

# Role of African Capital Markets in Development Financing

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# Introduction

- Economic development requires sustainable financing mechanisms capable of mobilizing long-term capital for productive investments.
- Nations seeking industrialization, infrastructure expansion, technological advancement, poverty reduction, and inclusive growth must establish efficient systems for channeling savings into investment. This process constitutes the essence of development financing.
- Traditionally, development financing in many economies relied heavily on public budgets, multilateral loans, and banking sector credit.
- However, growing fiscal constraints, rising debt burdens, infrastructure deficits, and increasing financing requirements have compelled a number of countries in Africa to explore broader and more sustainable financing sources.
- Consequently, capital markets have emerged as indispensable institutions in modern development financing architecture.

# ..Intro

- Capital markets perform the strategic function of mobilizing idle savings and allocating them to productive sectors of the economy.
- Well-functioning capital markets provide long-term finance for governments, corporations, infrastructure projects, and development institutions.
- For economies of Africa, the capital market represents a critical platform for financing industrialization, infrastructure development, housing delivery, agriculture modernization, digital transformation, and small and medium-scale enterprise (SME) growth.
- This presentation examines the role of capital markets in development financing

- Concept of Development Finance

# Concept of Development Financing

- Development financing refers to the mobilization, allocation, and utilization of financial resources to achieve sustainable economic growth and socio-economic transformation.
- It encompasses the financing of productive sectors capable of generating employment, increasing national productivity, reducing poverty, and improving living standards.

Development financing typically targets:

- Infrastructure development
- Industrialization
- Agriculture and food security
- Housing
- Healthcare
- Education
- Energy
- Technology and innovation
- Environmental sustainability
- SME development

# .. Concept of Development Financing

Development financing may originate from:

- Public sector funding
- Development Finance Institutions (DFIs)
- Commercial banks
- Capital markets
- Multilateral institutions
- Foreign Direct investment (FDI)
- Public-Private partnerships (PPPs)
- Sovereign Wealth Funds

- Historically, bank-based financing dominated many African economies.
- However, banks generally provide short-term financing and often face maturity mismatch constraints.
- Development projects, particularly infrastructure projects, require long-term patient capital, which capital markets are uniquely positioned to provide.

# .. Concept of Development Financing

The core objectives of development financing include:

- Promoting sustainable economic growth
- Supporting industrial transformation
- Reducing unemployment and poverty
- Enhancing infrastructure provision
- Encouraging innovation and entrepreneurship

- Deepening financial inclusion
- Facilitating regional and global competitiveness
- Improving social welfare outcomes

Development financing therefore extends beyond mere provision of funds.

It seeks to achieve structural economic transformation.

# .. Rationale for Development Finance

- The development financing landscape faces unprecedented pressures. Official Development Assistance (ODA) flows fell by over 7 percent between 2023 and 2024, with further declines expected. A record number of African economies currently face default or are at very high risk of default.
- In Nigeria, the reliance on external debt has become increasingly problematic. The country's total public debt stood at N159 trillion as of December 2025. While concessional loans from multilateral sources remain valuable, the currency mismatch between dollar-denominated debt and naira-denominated revenues creates significant sustainability risks.
- These pressures point toward one conclusion: domestic capital markets must play a larger role in development financing. When a country can raise long-term capital in its own currency, from its own citizens and institutions, it reduces exposure to exchange rate volatility, aligns repayment streams with revenue generation, and builds financial sovereignty.

- Capital Markets: Structure and Functions

# Capital Markets: Structure and Functions

- Capital markets are segments of the financial system through which medium- and long-term funds are mobilized and allocated between surplus and deficit economic units. Capital markets facilitate the issuance and trading of financial instruments such as:
  - Equities (shares)
  - Bonds/Green bonds/Sukuk
  - Exchange Traded Funds (ETFs)
  - Infrastructure funds
  - Derivatives/Asset-backed securities

# ..Capital Markets: Structure and Functions

Capital markets consist of:

## **(a) Primary Market**

Where new securities are issued to raise fresh capital.

## **(b) Secondary Market**

- Where previously issued securities are traded among investors.

Capital market institutions include:

- Stock exchanges
- Securities regulators
- Issuing houses
- Broker-dealers
- Custodians
- Rating agencies
- Institutional investors
- Asset managers

## ..Capital Markets: Structure and Functions

Capital markets perform several vital economic functions:

- **Mobilization of Savings:** They aggregate dispersed savings from individuals and institutions.
- **Efficient Allocation of Capital:** Funds are directed toward productive and profitable sectors.
- **Provision of Long-Term Financing:** Capital markets provide patient capital required for development projects.
- **Liquidity Creation:** Investors can convert securities into cash through secondary market trading.

## ...Capital Markets: Structure and Functions

- **Price Discovery:** Markets determine fair valuation of securities through demand and supply interaction.
- **Risk Diversification:** Investors spread risks across different assets and sectors.
- **Corporate Governance Enhancement:** Listing requirements improve transparency and accountability.
- **Wealth Creation:** Capital appreciation and dividend income contribute to wealth accumulation

- The Role of African Capital Markets in Development Financing

# The Role of Capital Markets in Development Financing

## **Bridging the Infrastructure Gap**

- Infrastructure financing represents perhaps the most pressing application of capital markets to development challenges. The gap between available public resources and infrastructure needs in Africa.
- Traditional project finance through bank lending faces duration mismatches, as commercial banks are reluctant to commit capital for 20-30 year tenors given their liability structures.
- Capital markets solve this through bond issuance with matching long tenors. When properly structured, infrastructure bonds can offer terms of 10, 15, or even 20 years, aligning with the cash flow profiles of toll roads, power plants, and other revenue-generating assets. Sukuk is a good example

## .. The Role of Capital Markets in DF

### **Fostering Industrial Growth Through Equity**

- Beyond infrastructure, capital markets drive industrial development through equity financing. When companies list on the stock exchange, they gain access to permanent capital that does not require repayment.
- This is transformative for capital-intensive manufacturing, where investments in plant and equipment may take years to generate returns.

### **Enabling Green and Sustainable Transition**

- Climate change presents both risks and opportunities for development financing. The transition to low-carbon economies requires massive investment in renewable energy, energy efficiency, sustainable agriculture, and climate-resilient infrastructure.
- Capital markets have responded with the development of green, social, and sustainability-linked instruments.

## .. The Role of Capital Markets in DF

### **Deepening Financial Inclusion**

- While capital markets are often associated with large corporations, they also contribute to financial inclusion through indirect channels. When pension funds, insurance companies, and other institutional investors participate in capital markets, they generate returns that benefit millions of people.
- When infrastructure bonds finance rural roads, the developmental benefits reach the most marginalized communities.

### **Promotion of Entrepreneurship and Innovation**

Capital markets support entrepreneurship through:

- Venture capital
- Private equity
- Growth boards
- SME exchanges

These financing channels provide critical support for startups and high-growth enterprises.

## .. The Role of Capital Markets in DF

### **Complementing Development Finance Institutions**

Development finance institutions can play several roles in capital market development:

**First, as anchor investors**, DFIs can provide the initial capital or credit enhancement that makes bond issuances viable. When BOI, for example, participates as an anchor investor in infrastructure bonds or green bonds, it signals confidence to other investors and helps establish pricing benchmarks.

**Second, as originators**, DFIs can structure and package loans that are subsequently securitized and sold to capital market investors. This frees DFI's balance sheet for new lending while transferring mature assets to investors seeking stable returns.

## .. The Role of Capital Markets in DF

**Third, as guarantors,** DFIs can provide partial credit guarantees that improve the credit rating of bond issuances from smaller companies or riskier sectors. The World Bank Group's experience shows that well-designed guarantee programs can catalyze significant private capital flows.

**Fourth, as capacity builders,** DFIs can prepare their client companies for capital market access. Many industrial enterprises that BOI finances are not yet ready for public listings—they require assistance with corporate governance, financial reporting, and investor relations. BOI's extensive client relationships position it uniquely to build this pipeline.

## .. The Role of Capital Markets in DF

### **Government Financing and Fiscal Sustainability**

- Governments use capital markets to finance budget deficits and development programmes through sovereign bond issuance.

Efficient government securities markets:

- Improve fiscal sustainability
- Reduce overreliance on central bank financing
- Enhance monetary policy effectiveness
- Establish benchmark yield curves

However, prudent debt management remains essential to avoid unsustainable debt accumulation.

### **Foreign Capital Attraction**

- Efficient capital markets attract Foreign Portfolio investment (FPI) and foreign direct investment (FDI).
- Foreign investors are attracted by:
  - Market liquidity
  - Transparency
  - Regulatory stability
  - Strong governance standards

International capital inflows help bridge domestic savings-investment gaps.

- Selected Country Experiences

# South Africa: Deepest Market in Africa

South Africa's capital markets are the most developed in Africa, with the Johannesburg Stock Exchange ranking among the world's top 20 exchanges by market capitalization. Several factors explain this success:

- **Institutional investor depth** is paramount. South Africa's pension and insurance industries manage assets exceeding 300 percent of GDP, creating consistent demand for long-term securities. The Government Employees Pension Fund alone (over \$100 billion) rivals the scale of many sovereign wealth funds.
- **Regulatory certainty** has been maintained across political transitions. While policies have evolved, the core framework of investor protection, disclosure requirements, and market conduct rules has remained stable, encouraging long-term participation.
- **Currency stability**, while imperfect, has been sufficient to support local currency bond markets. South Africa's sovereign bonds are included in major emerging market bond indices, attracting foreign portfolio investment that provides liquidity and pricing benchmarks.

# Kenya: Innovation in Mobile-Based Participation

- Kenya demonstrates how technology can democratize capital market access.
- The Nairobi Securities Exchange, in partnership with mobile money platforms, has developed systems allowing retail investors to purchase small denominations of government bonds directly from their phones.
- The M-Akiba bond program, which raised approximately \$15 million in its initial offering, proved that technology can dramatically lower transaction costs and minimum investment thresholds.
- For Nigeria, with its sophisticated mobile money ecosystem, this model is highly replicable. The NGX's technology infrastructure, combined with the ubiquity of mobile banking, could enable retail participation in government securities

- The Nigerian Capital Market: Current State and Development Potential

## The Nigerian Capital Market: Remarkable Current Momentum

- As at Wed, May 13, 2026, the NGX All-Share Index stood at **252,508.19**, while market capitalization has reached **N161.84 trillion**. Perhaps most remarkably, the year-to-date return stands at **62.27%**.
- To put this performance in perspective: the highest point in 2008 was a market cap of N13.5 trillion in April 2008. At N115.5/\$ at the time, that is a market cap of about \$116 billion. Today, with an NGX market cap of N162 trillion, at current exchange rate, Nigeria has now matched the same market cap of \$116 billion after 18 years!
- A market delivering 62 percent returns in four months is extraordinary by any global standard. This reflects several factors: renewed investor confidence following macroeconomic reforms, exchange rate stability, improved oil sector performance, and growing recognition of Nigeria's long-term potential.

## .. The Nigerian Capital Market: Structural Strengths

- Beyond the immediate price performance, Nigeria's capital market possesses structural strengths that position it for development financing roles:
- **Deep pension fund assets** nearing N30 trillion provide substantial institutional demand. The Pension Reform Act of 2014 created a robust framework, and growing assets under management represent patient capital seeking long-term returns.
- **A functional sovereign bond curve** extending to 20 years and beyond provides pricing benchmarks. The Debt Management Office's regular issuance calendar has created liquidity and transparency that benefit corporate issuers.
- **Successful innovation in alternative instruments** such as Sukuk, green bonds, has demonstrated that Nigerian investors will fund development when appropriately structured products are available.
- **A reform-oriented regulatory environment** under SEC leadership, with ISA 2025 underway

## ..The Nigerian Capital Market: Persistent Gaps

However, celebrating current performance without acknowledging persistent gaps would be incomplete. Several structural challenges remain:

- **Retail investor participation remains**

**thin** relative to the size of the economy. While the market capitalization of N162 trillion is impressive, much of this is concentrated among institutional investors and high-net-worth individuals.

- **The derivatives market is nascent.** Futures, and options remain underdeveloped, limiting hedging capabilities

- **Listings from growth sectors are limited.**

Despite Nigeria's vibrant technology ecosystem, 77% of startups raise capital in dollars while earning revenue in naira, creating currency mismatches that discourage local listings.

- **Corporate governance concerns** persist.

While the SEC has strengthened enforcement and disclosure requirements, investor confidence remains sensitive to governance failures.

- **The gap between infrastructure financing needs and market supply remains significant.**

Despite successful Sukuk and green bond issuances, the scale of issuance remains far below the \$100 billion infrastructure deficit.

- Recommendations for Strengthening Role of African Capital Markets in Development Finance

## Strengthen Capital Market Infrastructure and Product Depth

- African capital markets must evolve beyond platforms for trading existing securities into channels for mobilizing long-term development finance.
- Regulators, and Exchanges, should simplify market access for businesses, especially SMEs and high-growth enterprises, through proportionate listing and disclosure requirements.
- Exchanges should promote alternative boards and specialized platforms that reduce the cost and complexity of raising capital.
- There is a strong need to expand the range of instruments available in African markets, including: Infrastructure Bonds, Green and Sustainability Bonds, Diaspora Bonds
- Governments must also sustain macroeconomic stability, policy consistency, and investor-friendly reforms, as confidence remains the foundation of deep and liquid capital markets.

## Mobilize Institutional Capital for Productive Investment

- Pension funds, insurance companies, sovereign wealth funds, and collective investment schemes represent major pools of long-term capital that can drive economic transformation in Africa.
- Regulatory frameworks should encourage prudent investment in development-oriented instruments while maintaining strong risk management and fiduciary standards.
- Greater institutional investment should be directed toward Infrastructure Development , Renewable Energy, Housing Finance, Agriculture and Agro-processing
- To unlock private capital at scale, stakeholders should expand the use of: Credit Guarantees, Risk-Sharing Mechanisms, Co-investment Platforms with Development Finance Institutions
- Multilateral institutions such as the World Bank, AfDB, AFC, and regional DFIs should continue to provide technical support, guarantees, and anchor investments that improve market confidence.

# Accelerate Regional Capital Market Integration

- Fragmented African capital markets limit liquidity, scale, and cross-border investment opportunities.
- Regional integration should therefore be accelerated through: Harmonization of regulatory standards, Cross-listing frameworks, Interoperable trading and settlement systems, Easier cross-border capital flows
- The African Continental Free Trade Area (AfCFTA) provides a strategic opportunity to deepen financial integration across the continent.
- Integrated markets will: Increase market liquidity, Reduce transaction costs, Expand investor participation, Improve access to long-term finance for African enterprises
- Stronger regional cooperation can position Africa as a more competitive destination for global investment capital.

## Deepen Sustainable Finance and ESG Integration

- Sustainable finance should become a core pillar of Africa's economic transformation agenda rather than a purely compliance-driven exercise.
- Financial institutions, corporates, regulators, and public agencies should strengthen capacity in ESG Reporting and Disclosure, Climate Risk Assessment, Carbon Accounting, Green Project Verification, Impact Measurement Frameworks
- Sustainable finance instruments should prioritize sectors with strong developmental impact, including: Clean and Renewable Energy, Climate-Resilient Infrastructure, Healthcare, Education, Food Systems and Agriculture
- Africa has a unique opportunity to leverage green and transition finance to attract global capital while addressing developmental priorities simultaneously.

## Improve Governance, Transparency, and Investor Confidence

- Investor confidence is critical for attracting both domestic and foreign investment into African capital markets.
- Governments, regulators, and market institutions should strengthen: Corporate Governance Standards, Financial Reporting Quality, Market Surveillance Systems , Enforcement of Regulatory Compliance, and Efficient Dispute Resolution Mechanisms
- Transparent and reliable market data should be made more accessible to investors to improve price discovery and market efficiency.
- Strong governance frameworks reduce investment risk, lower the cost of capital, and enhance market credibility internationally.

## Expand Financial Literacy and Retail Participation

- Capital market development cannot be sustainable without broader public participation.
- Governments, exchanges, educational institutions, and financial market operators should intensify financial literacy and investor education programs.
- Technology-driven platforms and digital investment channels should be leveraged to Improve access to investment products, Reduce participation barriers, Encourage youth and retail investor engagement
- Increased retail participation will Deepen domestic savings mobilization, Improve market liquidity, and Reduce excessive dependence on foreign portfolio flows
- Building an inclusive investment culture is essential for long-term financial market stability and economic resilience.

# Concluding Thoughts

- Africa's economic transformation will depend significantly on the ability of its capital markets to mobilize domestic and international savings efficiently and channel them into productive sectors of the economy.
- Well-functioning capital markets can Support industrialization, Finance infrastructure deficits, Promote innovation and entrepreneurship, Accelerate sustainable development and Create jobs and inclusive prosperity
- The challenge before policymakers, regulators, market operators, financial institutions, and development partners is therefore not merely to expand African capital markets in size, but to deliberately position them as strategic instruments for mobilizing development finance and accelerating economic transformation across the continent.
- If properly structured, and inclusive, Africa's capital markets can become powerful engines for unlocking investment, reducing developmental financing gaps, and driving long-term economic resilience and prosperity.

*Thank  
you*

