

Finance

Sector Report, Africa: JANUARY 2025

TABLE OF CONTENTS

01	Industry Overview	
	Sector Performance	3.1
	Key Industry Trends	3.2
02	Industry Milestone 1	
	AFC Hybrid Bonds	4.1
03	Industry Milestone 2	
	Mineral Backed Currency	5.1
04	Challenges & Opportunities	
	Rise of Regional Economics	6.1
	Market Reforms	7.1
	Glossary	10.1

Industry Overview

Sector Report | Issue #02 | 15/02/2025

Sector Overview:

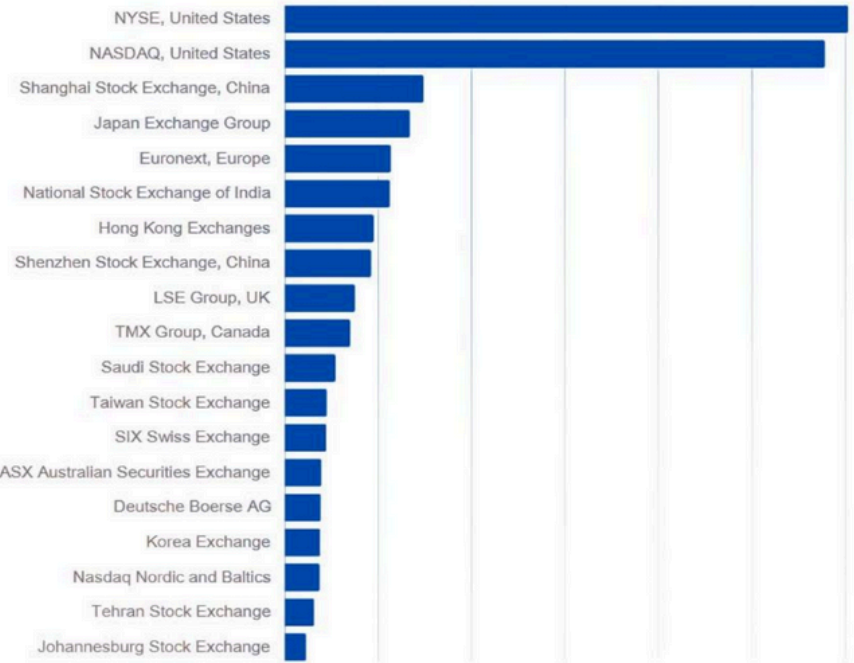
In January 2025, Africa’s finance sector demonstrated resilience amidst global economic fluctuations, fuelled by strategic financial reforms, increased capital inflows, and diversified economic initiatives. The African Development Bank (AfDB) reported an anticipated economic growth from 3.4% in 2024 to 3.7% in 2025, projecting further acceleration to 4.0% in 2026 (Africa Renewal, 2025). This positive outlook is underpinned by strategic financial initiatives and reforms across the continent.

Key trends shaping Africa’s finance industry:

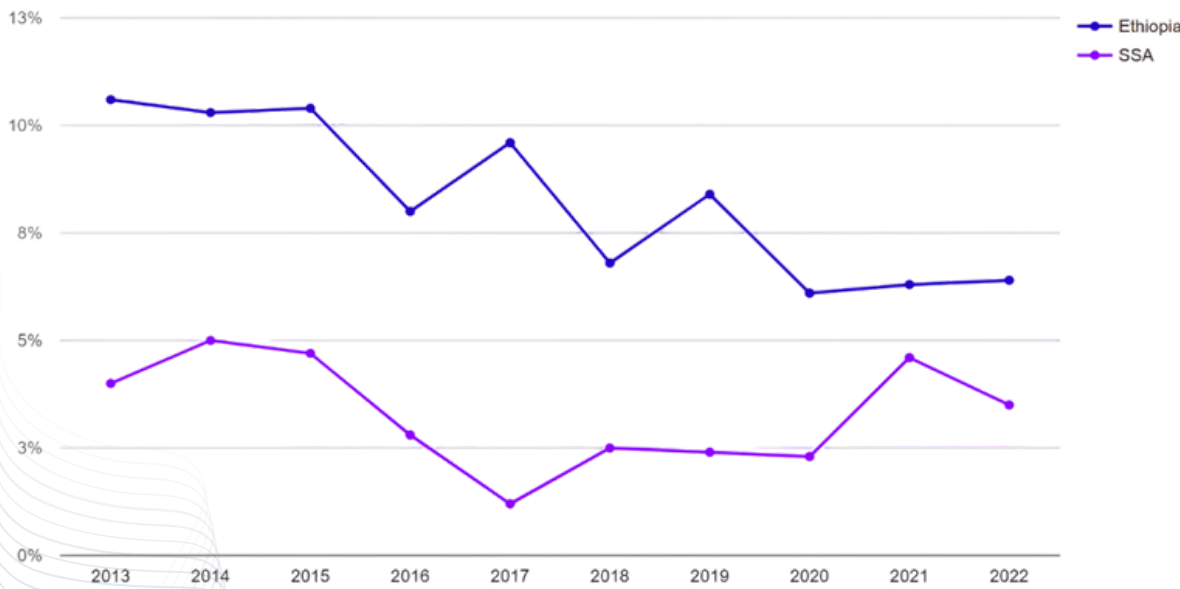
Strengthening Regional Economic Influence: Africa’s growing economic and political prominence sets the stage for transformative growth in 2025. With robust performance and rising private sector investments - especially in green energy and finance - the continent is poised to solidify its position among the fastest-growing regions. Yet, to fully harness this momentum, addressing infrastructure and regulatory challenges remains essential.

Financial Market Reforms and Integration: Recent efforts to modernise Africa’s capital markets are fostering a shift toward more market-driven economies. The launch of new exchanges, such as Ethiopia’s recent initiative, reflects a broader drive to attract foreign investment and enhance regional integration. While these reforms promise to boost economic resilience and cross-border collaboration, challenges like regulatory hurdles and market volatility must still be managed.

Largest stock exchange operators worldwide by market capitalization of list companies since September 2024
(in trillion U.S. dollars)



GDP Growth Rates: Ethiopia vs. Sub-Saharan Africa



Industry Milestone 1

Sector Report | Issue #02 | 15/02/2025

Africa Finance Corporation (AFC) successfully issued a \$500 million hybrid bond:

The AFC issued a \$50 million perpetual hybrid bond, marking a significant milestone in mobilising capital infrastructure projects across the continent. This innovative financial instrument not only underscores AFC's leadership in accessing global capital markets but also sets a precedent for future investments in Africa's development.

Significance:

The hybrid bond, characterized by its blend of debt and equity features, was priced at a 7.50% coupon rate without a fixed maturity date. The issuance attracted robust demand, with orders peaking at \$1.1 billion, resulting in a 1.5 times oversubscription. This strong investor interest reflects growing confidence in Africa's economic prospects and AFC's strategic vision. The proceeds from this bond are earmarked to enhance AFC's capital base, providing the financial flexibility necessary to support long-term growth and finance transformative infrastructure projects. These projects are pivotal for sustainable development and industrialization across Africa.

Key Beneficiaries:

- **Shareholders (AFC's Investor & Partners):** By issuing this bond, AFC increases its financial strength, thus providing its shareholders higher returns on their investments. Higher capital inflow can provide more capacity to finance large-scale infrastructure projects, making it more attractive for future investors globally, both in Africa and internationally. Additionally, it can mean local banks, businesses and investment funds may be more willing to collaborate with AFC, due to having a strong capital backing.
- **Local Communities:** This bond can increase AFC's potential to invest into major infrastructure projects that can directly impact local communities by improving transportation, energy access, water supply, and digital connectivity, which are crucial for economic and social progress. This can readily provide better roads and bridges and modernise highways to allow people to travel faster and more safely (Africaafc.org,2025).
- **Reduction in Unemployment Levels:** The bond provides AFC with more capital to fund large-scale infrastructure projects, creating direct jobs in construction, engineering, and project management, while boosting demand in manufacturing and logistics.

Relevant Data:

- \$1.1 billion in investor demand for AFC's hybrid bond, reflecting strong global confidence in Africa's economic potential.
- Africa's infrastructure financing gap stands at \$68-\$108 billion annually, underscoring the need for more funding sources like AFC's bond.
- AFC has already invested over \$12 billion in African infrastructure, with this new hybrid bond enabling even greater expansion.

Industry Milestone 2

Sector Report | Issue #02 | 15/02/2025

Africa Floats Critical Minerals-Backed Currency Plan as New 'Gold Standard':

The African Development Bank (AfDB) has proposed a groundbreaking initiative - a new currency backed by Africa's vast critical mineral reserves, including cobalt, lithium, and rare earth elements. This initiative seeks to stabilise Africa's volatile currency markets, boost regional trade, and attract significant foreign investment into the continent's green energy and industrial projects. By pegging a currency to Africa's vast reserves of lithium, cobalt, and rare earth elements, the initiative aims to stabilise African economies by providing a reliable store of value, thus reducing exposure to external financial shocks, boost regional trade and integration by making cross-border transactions smoother and more predictable and also attract foreign investment in Africa's mining, battery production, and green energy industries, thus ensuring that the continent captures more value from its natural resources.

Significance:

A minerals-backed currency could transform Africa's financial stability by reducing currency volatility, boosting industrialisation, and strengthening regional trade. Many African economies, like Zambia and the DRC, suffer from currency depreciation due to debt and reliance on commodity exports - a stable, resource-backed financial system could mitigate these risks, with the AfDB estimating a 15-30% reduction in inflation volatility. By leveraging Africa's 70% of global cobalt and 30% of lithium reserves, the continent could capture more value in the \$300B lithium-ion battery market rather than relying on raw material exports. A stable currency would also attract investment, with \$20B projected for battery production by 2030. It would also enhance trade within AfCFTA, reducing reliance on foreign currencies, lowering transaction costs, and strengthening key economies like Nigeria, South Africa, and Kenya.

Key Beneficiaries:

- **Financial Independence in African economies:** A minerals-backed currency would create a stable store of value, reducing dependency on the US dollar and euro. Countries like Zambia and the DRC, where local currencies have lost significant value, could benefit from a system that pegs currency to tangible assets like cobalt and lithium, minimising inflation volatility by an estimated 15-30% over the next decade (AfDB, 2025).
- **Potential Industrial Growth:** With a secure financial framework utilising this minerals-backed currency, Africa could attract an additional \$20 billion in investment for battery manufacturing and mineral processing plants by 2030, creating jobs and strengthening local economies.
- **Local Businesses & SMEs:** Small and medium-sized enterprises (SMEs) form the backbone of African economies, however a proportion have consistent challenges that include unstable currencies, high transaction costs, and reliance on foreign exchange markets. This minerals-backed currency would provide a more predictable financial environment, enabling SMEs to engage in long-term contracts, expand into regional markets, and reduce import costs. The AfCFTA aims to boost intra-African trade by 52% by 2030, and a stable currency would ensure that businesses can trade with confidence across borders.
- **African Governments & Economic Stability:** Governments often struggle with currency devaluation, inflation, and reliance on foreign debt. By backing a financial system with tangible mineral reserves, countries like Zambia, the Democratic Republic of Congo, and South Africa could stabilise their economies, reduce inflation volatility by 15-30%, and lessen their dependence on the US dollar. This would make it easier for governments to fund large infrastructure projects, pay off national debts, and support long-term economic planning.

Relevant Data:

Projected 15-30% reduction in inflation volatility in African economies with the adoption of a minerals-backed currency (AfDB, 2025)

Africa holds an estimated \$1.1 trillion worth of untapped critical mineral reserves (AfDB, 2025)

Challenges & Opportunities:

Sector Report | Issue #02 | 15/02/2025

Rise of regional economies:

Regional integration is redefining Africa's economic landscape by uniting diverse markets and streamlining cross-border trade. In Africa, coordinated policy reforms and shared infrastructure investments are unlocking transformative opportunities addressing longstanding challenges such as regulatory fragmentation and connectivity deficits' while fostering resilient, sustainable growth.

Driving Factors:

- **AfCFTA Trade Integration Boost:** In February 2025, Reuters reported renewed momentum under the African Continental Free Trade Area (AfCFTA). Member states accelerated efforts to harmonise trade regulations, reduce tariffs, and streamline customs processes, creating a more unified market. This initiative is set to unlock significant intra-African commerce, although it faces challenges such as overcoming entrenched bureaucratic hurdles. The opportunity lies in leveraging simplified trade rules to stimulate business activity and drive sustainable regional growth.
- **AfDB Regional Connectivity Initiative:** According to a Bloomberg article from February 2025, the African Development Bank (AfDB) has launched a €500 million funding program aimed at enhancing regional transportation and energy networks. By investing in cross-border infrastructure, the initiative seeks to reduce logistical inefficiencies and improve connectivity between key economic hubs. While coordinating standards and ensuring security across diverse regions remain challenging, this effort offers the opportunity to strengthen supply chains and create a more integrated, competitive market across Africa.

Challenges:

- **Bureaucracy and Regulatory Hurdles:** Efforts to build regional economies are often slowed by entrenched bureaucratic systems and varying regulatory frameworks across African nations. Despite initiatives to harmonize trade policies, inconsistent customs procedures and differing legal environments create barriers to seamless cross-border commerce. This complexity not only burdens businesses with additional administrative hurdles but also limits the full potential of regional integration. Addressing these issues will require coordinated policy reforms, increased intergovernmental dialogue, and streamlined regulatory processes.
- **Infrastructure Deficit:** Another significant challenge lies in the uneven development of infrastructure and connectivity across the region. Many countries continue to struggle with outdated transportation networks, limited energy supplies, and inadequate digital infrastructure - all of which hinder efficient movement of goods and services. These gaps lead to higher operational costs and reduced competitiveness, curbing the benefits of regional economic integration. Overcoming these obstacles demands strategic public to private partnerships, targeted investment in modern infrastructure, and comprehensive planning to enhance cross-border connectivity

Solutions:

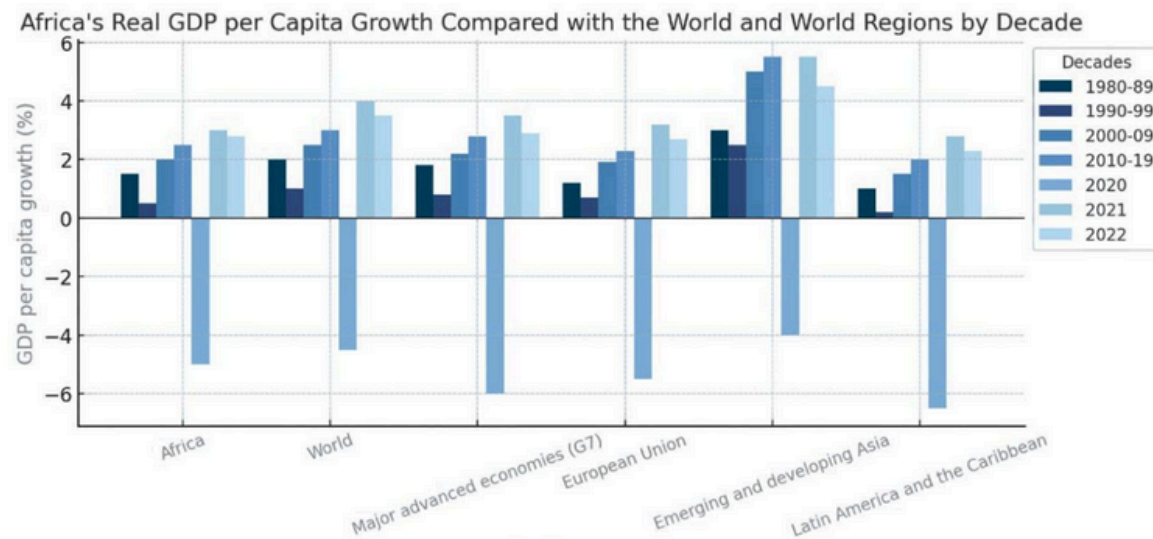
- **Integrated connectivity:** Governments and regional institutions can drive sustainable economic growth by simultaneously upgrading physical infrastructure and streamlining regulatory frameworks. By investing in modern transportation corridors, energy grids, and digital trade platforms, African nations can reduce bureaucratic delays and lower operational costs, thus facilitating seamless cross-border commerce. For instance, a Bloomberg report from February 2025 highlighted the African Development Bank's recent initiative by partnering with several member states to finance projects aimed at modernizing border facilities and implementing digital customs solutions. These efforts not only mitigate current regulatory and infrastructure challenges but also bolster investor confidence by creating a more unified and efficient market. In doing so, such integrated initiatives lay the groundwork for increased foreign investment and sustainable regional integration across the continent.
- **Public-Private Partnerships:** Leveraging public-private partnerships can mitigate the high costs of infrastructure development for renewable energy.

Financial Market Reforms:

Digital innovation and modern regulatory strategies are transforming Africa's financial landscape, creating more robust and accessible markets. Landmark reforms - such as the launch of new securities exchanges and comprehensive regulatory overhauls - are not only deepening capital markets but also paving the way for inclusive economic growth and enhanced investor confidence.

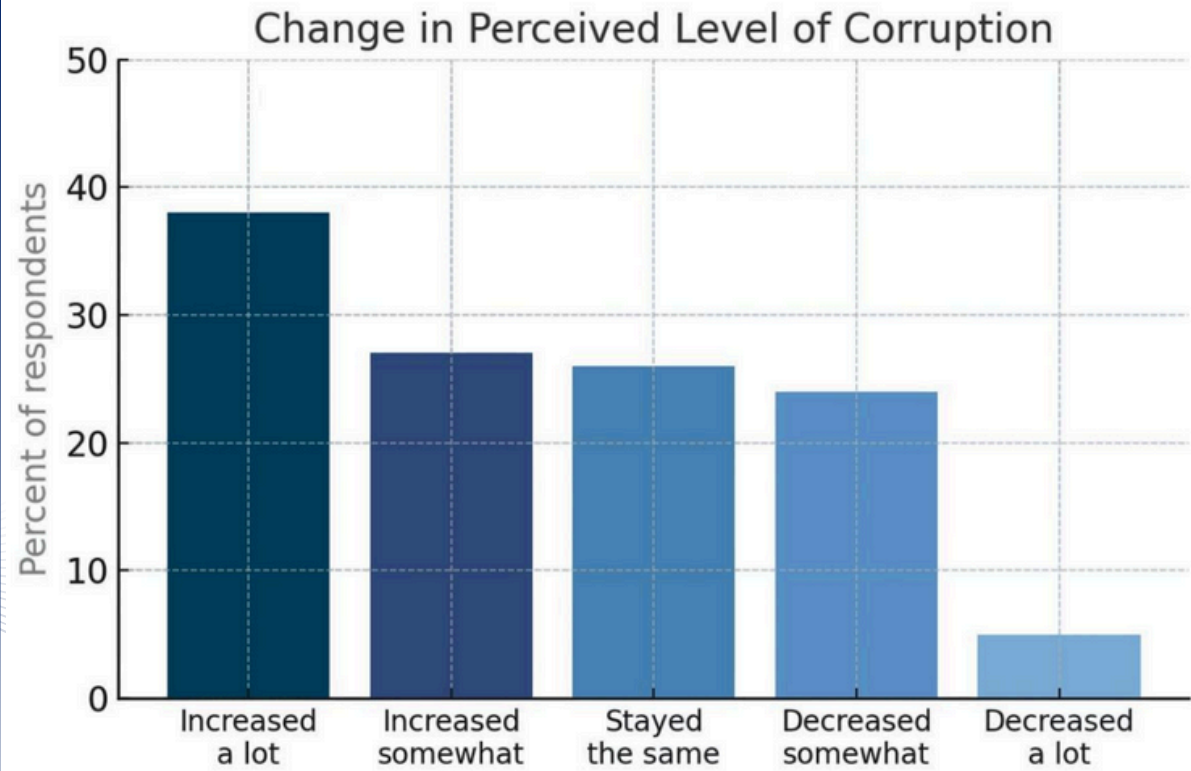
Driving Factors

- In January 2025, Ethiopia launched its first modern securities exchange in decades, a pivotal move toward liberalizing its capital markets. This reform, highlighted in a recent Reuters article, aims to boost transparency and attract foreign investment, ultimately laying the foundation for a more dynamic and integrated East African financial ecosystem.
- In December, Bloomberg reported that Ghana will be installing sweeping regulatory reforms designed throughout 2025 to strengthen investor protection and modernize its financial infrastructure. By streamlining regulatory processes and enhancing market transparency, these reforms are part of a broader strategy to integrate African capital markets and stimulate sustainable economic growth across the region. This will likely filter out to other countries in the North and the West of Africa.



Challenges:

- **Complex Regulatory Environment and Implementation Delays:** Even as financial market reforms aim to boost transparency and investor protection, the rollout remains challenging. For example, Ghana’s recent restructuring offer for \$13 billion of its bonds features options with a principal write down of 37%, creating uncertainty among bondholders and delaying market stabilization. This complexity exacerbated by stringent regulatory approval processes has led to muted investor participation.
- **Liquidity and Volatility concerns:** Market reforms and debt restructuring have also precipitated liquidity challenges. According to recent reports, trading volumes in Ghana’s debt market dropped by up to 57% after the introduction of new regulatory measures and the debt exchange process. This decline in liquidity is contributing to heightened market volatility, posing risks for both domestic and international investors, and highlighting the need for further policy adjustments to ensure smoother market operations



Our Editors:



Sem Kohyrelon
Head of Finance



Saron Sium
Head of Finance

Our Contributors:



Alec Williams
Internal Consultant



Iliriana Rexhepi
Head of Market Insights

Glossary:



Bondholder: an investor who owns bonds, which are essentially loans given to governments or companies. Bondholders receive regular interest payments and get back their original investment (the principal) when the bond matures.

Principal write down: a reduction in the original amount of a debt that a borrower is obligated to repay. For example, if a bond's face value is reduced by 37% as part of a debt restructuring, that reduction is known as a principal write down.

Debt exchange: a process in which existing debt (such as bonds) is swapped for new instruments with different terms. This is often done to improve a country or company's financial situation by lowering debt repayments or interest costs.

Securities exchange: a marketplace where financial instruments like stocks and bonds are bought and sold. It provides a regulated environment that helps ensure transparent and fair trading.

Capital markets: financial markets where long-term funds are raised by issuing securities (e.g., stocks and bonds). They are crucial for funding businesses and government projects.

Liquidity: the ease with which an asset can be quickly bought or sold without affecting its price. High liquidity means an asset can be sold rapidly at a fair price.

Volatility: a measure of how much an asset's price fluctuates over time. High volatility indicates large price swings, while low volatility suggests more stable pricing.

Regulatory Framework: the set of rules, laws, and guidelines that govern the operations of financial markets. A strong regulatory framework helps protect investors and maintain market stability.

Investor Protection: measures and regulations designed to safeguard the interests of those investing in financial markets. This ensures that investors receive reliable information and fair treatment.

Digital Innovation: the use of new technologies such as mobile apps, online platforms, and digital currencies to improve financial services. Digital innovation makes these services more accessible, efficient, and secure.

Public-Private Partnership (PPP): a cooperative arrangement between government entities and private companies to finance, build, and operate projects like infrastructure development. PPPs share risks and benefits between the public and private sectors.

Infrastructure Deficit: the lack or insufficiency of essential physical systems such as transportation networks, energy grids, and digital connectivity - that are needed for economic activities. An infrastructure deficit can hinder efficient trade and development.

Trade Integration: the process of reducing trade barriers between countries such as harmonising regulations and lowering tariffs' to create a more unified market. This helps boost cross-border commerce and regional economic growth.

Harmonisation: making different systems, regulations, or standards consistent across regions. In trade, harmonisation of policies helps reduce administrative burdens and facilitates smoother cross-border transactions.

