VISUAL SUMMARY

INNOVATIVE FINANCE FOR PRIVATE SECTOR DEVELOPMENT IN AFRICA

ECONOMIC REPORT ON AFRICA 2020

United Nations
Economic Commission for Africa

CONTENT

RECENT ECONOMIC DEVELOPMENTS	1
INNOVATIVE FINANCE FOR AFRICAN BUSINESS	2
CORPORATE BANKING	3
FINANCIAL MARKETS	4
EQUITY MARKETS	5
DEBT MARKETS AND THE PRIVATE SECTOR	6
OTHER OPPORTUNITIES FOR PRIVATE FINANCING	7
LONG TERM FINANCING FOR SUSTAINABLE DEVELOPMENT	8
INFRASTRUCTURE FINANCING	9
LEVERAGING FINANCIAL TECHNOLOGY	10
FINANCIAL REGULATION TO SUPPORT PRIVATE SECTOR DEVELOPMENT	11
KEY RECOMENDATIONS	12

For the full report, scan here:

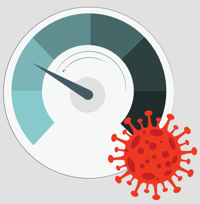
RECENT ECONOMIC DEVELOPMENTS

Africa is the second fastest growing region in the world, estimated to have grown 3.4% in 2019.

COVID-19 pandemic will impact growth to decelerate to between 1.8% and -4.1% in 2020.

Growth in Africa is projected to rebound to 5% in 2021, supported by the effective implementation of COVID-19 response measures and global economic recovery.

GLOBAL GROWTH



GDP GROWTH SLOWED TO 2.8% IN 2019 FROM 3.5% IN 2018.

IN 2020, **GLOBAL GDP IS PROJECTED TO CONTRACT -4.4%.**

GLOBAL ECONOMIC GROWTH IS PROJECTED TO REBOUND TO 5.2% IN 2021.

TRADE

Trade slowed in 2019, weighted down by the slower economic growth and trade tensions.

In 2020, negative trends of trade outputs are expected due to the COVID-19 pandemic and containment measures such as lockdowns, physical distancing and borders closures.

Global trade recovery is projected for 2021, dependant on the duratrion of the COVID-19 outbreak.

SECTOR IMPACT

Commodity prices plummeted for more than 2/3 of African exports.

Petroleum price crashed by +50%

Metal prices fell 20%

Cotton fell 26%

Cocoa prices fell 6%

Tea and coffee prices have declined due to falling demand.

While some services may benefit from the crisis

IT services, for which demand has increased as people work from home and socialize remotely.

THE AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA)

AfCFTA aims to:

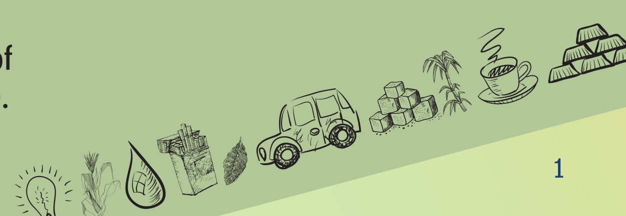
- Accelerate continental integration and increase intra-African trade
- Unlock manufacturing potential and facilitate industrialization.
- Enhance competitiveness and support economic transformation

If successful, the agreement will create a single African market of over 1.2 billion consumers with a total GDP above $2.5 trillion by 2030.

TOP 3

intra-African importers
South Africa, Ghana, Botswana

intra-African exporters
South Africa, Nigeria, Egypt



INNOVATIVE FINANCE FOR AFRICAN BUSINESS

A robust and vibrant private sector is vital for inclusive and sustained economic growth.

Inadequate finance and huge deficits in infrastructure services (transport, energy, ICT and water) hinders private sector development in Africa.

Innovative finance and AfCFTA present opportunities for firms to access finance and increase firm competitiveness and productivity

5 KEY ELEMENTS

1 INNOVATIVE FINANCING

Fintech

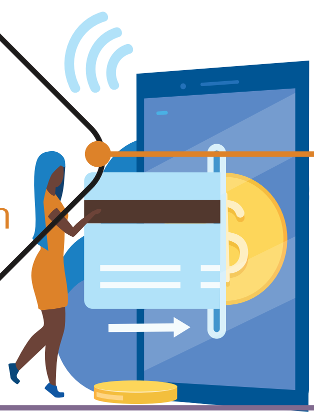
Banks

For the long-term

Financial markets

2 REGULATION

Transparent and effective regulatory system



3 ECO-SYSTEM

Private sector development

The absence of a sound eco-system can impede firms. This affects firms of all sizes, depending on their growth cycle.

4 SDGs

Innovative financing + business = Growth

Which generates:

- Gainful employment
- Tax revenue for government
- Stable investment returns for entrepreneurs
- Growth of financial institutions which, in turn, boosts economic growth

5 FEEDBACK

Innovative financing & a fully operational financial sector

Businesses/firm growth

Economic growth

Lower inequality & reduced poverty

The transformation from innovative financing to firm growth—and then to economic growth, lower inequality and reduced poverty—is long term and necessarily involves feedback mechanisms

Takeaway **For 2020–2030, the private sector in Africa will play an important role in enabling economic recovery from the COVID-19 pandemic, increasing economic prosperity and achieving the SDGs.**

CORPORATE BANKING

Most financing mechanisms in Africa are bank-based, and banks are a major source of innovative financing in Africa.

Innovations and technological advances are expanding the reach of bank lending, reducing regulatory and geographic obstacles, and unlocking bank credit to the private sector.

ASSETS
90%
GDP
60%

The retail and corporate banking sector in Africa holds more than 90% of the assets in the financial sector.

Its assets represent less than 60% of GDP on the continent, compared with more than 100% in other emerging and advanced economies

Addressing the huge financing gap for the private sector and infrastructure development will require more innovative financing solutions in the retail and corporate banking sector.

Despite an overall increase in banking activities, bank financing to the private sector remains low and ill-tailored to the needs of private firms.

90% of bank loans are short to medium-term.

In most subregions, the largest share of credit goes to firms

AFRICAN BANKING SECTOR GROWING FAST

Between 2017 and 2022, the African banking sector is projected to grow at 8% a year.

Takeaways

Due to the low level of financial inclusion, there is massive potential for growth in Africa.

The banking sector can expand inclusion by bringing financial services to underserved and unserved populations.

Expanding inclusion will lead to rising deposits, which banks can lend to retail and corporate customers.

That will enhance access to housing and assets for retail customers and to financing that can increase capacity for businesses.

A regulatory framework that strikes an optimum balance between ensuring financial stability and offering innovative financing schemes for all is key to developing a strong and robust private sector.

This process will ultimately accelerate economic development.

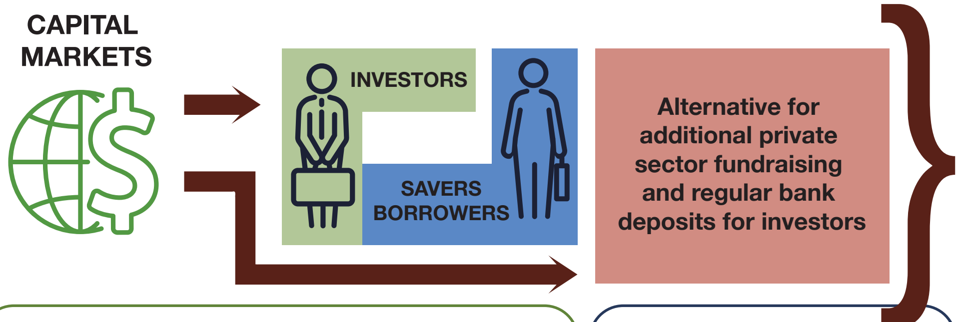
FINANCIAL MARKETS

African financial markets are small and undeveloped, largely dominated by commercial banks, with few investment banks and underdeveloped capital markets.

The underdevelopment of African financial systems constricts credit for firms, especially for small and medium sized enterprises (SMEs), and produces low investment rates.

Well-developed financial market systems with enhanced regulations, improved environment and the opportunities offered by the AfCFTA will benefit the private sector in Africa.

FINANCIAL ECONOMY

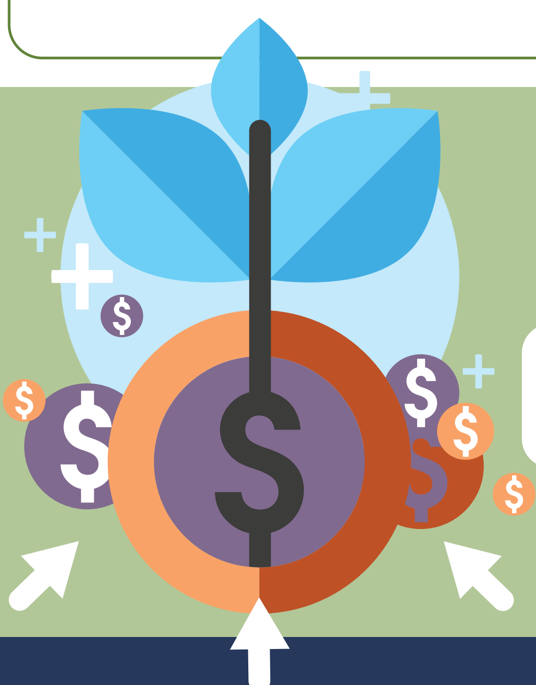


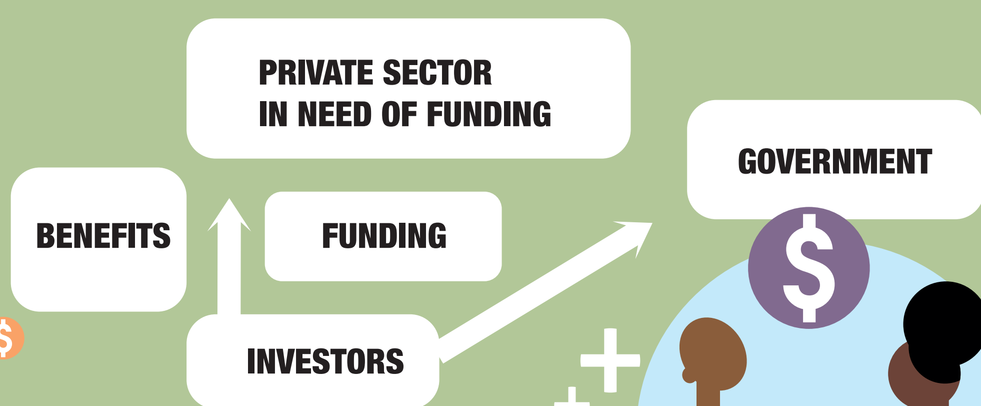
Capital markets offer a gateway for investors to participate in the financial economy. They enhance the connection of savers and borrowers outside traditional banks.

Private investments, crowdfunding platforms and other alternative methods of financing are gaining momentum.

FINANCIAL ECONOMY

The value of private equity fundraising in Africa increased to $2.7 billion in 2018, up 10% from 2017. The total transaction value in the global crowdfunding market was $6.9 billion in 2019 and is expected to grow 14.7% a year between 2019 and 2023. The African bond market is also growing, with a total value of $500 billion in 2019.





Takeaways

The success of financial markets relies on the stability and reliability of their regulatory institutions.

African countries need to create a regulatory environment that foreign investors, particularly asset management companies in higher-income countries, would want to invest in, offering them risk-adjusted returns they are willing to take.

EQUITY MARKETS

Equity markets serve as a fundraising platform for businesses that require large amounts of capital to expand and as a sales vehicle to let entrepreneurs lower their stake in the business.

Participating in equity markets provides African investors and businesses higher name recognition, access to the public debt markets and other varieties of financing instruments, raise funds and diversify their savings.

Equity markets also provide international investors an opportunity to enter African domestic markets, invest in companies they find attractive and thus support the growth of private sector in Africa.

STOCK EXCHANGES

currently exist in 28 African countries.

The oldest are the Egyptian Exchange, the Johannesburg Stock Exchange, the Casablanca Stock Exchange, the Zimbabwe Stock Exchange and the Nairobi Securities Exchange.

There are two regional stock exchanges, in West Africa (Bourse Regionale des Valeurs Mobilieres - BRVM) and Central Africa (Bourse des Valeurs Mobilieres de l'Afrique Centrale - BVMAC).

Most stock exchanges in Africa are small in market capitalization and number of listings.

Although stock exchanges in Africa are less developed than those in other emerging economies, they present an opportunity for the African financial service sector to grow into the existing space.

The main problems encountered in African stock exchanges are high transaction costs and fees, lengthy listing procedures, binding and difficult listing conditions, lack of knowledge about stock markets and, in some exchanges, lack of transparency.

The market capitalization of Africa's most liquid exchange, the Johannesburg Stock Exchange (JSE) in South Africa, was valued at **$ 278 billion in April 2020** compared to $1,510 billion for India (NSE+BSE).

The proceeds raised from initial public offerings (IPOs) in Africa between 2014 and 2019 reached **$27.1 billion**, less than 1.4 per cent of global IPO proceeds during that period.

Takeaways

A standardized and streamlined approach to overseeing African financial markets and support their functioning would help financial service liberalization and bolster Africa's financial integration and deepening.

The AfCFTA could be instrumental in advancing such goals through service trade liberalization, as well as adopting a protocol to ensure the free movement of capital and investment.

DEBT MARKETS AND THE PRIVATE SECTOR

There is a growing local currency bond market in Africa with increased appetite among local investors.

Local currency bonds make up 78% of outstanding debt in Africa (including government and corporate bonds)

In South Africa, the biggest bond market on the continent, local investors hold 62% of government bonds.

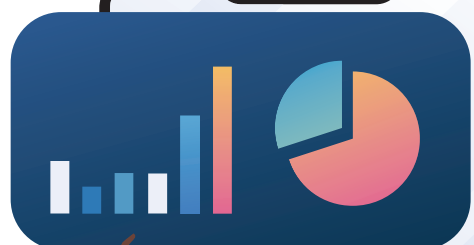
THE HIGHER PROPORTION OF LOCAL CURRENCY BONDS OVER HARD CURRENCY BONDS...

...reduces the risk of debt unsustainability

...reduces exposure to currency exchange risks

...increases governments' ability to manage their balance of payments in case of a distress scenario.

In 2019, African governments issued over $200 billion in sovereign bonds, denominated in local or foreign currency, compared with more than $700 billion issued by China, the biggest bond market among emerging markets and the third biggest bond market globally.



Debt markets have transformed plain bonds and regular debt into a variety of debt products to adjust risk profiles and tenors to those desired by investors, including zero-coupon bonds, asset-backed securities, collateralized mortgage obligations and repurchase agreement (repo).

Globally, about $2–$4 trillion in repurchase agreements are traded each day.

In Africa, one success story on repo transactions is a repurchase agreement deal of $25 million between the Commercial Bank of Africa and Standard Bank of South Africa in 2016.

Although the debt market in Africa is dominated by the sovereign bond market, which accounted for more than 80% of all issuances in 2019, a corporate bond market is timidly emerging, with South African companies accounting for more than 40% of corporate bond issuances in 2019.

Takeaway

African capital markets need to be properly structured so to allow sovereign bonds to be issued in the local currency and reduce foreign exchange risk for sovereign issuers as well as improve liquidity and short-term funding for African firms.

OTHER OPPORTUNITIES FOR PRIVATE FINANCING

In Africa, the development and deepening of other financial markets (such as commodity exchanges, private investment markets, collective investment funds, etc) are usually constrained by:

- Lack of enabling laws
- Lack of infrastructure (warehousing, transportation and processing plants)
- Ill-designed government interventions and investment strategies
- Markets' inability to attract the mainstream financial sector

In Africa,commodity exchanges are small, underdeveloped & unable to meet the growing needs of producers.

Although African countries are dominant global producers of many agricultural and natural resource goods, the goods are traded or have their prices quoted on exchanges outside the continent. So, opportunities for price discovery, access to finance, hedging opportunities and market information are limited for African farmers and small businesses in those sectors.

PRIVATE INVESTMENT MARKETS

In 2019, $106 billion in private capital was raised worldwide, but only $1.1 billion in Africa.

Private capital funds in Asia ($2.9 billion) were more than twice the size of those in Africa in 2019.

The number of deals in Africa increased from 158 in 2014 to match its 2013 historic high—186 DEALS in 2018.

African private equity investment deals are concentrated mainly in West and North Africa, with the top receivers of private equity investment being Egypt, Ghana, Kenya, Nigeria and South Africa.

Takeaways

Investing in mutual funds offers investors a high degree of diversification and immunizes against company-specific risk.

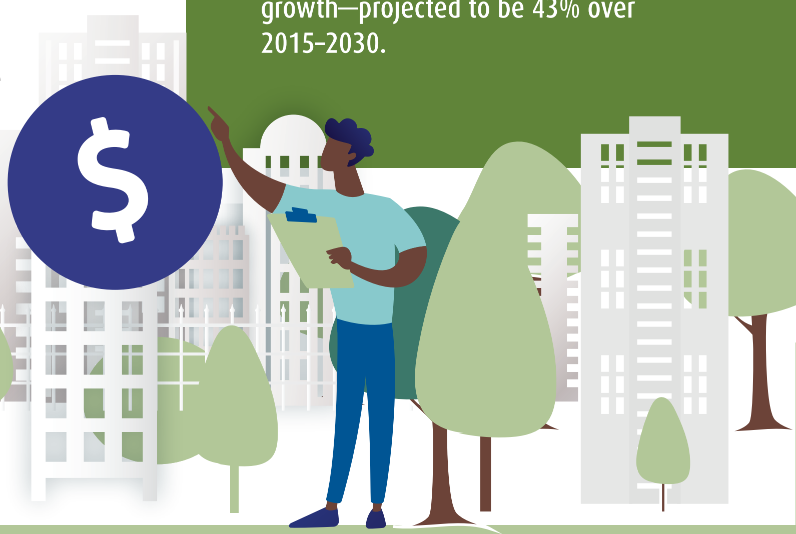
Derivative markets enhance market efficiency, diversify the array of financial instruments to manage risk, promote more trades for equities, debt and commodities, and help accelerate the development of non-bank financial institutions.

LONG TERM FINANCING FOR SUSTAINABLE DEVELOPMENT

Africa seeks to accelerate economic growth to meet national development goals in line with the SDGs and the African Union's Agenda 2063, and to do so in a financially and environmentally sustainable way. The cost to achieve the SDGs by 2030 in Africa is estimated at about $1.3 trillion a year, according to the United Nations. That could increase to $19.5 trillion as a result of population growth—projected to be 43% over 2015–2030.

Another challenge is to deliver urgently needed climate change adaptation—at the same time that infrastructure expands while urban environments grow.

An estimated $18 - $30 billion a year will be needed over the next two decades for climate action and climate change adaptation in Africa, with nearly $1 trillion worth of investments and projects ready to be financed.



THE GREEN BOND MARKET

The African green bond market emerged in 2010. South Africa and the African Development Bank (AfDB) took the lead, followed by Morocco, Nigeria and Seychelles. AfDB made its debut in 2013 with a AAA investment-grade green bond issuance of $500 million.

Between 2012 and 2018, cumulative issuances of green bonds reached by:

South Africa	Morocco	Nigeria	Seychelles
$1.4 billion	$356 million	$30 million	$15 million

Deepening Africa's participation in sustainability financing

Despite global, regional and national initiatives aiming to scale up **sustainability financing in Africa**, efforts at raising capital and financial investments have yet to accelerate the development of environment-friendly, socially responsible and climate-resilient economies on the continent.

Private non–foreign direct investment cross-border capital flows to Africa being dominated by high risk–high return investors, such as private equity funds, and investors with a longer-term investment horizon, such as sovereign wealth funds or non-traditional bilateral investors (for instance, China).

Takeaways

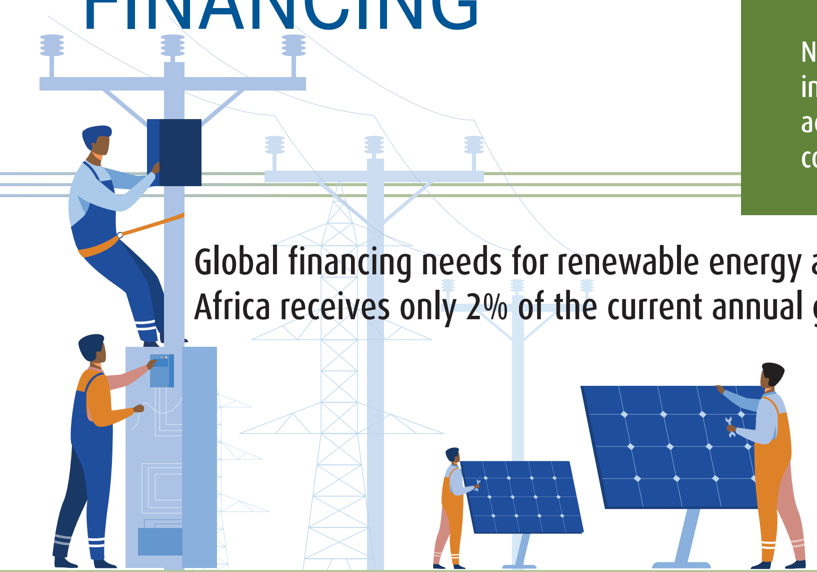
Encouraging governments to mobilize domestic resources and private sources, ensuring more efficient international development financing, and leveraging climate financing will help bridge the substantial development financing gaps.

Innovations in long-term financing are crucial for the private sector to play a leading long-term role in transforming sustainable development in Africa.

INFRASTRUCTURE FINANCING

Overall, African governments are the largest source of funding for infrastructure in the continent, with commitments accounting for 37% of infrastructure investments in 2018, while private financing accounted for only 11%.

Non-traditional donors have significantly increased their infrastructure investment in Africa - China, for example, accounts for more than 25% of all infrastructure funding in the continent.



Global financing needs for renewable energy are estimated at more than $22 trillion by 2050. Africa receives only 2% of the current annual global renewable energy investment of $309 billion.

Only a few African countries have embarked on PPPs to tap private capital for financing infrastructure. Kenya, Nigeria, Uganda and South Africa account for almost 50%.

Africa's ICT funding gap amount to $4-7 billion per year.

Investment commitment into the ICT sector was at $7.1 billion in 2018, mostly from private sector financing.

China committed to invest between $1.43 trillion and $2.51 trillion in its ICT sector for the next five-years (2020-2025).

African regional and national development banks are pivotal in supporting infrastructure finance, including by catalysing private finance.

In Africa many constraints prevent the transformation of pension and sovereign funds into infrastructure investments.

CONSTRAINTS INCLUDE:

- **Investment policy/ mandates and adjusted risk return criteria not aligned with asset class**
- **Lack of expertise in structuring appropriate investment vehicles and instruments**
- **Absence of a vibrant secondary market for infrastructure assets**

Takeaways

Deepening capital markets and increasing the scale of development banks is an absolute requirement for mainly using domestic resources to increase private finance and investment in African countries' infrastructure

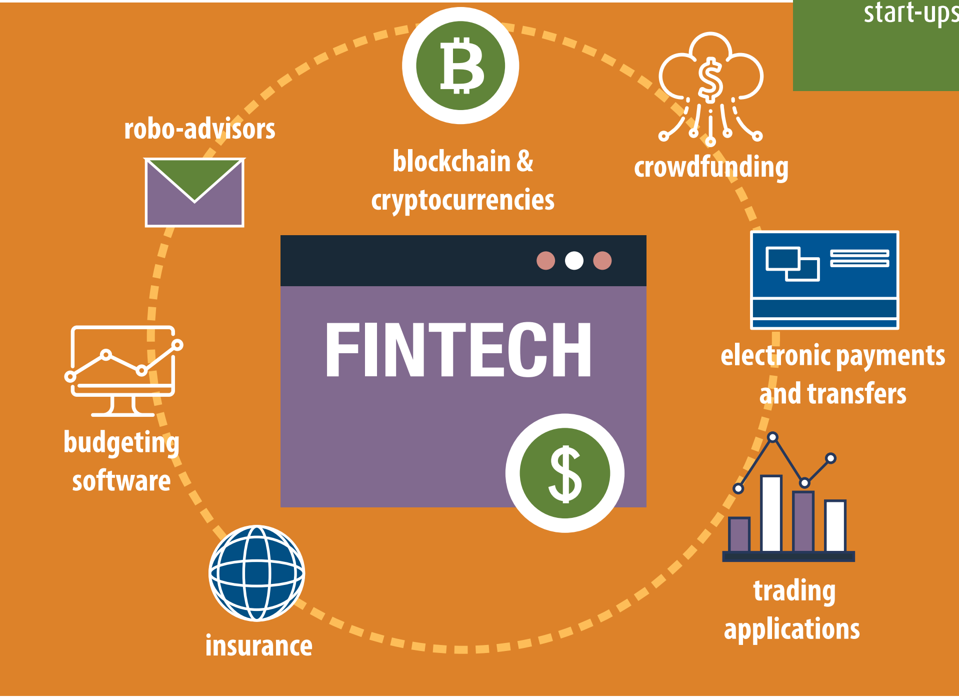
Strengthening relationships with partners such as international financial institutions and global financial hubs could mitigate risks for private investors and so crowd finance into the region.

LEVERAGING FINANCIAL TECHNOLOGY

The global fintech revolution is expected to triple access to financial services in Africa, creating a new market of 350 million customers.

In Africa, fintech is reducing costs and risks, as well as extending service to unbanked populations.

Africa's financing gap has provided a unique opportunity for fintech development to furnish alternative finance sources and investment mechanisms, particularly for start-ups and micro, small and medium enterprises.



Although alternative financing is the smallest segment of fintech transactions, its compound annual growth is projected at 11.6% and is expected to total $9.4 trillion by 2024.

Total online alternative finance volume in Africa rose to $209 million in 2018, with domestic sources accounting for 24% of all alternative finance generated in Africa.

In Africa, crowdlending for businesses rose from $278 million in 2017 to $417 million in 2019.

In 2019, Africa's online shoppers accounted for 60% of mobile money transactions in the world—more than $450 billion.

Mobile money and digital payments are areas where Africa has made significant inroads.

Almost 50% of total global mobile money accounts are in Africa

with **396 million registered users** and **1.4 million agents** serving them in 2018.

Takeaways

Crowd-based financing for business activities benefits markets only if borrowers and investors trust one another, thus it is imperative to control fraudulent activities and establish binding rules and guidelines.

The expansion of mobile banking and mobile transactions to difficult-to-reach regions of Africa will provide services to the previously unbanked and integrate them into the formal economy.

FINANCIAL REGULATION TO SUPPORT PRIVATE SECTOR DEVELOPMENT

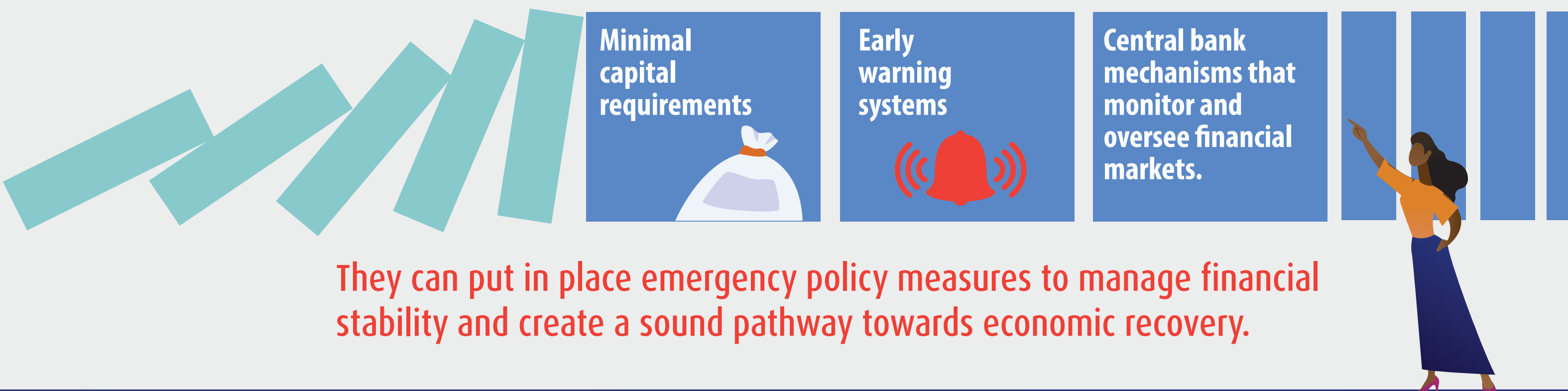
Africa needs to rethink its financial services regulation so that innovation is fully functional, the environment enables innovation, transparency is enhanced, and financing for private sector development is delivered.

Any recommendations on Africa must take into account the narrow resources African countries provide or are committed to providing for regulation, which limit its technical and human capacity.

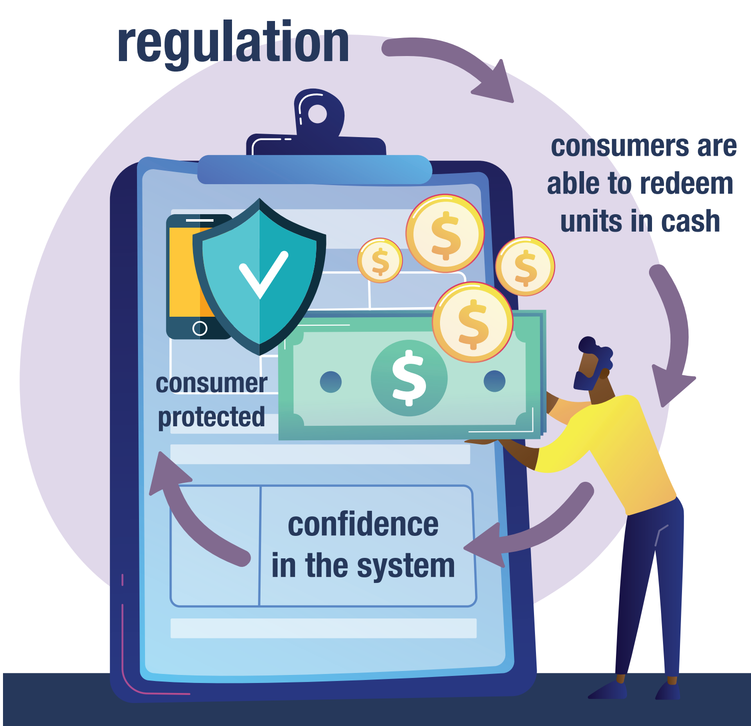
Macroeconomic risks are associated with lending portfolios vulnerable to commodity risk. Commodity downturns easily lead to systemic financial risks.

African policymakers' and regulators' experience with the 2008–2009 financial crisis and use of various measures to cushion its impact give them an advantage in rapidly responding to the COVID-19 crisis.

Regulations to avoid the spread of financial instability should include:



They can put in place emergency policy measures to manage financial stability and create a sound pathway towards economic recovery.



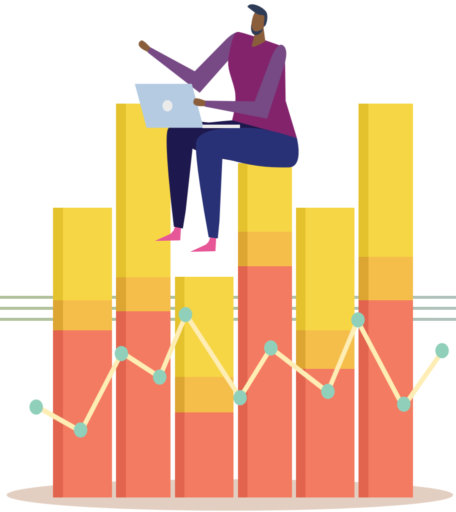
Takeaways

Improved governance and disclosure standards and the right incentives should amplify the financial service sector's role in allocating resources across Africa.

Although mobile money units are a store of value for many households, the users of these platforms earn no returns on their savings. Regulators should seek to reclassify mobile units as stores of value on which interest can be earned.

Mobile payment systems have expanded across Africa on the back of mobile telephone penetration. Given their wide reach expanding financial inclusion, their regulation is urgently required for both customer protection and monetary stability.

KEY RECOMENDATIONS



This report outlines recommendations in 5 key areas:

- Regulating the banking sector
- Creating financial stability through effective policies
- Amending and updating financial sector legislation and regulatory policies.
- Promoting innovative private sector financing
- Embracing the Digital Transformation Strategy and the African Continental Free Trade Area to streamline policies and regulation

The banking sector remains **the most important source of capital for loans and funding to the private sector** in most African countries

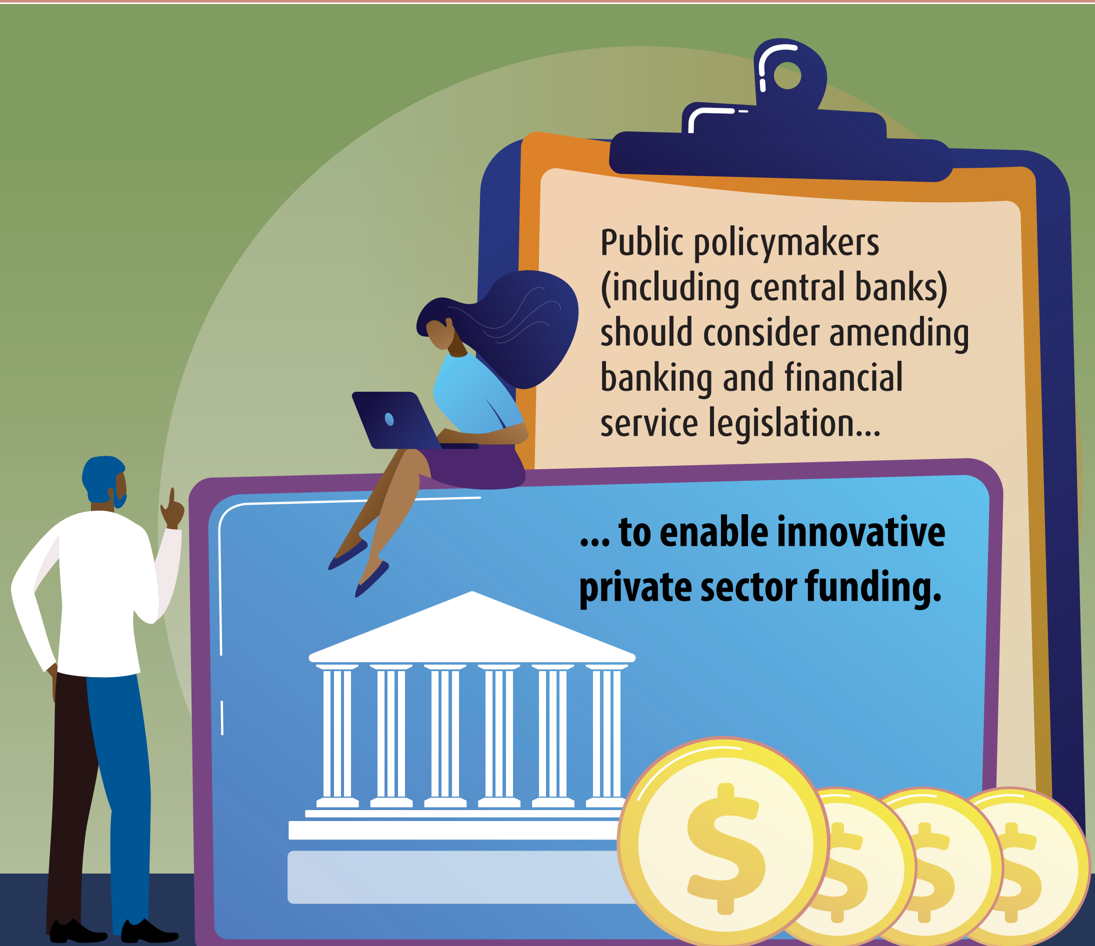
African countries need to regulate the banking sector.

The development of well-functioning financial systems requires not only sound regulations but also supervisory mechanisms for banking, capital markets and other financial services.

Policymakers must continue to

improve the regulation of the financial service sector

and support **innovative financing** in the **private sector.**



Africa can deepen and broaden financial markets by supporting the digital payment systems and platforms that underlie electronic payments and transfers through two important continental integration initiatives: the Digital Transformation Strategy and the AfCFTA.

The spread of the COVID-19 global pandemic is expected to expand the use of fintech...

including mobile money.

For example, globally the spread of COVID-19 and related government lockdowns have led to a 24–32% increase in daily downloads of mobile finance applications in 74 countries sampled.

So, fintech can provide alternatives and revolutionize how companies access finance, increasing activity during COVID-19.

The end of the COVID-19 pandemic is uncertain...

but African governments must explore the full range of policy measures to stabilize the financial system and enable continued funding of the private sector.

To do so, critical activities include:

Continuing to increase African government capacity	Strengthen financial sector resilience	Support all financial innovations that could mitigate the impact of the global pandemic on African economies.
		

African Institutions such as the Association of African Central Banks, African Union and the UN Economic Commission for Africa...

should review existing financial regulatory policies in Africa further...

...identifying what works best in each subregion and country...

given the different stages of capital market development across the continent.

ideas for a prosperous Africa

IdeastoAction