Financial sector deepening reforms that target institutional investors, such as pension funds, or that focus on strengthening debt capital markets have been shown to yield especially high returns in terms of crowding in private capital².

By increasing market transparency, reducing regulatory uncertainty, and introducing scalable, structured investment products, deepening the financial sector helps align local financial systems with global investor expectations. This, in turn, creates the conditions for greater international capital flows, particularly from impact investors, climate finance institutions, and private equity funds seeking sustainable, long-term opportunities. Moreover, financial sector deepening reforms that target institutional investors, such as pension funds, or that focus on strengthening debt capital markets have been shown to yield especially high returns in terms of crowding in private capital². This not only improves the local investment landscape but also enhances the overall investibility of African markets.

¹ <https://www.climatepolicyinitiative.org/press-release/climate-finance-in-africa-2024-press-release/>

Unlocking capital at scale for Africa's development requires the strategic alignment of both domestic and international finance, two sources that are not only compatible but mutually reinforcing. Domestic capital, from pension funds, insurers, and household savings, offers local currency stability, long-term alignment with national goals, and greater resilience during shocks. However, it is often under-utilised because of scarce investment options, regulatory barriers, and shallow markets. On the other hand, international capital, including DFIs, impact investors, and commercial lenders, brings scale, risk appetite, and technical expertise. It can absorb early-stage risk and introduce innovative instruments, but it tends to be hard currency-denominated, slower to deploy, and often dependent on strong local counterparties. Blending the two unlocks their full potential: domestic capital anchors long-term investment, while international capital acts as a catalyst for growth. Through regulatory reform, de-risking tools, and robust financial systems, financial sector building initiatives create the conditions for this synergy, unlocking finance for investment at scale.

This opinion piece shares 4 reasons why strengthening and deepening Africa's financial sector matters for the continent's sustainable growth, and why investing in it is good value for money.



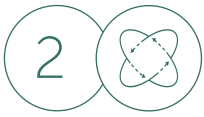
High leverage of donor and public funding

According to research from the World Bank, IFC, and OECD, every dollar of public investment can mobilise between USD 5 and USD 15 of private capital. Financial sector deepening initiatives - particularly capital market development - offer exceptionally high leverage on donor and public funds. In some cases, depending on the intervention and methodology used, leverage ratios as high as 35:1 have been recorded.

Despite these impressive leverage ratios, donor and philanthropic funding remains critical. The private sector will not spend time on policy or regulatory reform, and nor is it inclined to fund speculative project preparation. Donor capital plays an essential role in these early-stage efforts, helping to establish the enabling environment that attracts private investment downstream.

Moreover, donor funding can significantly shorten the time it takes for investors to enter new markets by de-risking early-stage ventures and supporting market infrastructure. This helps to reduce the cost of capital and is particularly important in frontier sectors like carbon markets and nature-based solutions, where viable business models are still emerging and the perceived risks remain high. In such cases, blended finance structures and risk-sharing mechanisms are vital for catalysing private sector participation and unlocking new flows of capital.

² https://ieg.worldbankgroup.org/sites/default/files/Data/reports/lp_policy_based_guarantees_102116.pdf?utm_source=chatgpt.com,
https://rpc.cfainstitute.org/research/reports/2025/capital-formation-africa?utm_source=chatgpt.com,
https://www.worldbank.org/en/results/2023/12/01/mobilizing-the-private-sector-to-drive-development-in-africa?utm_source=chatgpt.com

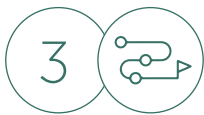


Creates self-sustaining financial ecosystems that enable Africa to finance itself to prosperity

In today's global context, where concessional and donor funding is increasingly constrained, directing development resources towards domestic capital mobilisation through financial sector deepening is a cost-effective strategy with long-lasting impact. By strengthening regulatory frameworks and market capacity, pioneering the use of financial instruments such as local currency bonds, securitisation and supporting local fund managers, these interventions play a critical role in reducing investment risk and attracting private capital. This not only enhances local ownership and accountability but also builds financial systems that are more resilient and better equipped to support long-term development that is independent of subsidies.

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Deeper financial markets are also characterised by market information that is more freely available to investors and other users. Financial sector deepening interventions can facilitate this exchange of information, including at a regional level. Fragmented markets are a deterrent to investment in Africa: regional knowledge platforms can help source deals and drive adoption of successful/promising financial sector regulations, instruments and infrastructure across borders.



Unlocks Africa's capital through proven pathways for mobilisation

Africa's substantial assets under management (AUM) hold very significant untapped potential. A well-functioning financial sector can unlock this capital by strengthening financial intermediation, creating investment vehicles tailored to local investors, building trust in domestic markets, and reinforcing regulatory frameworks to mitigate risk.

Market building initiatives geared towards deepening the financial sector provide proven pathways to mobilise both domestic and international capital, laying the groundwork for dynamic, investible markets. These markets can channel savings into productive investments that drive inclusive growth, supporting priorities such as infrastructure, housing, MSME financing, clean energy, regenerative agriculture and climate resilience, among others.

These programmes create the conditions for scalable, long-term investment through four key pathways:



Mobilising domestic savings

Strengthening and deepening the financial sector expands access to secure, inclusive savings products—like digital wallets, micro-savings, and pensions—including for underserved groups. This channels idle savings into productive investments such as MSMEs, infrastructure, and climate-resilient sectors.



Improving capital allocation

By strengthening private credit risk analysis, ESG screening, and market infrastructure, financial sector market building initiatives enhance price discovery and reduce information gaps allowing for capital to flow more efficiently to high-impact sectors like green infrastructure, agriculture, and MSMEs.



Diversifying financing options

Strengthening and deepening the financial sector supports alternatives to traditional bank lending e.g., local currency capital markets, venture capital, leasing, and fintech platforms. This broadens access to long-term, affordable finance, especially for underserved enterprises such as startups, women-led businesses, and green ventures.



Building market integrity and investor confidence

Through better regulation, supervision, and transparency, these initiatives create trustworthy financial systems which reduces perceived risk, attracts investment, and lowers the cost of capital.



Links domestic capital to domestic development priorities

Africa faces a significant capital deployment gap in financing its development priorities—from infrastructure and job creation to healthcare, MSMEs, and climate transition. The continent has a growing pool of investable domestic capital through pension funds, insurers, and sovereign wealth funds, yet only a small share is channelled into these critical areas. International capital, though larger in volume, is hard to access and can come with onerous conditions.

Unlocking even a small share of domestic institutional portfolios for green infrastructure, nature-based solutions, or climate-resilient agriculture could mobilise billions for investment, far surpassing the scale of traditional aid. As of 2023, Africa AUMs were over 50 times higher than Official Development Assistance (ODA) to the continent. Yet most of Africa's tracked climate finance still originates from international sources, with contributions from domestic sources making up only 13%³.

By strengthening market structures and regulatory environment, financial sector deepening initiatives address barriers on both the demand and supply side. In doing so, it shifts the development finance narrative from aid dependence to scalable capital mobilisation, re-positioning financial ecosystems as engines of inclusive, and climate-resilient growth.

The benefits of these initiatives to Africa's sustainable growth stretch far beyond capital mobilisation

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By expanding access to diverse financing options, strengthening market structures, and embedding ESG considerations, these programmes should be designed to channel capital into high-impact sectors of the real economy. This includes financing for MSMEs, agriculture, housing, healthcare, infrastructure, and digital innovation - sectors that are critical for inclusive development yet often underserved by traditional finance. In doing so, financial sector deepening initiatives ensure that capital reaches vulnerable population groups and contributes to solving some of Africa's most pressing challenges. The outcomes are tangible: increased job creation, improved access to essential services, higher household incomes, strengthened value chains, and greater resilience to social, economic, and environmental shocks, including climate change.

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