

How Mauritius can help as Africa's capital market stands at a crossroads

While capital markets in Africa face challenges such as underdeveloped regulatory frameworks, limited liquidity, and lack of investor confidence, Sangeetha Ramkelawon of BCP Bank (Mauritius) explains how efforts are being made to strengthen these markets and unlock their full potential for supporting economic growth and development in the region.

Access to funding is easily one of the most significant hindrances to growth in the African region, particularly in sectors vital for infrastructure development such as roads, telecommunications, water, and electricity. The World Bank estimates that Africa's infrastructure deficit reduces per capita GDP growth by 2 percentage points each year, delaying poverty reduction efforts. In the face of ever-increasing needs in numerous sectors, the need for robust and efficient capital markets has never been more critical in attracting investments. However, the small size and low capitalisation of stock markets on the continent are the primary causes of the financial difficulties that African nations still encounter.

African stock exchanges show significant growth prospects. Yet the low level of investments in Africa's stock markets raises questions about the underlying causes? Could it be due to low investor confidence? Though Africa's financial markets have expanded and access to financial services, notably mobile services, has greatly improved over the past decade, there is still a need for further efforts to ensure sustainable financing in the long term.

Yet, the investment potential in Africa is enormous.

Why should Africa focus on capital markets for funding?

Beyond conventional bank loans, capital markets provide access to a larger pool of cash for businesses. Businesses can spread their risks by lowering their reliance on a single source of funding by utilising equity and debt markets. On the other end of the

funding system, capital markets offer investors a solution to diversify their holdings across a range of businesses, asset classes, and geographical areas. The impact of unfavorable events on specific assets is reduced by this diversification.

The idea of establishing a single continental stock exchange is beginning to take hold, but in order to draw in foreign investments, it will require both an effective integration mechanism and a cogent vision. Like the launch of the African Continental Free Trade Area (AfCFTA), market integration can only be accomplished with strong political will.

The African Union (AU) Agenda 2063, prioritises the development of capital markets on the continent to strengthen domestic resource mobilisation and double its contribution to development financing. Similar support is found in several national visions including Nigeria (FSS2020), Zambia (Vision 2030), Rwanda (Vision 2020), Uganda (Vision 2040) and Kenya (Vision 2030).

Diversifying the financial sector

About half of the countries in Sub-Saharan Africa are classified as middle income, according to the World Bank. In the last decade, 10 countries in Sub-Saharan Africa including Kenya, Nigeria, Ghana and Zambia, have joined this middle-income rank. This implies that these countries can expect to receive less concessional funding from bilateral donors and will therefore need to access commercial funding sources.

The financial sector in Africa is relatively small and bank-dominated. However, though significant



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progress has been made in the banking sector over the past decade – particularly in expanding access to previously underserved populations, largely through the use of mobile technology – it is now crucial to enhance the diversity of the financial sector. Promoting the growth of capital markets can provide a valuable complement to traditional banking services. This enables both the public and private sectors to access long-term financing more easily. Additionally, capital markets play a critical role in fostering the emergence of new institutions through equity investment, thereby expanding the pool of available financial resources.

Mauritius, a strategic facilitator

Mauritius, known for its robust financial services sector, has become a key player in Africa's capital markets. For instance, Mauritian banks, with their expertise in structured finance, investment banking, wealth management, as well as trade finance, have been instrumental in facilitating investments across the continent. Leveraging on the strengths of the Mauritian financial centre, its strategic location at the crossroads between Asia, Europe, and Africa, and a strong network of bilateral agreements, the country has emerged as an attractive destination for investors looking to access African markets.

The country's stock exchange, the Stock Exchange of Mauritius (SEM), has also been actively involved in promoting cross-border investments in Africa. SEM's partnerships with African stock exchanges have facilitated the listing of African companies on its platform, further enhancing capital flows within the region.

The Regulators across Africa are playing a pivotal role in the development of the financial markets. For

example, Mauritius has the required framework for capital market activities while Rwanda established its Capital Market Authority in year 2021.

Over the years, several licences pertaining to capital market activities have been issued by the Mauritian Regulators not only to banks but also to investment companies in the global business sector. Mauritius has a huge opportunity in terms of economic wealth and social well-being.

SEM has been actively involved in promoting cross-border investments in Africa

Mauritius has also gained expertise in green financing, which is now universally recognised as the way forward. In this respect, capital markets play a crucial role as they can contribute to financing climate change investments through green bonds. They also support urban development by financing infrastructure and housing projects, aligning with sustainable development goals.

Looking ahead, Mauritius holds the keys to continue its role as a catalyst for economic growth in Africa through strategic partnerships and innovative financial solutions. As African countries seek to attract more investments and strengthen their capital markets, Mauritius stands ready to support these efforts, leveraging its expertise and experience to foster prosperity across the continent.