Domestic Resource Mobilization through Local-Currency Financing and the Deepening of Capital Markets: An African Perspective

PETER DANIEL ONIMISI, *PhD*
Association of African Development Finance Institutions (AADFI)
Abidjan, Republic of Côte d'Ivoire

ABSTRACT

Africa's annual development-financing shortfall has escalated to more than $1.3 trillion, driven by rising debt-service costs, a deteriorating external financing environment, and the structural limits of foreign-currency borrowing. This article argues that local-currency financing and the deliberate deepening of domestic capital markets have become the principal strategic response available to African economies and their development finance institutions (DFIs). The article examines how the African Development Bank's New African Financial Architecture for Development (NAFAD) — endorsed under the April 2026 Abidjan Consensus — is emerging as the continent's organising framework for the response to capital mobilization challenge. Drawing on continent-wide data, the NAFAD framework, institutional innovation in the DFI sector, and Nigeria's pension industry as a detailed case study, the paper examines the architecture required for functioning local-currency capital markets, the evolving role of African DFIs as market-builders rather than lenders of last resort, and the structural constraints — inflationary pressure, shallow private-sector market instruments, and fragmented investor bases — that must be overcome. Nine policy directions are identified, including anchoring continental coordination on NAFAD, strengthening debt management offices, scaling DFI-backed credit-enhancement mechanisms such as the recapitalisation of the African Trade and Investment Development Insurance (ATIDI), and expanding local-currency hedging capacity. The article concludes that the raw material for this transformation — an estimated $4 trillion in African institutional capital — already exists; the harder work lies in building the institutional infrastructure, of which NAFAD is now the continent's principal coordinating framework, to deploy it productively.

Keywords: *Domestic resource mobilization; local-currency financing; capital market development; development finance institutions; Africa; pension funds; debt sustainability; blended finance*

1. Introduction

Few regions illustrate the stakes of domestic resource mobilization (DRM) more clearly than Africa. The continent's economies have proven resilient — growth averaged 4.2 percent in 2025, with 22 countries expanding above 5 percent, comfortably outpacing the global average — yet the financing required to sustain that growth has become harder to source externally[1]. The African Development Bank's 2026 *African Economic Outlook* estimates the continent's annual development-financing shortfall at more than \$1.3 trillion, a sharp increase from the \$402 billion structural-transformation gap the Bank had estimated just two years earlier, reflecting both rising needs and a deteriorating external financing environment.[2,3]

Africa's public debt tells a parallel story: it grew by close to 170 percent, to over \$1.8 trillion, between 2010 and 2024, with the composition shifting away from concessional, low-cost lending toward commercial creditors, non-Paris Club lenders, and domestic borrowing.[4] Debt-service costs across the continent now exceed \$100 billion a year, and more than half of Africa's low-income countries are in or near debt distress.[5,6] In this environment, the question is no longer whether Africa should rely more on its own resources, but how quickly it can build the institutions — fiscal, financial, and monetary — to do so. Local-currency financing and the deepening of domestic capital markets sit at the centre of that answer, and African Development Finance Institutions (DFIs) have become the principal vehicles for delivering it.

This article examines why local-currency financing matters, how capital-market deepening supports it, and what the evidence from Africa — Nigeria in particular — suggests about the opportunities and constraints involved. It begins with the New African Financial Architecture for Development (NAFAD), the African Development Bank-led framework endorsed by the Abidjan Consensus in April 2026, which now provides the continental umbrella under which most of the initiatives discussed in this article are being coordinated. The article draws on the most recent available data, including the 2026 African Economic Outlook, the OECD's 2025 Africa Capital Markets Report, official NAFAD and Abidjan Consensus documentation, and the evolution of DFI practice across the continent.

2. The New African Financial Architecture for Development (NAFAD)

On 9 April 2026, the African Development Bank convened a Consultative Dialogue in Abidjan that brought together African central bank governors, sovereign wealth fund executives, regional commercial banks, national development banks, securities exchanges, private equity firms, and development finance institutions. The dialogue produced an eleven-point "Abidjan Consensus" formally launching the New African Financial Architecture for Development (NAFAD, evolved from an earlier initiative known as NAFA).[7]

---

[1] https://adfi-ci.org/socio-economic-review-for-2025-and-forecast-for-2026/

[2] African Development Bank Group. (2026). "Africa's growth holds firm amid global turbulence," 2026 African Economic Outlook, May 2026. https://www.afdb.org/en/news-and-events/press-releases/africas-growth-holds-firm-amid-global-turbulence-says-2026-african-economic-outlook-93626

[3] Mukasa, A., & Simpasa, A. (2024). "Make Domestic Resource Mobilization Work for Africa's Structural Transformation." African Development Bank Group, August 2024. https://www.afdb.org/en/news-and-events/make-domestic-resource-mobilization-work-africas-structural-transformation-73243

[4] African Development Bank Group. (2025). "African Development Bank forecasts improved growth for Africa," November 2025; "Africa's Economic Resilience Holds Firm Amid Global Headwinds," March 2026.

[5] Brookings Institution. (2026). "Mobilizing Africa's resources for development," February 2026. https://www.brookings.edu/articles/mobilizing-africas-resources-for-development/

[6] UN Office of the Special Adviser on Africa. "Scaling Up Local Currency Lending: A Strategic Imperative for Africa." https://www.un.org/osaa/news/scaling-local-currency-lending-strategic-imperative-africa

[7] African Development Bank Group. (2026). "African Development Bank Group's New African Financial Architecture for Development gets off to a bold start at Abidjan meeting," April 2026. https://afdb.africa-newsroom.com/press/african-development-bank-groups-afdb-new-african-financial-architecture-for-development-gets-off-to-a-bold-start-at-abidjan-meeting?lang=en

NAFAD seeks to mobilise Africa's domestic savings and institutional capital; strengthen African financial institutions and deepen domestic capital markets; reduce investment risk through guarantee and risk-sharing mechanisms; increase investment in infrastructure, agriculture, energy, manufacturing, digital transformation, health, education, and climate resilience; reduce dependence on external aid and strengthen Africa's financial sovereignty; and attract greater private-sector and international co-investment through better-coordinated financing instruments. The initiative is built around five interconnected pillars, which include capital mobilization, risk-sharing mechanisms, financial market development, institutional strengthening, and regional financial integration. Rather than creating a new institution, NAFAD is designed as a coordination framework built around the principles of subsidiarity, complementarity, coordination, and disciplined risk transformation.[8] NAFAD responds to the structural mismatch documented in the Introduction above: an annual development-financing shortfall running into the hundreds of billions of dollars, set against a continent that the AfDB estimates holds more than $4 trillion in domestic institutional capital — pension funds, sovereign wealth funds, insurance assets, diaspora savings, and bank balance sheets — much of it fragmented, short-dated, or held outside the formal financial system. Rather than relying primarily on external aid and concessional borrowing, NAFAD seeks to mobilise this capital directly, at a moment when official development assistance from OECD countries fell by an estimated 7.1 percent in 2024 and is projected to fall further.[9]

3. The African Capital Market Landscape

Africa's capital markets remain shallow relative to the size of its economy, but they are growing. The continent's stock-market capitalization reached roughly $1.2 trillion in 2024 — nearly six times its level two decades earlier — though activity remains heavily concentrated in South Africa, Egypt, Nigeria, and Morocco, underscoring the need for deeper integration across the more than 30 stock exchanges spread across the continent.[10] A broader measure of African capital markets, including debt instruments, has been estimated at close to $2 trillion, equivalent to roughly 60 percent of the continent's $3.6 trillion GDP in 2025[11], with over 1,100 listed companies — yet equity markets still account for less than 10 percent of the continent's annual capital inflows, which remain dominated by foreign direct investment and remittances.[12]

Those non-debt inflows are themselves instructive. Foreign direct investment into Africa rebounded by more than 75 percent in 2024 to reach $97 billion, while remittances climbed over 14 percent to $104.6 billion, making diaspora remittances the largest single source of external non-debt financing on the continent, ahead of portfolio investment.[13] Channelling a larger share of these flows — together with domestic savings — into formal, local-currency capital-market instruments rather than consumption or informal channels is now an explicit policy objective for African governments and DFIs alike.

[8] African Development Bank Group. (2026). "Africa Forward Summit backs New African Financial Architecture for Development and Pan-African guarantee mechanism to unlock investment and jobs across Africa," May 2026. https://www.afdb.org/en/news-and-events/press-releases/africa-forward-summit-backs-new-african-financial-architecture-development-and-pan-african-guarantee-mechanism-unlock-investment-and-jobs-across-africa-93131
[9] CNBC Africa. (2026). "AfDB to become top shareholder in Africa guarantee platform to boost derisking push," June 2026. https://www.cnbcafrica.com/2026/afdb-to-become-top-shareholder-in-africa-guarantee-platform-to-boost-derisking-push

[11] https://adfi-ci.org/socio-economic-review-for-2025-and-forecast-for-2026/
[12] African Exponent. (2025). "Top 10 Initiatives Shaping Development Finance Institutions in Africa's Capital Markets in 2025," April 2025. https://www.africanexponent.com/top-10-impactful-initiatives-shaping-development-finance-institutions-in-africas-capital-markets-in-2025/

4. Why Currency Denomination Matters

A government or company that borrows in dollars or euros but earns revenue in naira, cedis, or shillings carries a currency mismatch: a depreciation of the local currency instantly inflates the real cost of repayment, regardless of how well the underlying project performs. This is especially acute for infrastructure, housing, and other long-lived assets whose user payments are collected in local currency over decades. When financing for such assets is also denominated in local currency, that mismatch disappears and the project's repayment capacity is insulated from exchange-rate volatility.[14]

The cost difference is measurable. Between 2000 and 2025, African sovereigns paid an average interest rate of around 6 percent on foreign-currency bonds, compared with roughly 3 percent on loans from Chinese policy banks and about 1 percent on concessional multilateral lending. By 2025 the gap had widened further: dollar-denominated African sovereign bond yields had climbed to around 9 percent, the highest of any developing region, while multilateral lending remained below 1 percent — a reminder that the apparent cheapness of non-market, foreign-currency borrowing has often come bundled with currency and refinancing risk that local-currency instruments avoid.[15] The combination of currency depreciation and rising global interest rates has been a central driver of Africa's recent debt distress, pushing continental debt-service costs to roughly $90 billion in 2024 and leaving 25 African countries in debt distress by April of that year.[16] In response, several multilateral lenders have begun borrowing internationally in hard currency and on-lending to African borrowers in local currency, shielding low-income countries from foreign-exchange risk while still channelling international capital toward domestic needs. But on-lending by multilaterals can only go so far; the more durable solution is for Africa's own financial systems to generate long-term local-currency capital at scale.[17]

5. The Architecture of Domestic Capital Markets

Local-currency financing does not appear by decree — it requires a functioning capital market with three interlocking components: a liquid government securities market that sets a credible yield curve, a diversified base of domestic institutional investors willing to hold long-dated instruments, and an enabling regulatory and credit-enhancement infrastructure that allows private issuers to follow where government has led.

Government bond markets as the anchor. Sovereign debt management and capital-market development are intrinsically linked. When debt management offices issue benchmark securities consistently and transparently, they create a reference yield curve, a pool of liquid collateral, and a "safe asset" that anchors pricing for everything issued afterward. Sovereign retail bond programmes — increasingly distributed through mobile and digital channels, an area where Africa

[14]Quaynor, S. (2021). "Long-term local currency financing is key to economic development in Africa." GuarantCo, October 2021. https://guarantco.com/blended-knowledge/long-term-local-currency-financing-is-key-to-economic-development-in-africa/

[15]OECD. (2025). "Local currency bond markets for development financing in Africa," Africa Capital Markets Report 2025. https://www.oecd.org/en/publications/africa-capital-markets-report-2025_7d26e1d3-en/full-report/local-currency-bond-markets-for-development-financing-in-africa_b9d9f859.html

already leads globally in adoption — extend this further by drawing household savings directly into the formal financial system.[18]

Institutional investors as the demand side. Pension funds, insurance companies, and other long-horizon institutional investors are the natural buyers of long-dated local-currency paper, because their liabilities are themselves long-dated and denominated locally. Yet across much of Africa, despite real growth in assets under management, this pool of capital has stayed heavily concentrated in government paper rather than flowing into productive private-sector investment — a pattern the African Development Bank has flagged as one of the central constraints on deepening.[19]

Credit enhancement and de-risking. Where institutional capital is reluctant to take on private credit risk, guarantee structures bridge the gap — and this is precisely where African DFIs have concentrated much of their recent effort. The African Development Bank's partnership with the Private Infrastructure Development Group (PIDG), building on earlier vehicles such as InfraCredit in Nigeria and the Dhamana Guarantee Company in East Africa, is an explicit attempt to use credit guarantees to unlock domestic institutional capital for infrastructure that would otherwise struggle to find local-currency financing.[20] Multilateral programmes such as the World Bank's Joint Capital Markets Program have pursued a parallel track in West Africa, helping regulators and financial institutions build the legal and technical infrastructure for securitization — since the first securitized bond transaction in the West African Economic and Monetary Union (WAEMU) in 2018, roughly a dozen more have followed, opening new local-currency financing channels for small and medium enterprises.

6. The Role of African Development Finance Institutions

If domestic resource mobilization is the strategic objective, African DFIs have increasingly become its operational engine — building the guarantee structures, hedging instruments, and pan-African coordination mechanisms that allow domestic savings to flow into local-currency assets at scale.

The African Development Bank (AfDB) sits at the centre of this effort in two distinct ways. First, the Bank itself borrows directly in African currencies — issuing bonds in the South African rand, Nigerian naira, Kenyan and Tanzanian shillings, Botswana pula, Zambian kwacha, and Ugandan shilling, among others — so that it can on-lend to African clients without exposing them to foreign-exchange risk.[21] Second, the Bank acts as a market-builder: in September 2025 its board approved a $25 million equity investment in The Currency Exchange Fund (TCX), a specialist hedging vehicle that the AfDB helped found in 2007 and that extends long-term local-currency hedging into illiquid African currencies that commercial hedging markets typically avoid.[22]

Pan-African credit guarantee platforms have emerged as a critical de-risking layer. The Africa Co-Guarantee Platform — a joint initiative of Afreximbank, the AfDB, and GuarantCo — provided some $2.3 billion in credit guarantees across 2023 and 2024 alone, a scale of risk-sharing credited

---

[18] OECD. (2025). Africa Capital Markets Report 2025. https://www.oecd.org/en/publications/2025/11/africa-capital-markets-report-2025_a973e07d/full-report/local-currency-bond-markets-for-development-financing-in-africa_b9d9f859.html

[20] African Development Bank. (2025). "African Development Bank Group and Private Infrastructure Development Group team up to scale-up domestic capital mobilization across Africa," May 2025. https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-group-and-private-infrastructure-development-group-team-scale-domestic-capital-mobilization-across-africa-83809

[21] African Development Bank Group. (2025). "Capital markets," Investor Resources, December 2025. https://www.afdb.org/en/about-us/corporate-information/financial-information/investor-resources/capital-markets

[22] African Development Bank Group. (2025). "African Development Bank Approves Equity Investment in The Currency Exchange Fund," September 2025. https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-approves-equity-investment-currency-exchange-fund-support-access-local-currency-financing-across-africa-86961

with a 22 percent increase in sub-sovereign debt issuance for municipal infrastructure and healthcare projects that would otherwise have struggled to find local-currency financing.[23] Similar guarantee vehicles, including InfraCredit in Nigeria and the Dhamana Guarantee Company in East Africa, have been built around a partnership between the AfDB and the Private Infrastructure Development Group (PIDG) specifically to unlock long-term local-currency capital for energy, housing, and industrial projects. The AfDB has since moved to consolidate this layer further: in May 2026 its Board approved a $125 million investment in the African Trade and Investment Development Insurance (ATIDI), raising the Bank's stake from roughly 3 percent to about 14 percent and making it ATIDI's largest shareholder, with the explicit aim of scaling ATIDI's annual guarantee capacity toward $10 billion. AfDB President Dr Sidi Ould Tah described the investment as the first concrete deliverable of NAFAD.[24]

Trade and payments infrastructure is another channel through which DFIs are deepening local-currency markets. Afreximbank's Pan-African Payment and Settlement System (PAPSS), adopted by the African Union as the continent's settlement platform for the African Continental Free Trade Area, allows cross-border transactions to clear directly in local currencies rather than being routed through the US dollar — reducing both transaction costs and demand for scarce hard-currency reserves.[25] Afreximbank has also begun extending this model to monetary authorities directly, including a $5 billion programme with the Central Bank of West African States to support commercial banks across the sub-region.[26]

Continental coordination has become more formalized, with the Association of African Development Finance Institutions (AADFI) — the continent's DFI umbrella body, founded in 1975, with 80+ national, regional, and multilateral members across Africa — operating as a core pillar of NAFAD rather than a parallel structure. At its 2026 Annual General Assembly in Brazzaville, AADFI reaffirmed this coordinating role in support of the NAFAD agenda endorsed under the April 2026 Abidjan Consensus, while also advancing a review of its Prudential Standards, Guidelines and Rating System (PSGRS) for member DFIs[27]. The 2026 African Economic Outlook points to two further innovations: the African Credit Rating Agency, slated to launch in Mauritius in October 2026 to counter perceived bias in international sovereign risk pricing, and the African Financing Stability Mechanism, approved in February 2026 to ease liquidity pressure and debt-refinancing risk[28].

Innovative local-currency instruments piloted by DFIs are beginning to show what is possible at a smaller scale. The Development Bank of Rwanda became the first African development bank to issue a credit-enhanced, sustainability-linked local-currency bond, using $10 million in concessional funding from the World Bank's IDA Private Sector Window to collateralize a $24.8 million, seven-year local-currency issuance and meaningfully reduce its cost of borrowing.[29] Diaspora bonds — issued by Ethiopia, Ghana, and Kenya and frequently structured with DFI support — represent a parallel effort to convert part of Africa's remittance flows, now exceeding

[24] African Development Bank Group. (2026). "African Development Bank Group approves $125 million investment in ATIDI to expand risk insurance capacity in Africa," June 2026. https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-group-approves-125-million-investment-atidi-expand-risk-insurance-capacity-africa-94103
[25] Afreximbank. "African Export-Import Bank — Transforming Africa's Trade." https://www.afreximbank.com/
[26] BusinessDay Nigeria. (2026). "Afreximbank strengthens Africa-focused financing model with Central Bank alliances," May 2026. https://businessday.ng/news/article/afreximbank-strengthens-africa-focused-financing-model-with-central-bank-alliances/
[27] AADFI, "About Us" (https://adfi-ci.org/about-us/); "AADFI Concludes its 2026 Annual General Assembly in Brazzaville" (May 2026).
[28] The New Times, "Africa's First Continental Credit Rating Agency Set to Be Launched in October" (July 2026); Africa Briefing, "African Leaders Approve $20bn Debt Stability Fund" (Feb 2026).
[29] ImpactAlpha. (2024). "Three Africa-led blended finance models mobilizing billions for development," October 2024. https://impactalpha.com/three-africa-led-blended-finance-models-mobilizing-billions-for-development/

$100 billion a year, into long-term domestic development capital.[30] Specialist intermediaries such as FSD Africa, meanwhile, work directly with regulators and market participants across the continent on policy reform, market infrastructure, and catalytic transactions — securitizations, blended-finance vehicles, and listed funds — aimed squarely at crowding in institutional capital for local-currency investment.[31]

7. Nigeria's Pension System as a Case Study in Deepening

Nigeria illustrates both the promise and the limits of using domestic institutional capital to deepen local markets — and the role DFI-style guarantee mechanisms can play once that capital exists. Pension assets under Nigeria's Contributory Pension Scheme grew by 22 percent in 2025 alone, reaching roughly ₦27.45 trillion by year-end, a pool of long-term, naira-denominated savings that continues to expand month after month.[32] Historically, the overwhelming share of this capital has sat in Federal Government securities: by late 2025, government bonds, treasury bills, and related instruments still accounted for close to 60 percent of total pension assets.[33]

That composition is now shifting. Reforms by Nigeria's National Pension Commission in 2025 reduced the mandatory minimum allocation to government securities and opened the door to a wider menu of instruments — exchange-traded derivatives, infrastructure and agriculture-linked funds, gold safekeeping receipts, and repurchase agreements — explicitly to push pension capital toward productive sectors rather than treating it solely as a vehicle for sovereign debt absorption.[34] The early effect has been visible: pension funds' equity holdings climbed from roughly ₦3.95 trillion at the close of 2025 to about ₦6.5 trillion by April 2026, a jump of nearly 65 percent, as improving macroeconomic conditions and a rallying stock exchange drew institutional capital off the sidelines.[35] InfraCredit's local-currency guarantees — built in partnership with the AfDB and PIDG — were designed precisely to help capital of this kind reach infrastructure projects that pension funds would otherwise consider too risky to hold directly.[36]

The broader comparison is instructive. In several advanced economies, pension assets have historically represented well over a third — in some cases close to half — of GDP and have been a major source of stock-market liquidity and corporate financing.[37] Nigeria's pension industry, though still young relative to those systems, is increasingly cited by regulators and capital-market participants as the most plausible "home-grown" engine for deepening domestic equity and bond markets, precisely because its assets are large, growing, and naira-denominated.[38]

8. Tax Revenue: The Other Half of Domestic Resource Mobilization

Capital-market deepening complements, but does not substitute for, the fiscal side of domestic resource mobilization. Africa's average tax-to-GDP ratio rose for a third consecutive year in 2023, reaching 16.1 percent — well below the averages for Asia-Pacific (19.6 percent), Latin America

[31] FSD Africa. (2025). "Financial Markets," April 2025. https://fsdafrica.org/financial-markets/
[32] Adesanya, A. (2026). "Nigeria's Pension Fund Assets Jump 22% to N27.45trn in 2025." Business Post Nigeria, February 2026. https://businesspost.ng/economy/nigerias-pension-fund-assets-jump-22-to-n27-45trn-in-2025/
[33] The Punch. (2025). "Nigeria pension fund assets soar to over N26 trillion," November 2025. https://punchng.com/pension-fund-soars-to-n26tn/
[34] BusinessDay Nigeria. (2026). "New pension rules add sophistication to capital markets," January 2026. https://businessday.ng/editorial/article/new-pension-rules-add-sophistication-to-capital-markets/
[35] allAfrica.com. (2026). "As Pension Assets Deepen Market Influence, PFAs' Exposure to Equities, Govt Securities Rises to N23.87tn," June 2026. https://allafrica.com/stories/202606150387.html
[36] African Development Bank. (2025). "African Development Bank Group and Private Infrastructure Development Group team up to scale-up domestic capital mobilization across Africa," May 2025. https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-group-and-private-infrastructure-development-group-team-scale-domestic-capital-mobilization-across-africa-83809
[37] Mondaq. (2019). "Deepening The Nigerian Capital Market Amidst Global Turmoil; Pension Funds As A Vital Home-Grown Recipe," March 2019. https://www.mondaq.com/nigeria/commoditiesderivativesstockexchanges/788728

and the Caribbean (21.3 percent), and the OECD (33.9 percent), and ranging across the continent from just 2.9 percent in Somalia to 34.0 percent in Tunisia,[39] and 14-percent in the West Africa.[40]

This matters for capital-market deepening in two distinct ways. First, weak tax revenue forces governments to rely more heavily on debt issuance — including in domestic markets — which can crowd out the very private-sector borrowing that capital-market deepening is meant to enable; in Nigeria, government securities' continued dominance of pension portfolios partly reflects this fiscal reality. Second, a credible, broad-based tax system underpins the sovereign creditworthiness that gives government bonds their benchmark status in the first place — which is also why the IMF's regional outlook for Sub-Saharan Africa pairs its call for stronger domestic revenue mobilization with a parallel call for stronger debt transparency and public financial management.[41] The two pillars of domestic resource mobilization — tax capacity and capital-market depth — are therefore mutually reinforcing rather than independent policy tracks, and both increasingly fall within the technical-assistance mandate of African DFIs and their multilateral partners.

9. Persistent Constraints

Several structural constraints continue to limit how far local-currency financing and capital-market deepening can go in the near term.

- **Inflation erodes the appeal of fixed-income instruments.** Continental inflation, though declining from 21.8 percent in 2024 to an estimated 13.6 percent in 2025, remains high enough in many markets to deliver negative real returns on long-dated local-currency debt, pushing investors — including pension funds — back toward shorter-dated instruments or, where regulation allows, equities. Nigerian market participants have explicitly noted this shift, observing that high inflation has prompted renewed institutional interest in equities after two decades of pension policy oriented almost entirely toward fixed income.[42,43]
- **Shallow private-sector instrument markets.** Government bond markets in many African countries are comparatively liquid, but corporate bond and securitization markets remain thin, limiting the channels through which institutional savings can reach private firms rather than the sovereign alone.[44]
- **Concentration and fragmentation.** Africa's stock-market activity remains concentrated in four markets — South Africa, Egypt, Nigeria, and Morocco — while the continent's more than 30 exchanges remain largely unintegrated, limiting the liquidity and diversification benefits that a genuinely continental capital market could offer.[45]
- **Fragmented investor bases and regulatory caps.** Prudential limits designed to protect retirement savings — such as caps on single-issuer exposure — are necessary for financial

[39]OECD. (2025). Revenue Statistics in Africa 2025, November 2025. https://www.oecd.org/en/publications/2025/11/revenue-statistics-in-africa-2025_d880cbe4.html
[40]Ecofin Agency. (2025). "IMF Warns WAEMU May Miss 20% Tax-to-GDP Target Until 2048 or Beyond," May 2025. https://www.ecofinagency.com/finance/2105-46912-imf-warns-waemu-may-miss-20-tax-to-gdp-target-until-2048-or-beyond
[41]International Monetary Fund. (2025). Regional Economic Outlook: Sub-Saharan Africa, October 2025. https://www.imf.org/-/media/files/publications/reo/afr/2025/october/english/text.pdf

[43]CFA Institute. (2024). "How capital market development can help shape Africa's future," December 2024. https://www.cfainstitute.org/insights/articles/capital-market-development-africa-future

stability but can also constrain the pace at which institutional capital migrates into new asset classes.[46]

- **Debt transparency and fiscal credibility.** Publishing comprehensive debt data and strengthening budget oversight remain preconditions for lower borrowing costs and broader access to innovative financing instruments — credibility that domestic and foreign investors alike price into local-currency securities.[47]

10. Policy Directions

Several measures recur across the recent literature and country and institutional experience reviewed above:

1. **Anchor continental coordination in NAFAD,** treating the New African Financial Architecture for Development as the organising framework under which debt-management reform, credit-enhancement facilities, hedging capacity, and DFI coordination are sequenced and monitored, rather than allowing these initiatives to proceed as parallel, uncoordinated efforts.
2. **Strengthen debt management offices** so that sovereign issuance is predictable, transparent, and designed to build a usable benchmark yield curve rather than simply meet short-term financing needs.
3. **Expand sovereign retail bond programmes** through digital and mobile channels to capture household savings directly, leveraging Africa's comparatively high rates of mobile-money adoption.
4. **Scale DFI-backed credit-enhancement mechanisms** — along the lines of the Africa Co-Guarantee Platform, InfraCredit, and the Dhamana Guarantee Company — to make private and infrastructure-related local-currency instruments attractive to risk-averse institutional investors.
5. **Expand local-currency hedging capacity,** building on the AfDB's continued capitalization of vehicles such as TCX, so that issuers in thinner, less liquid African currencies can access the same hedging tools available in larger markets.
6. **Recalibrate pension and insurance investment regulations** gradually, as Nigeria has begun to do, to permit greater diversification into equities, infrastructure funds, and other productive assets without compromising prudential safeguards.
7. **Pursue tax administration reform in parallel,** including digitalization and base-broadening, so that fiscal dependence on debt issuance — domestic or external — declines over time.
8. **Deepen continental coordination among DFIs,** through vehicles such as AADFI, ATIDI, and the Africa Infrastructure Financing Facility, coordinated under NAFAD, to pool

balance-sheet capacity and avoid the fragmentation that has historically limited the scale of any single institution's local-currency operations.

9. **Consider regional and pan-African investment vehicles** that allow pooled institutional capital, such as pension assets, to be deployed across borders within a single currency or monetary union, deepening liquidity beyond what any single domestic market can achieve alone.

11. Conclusion

Local-currency financing and capital-market deepening are not simply technical refinements to public debt management; they are increasingly central to how African economies intend to fund their own development in an era of expensive, scarcer external capital. The African Development Bank's New African Financial Architecture for Development (NAFAD) has, since the April 2026 Abidjan Consensus, emerged as the continent's organising framework for that shift, and the continent's development finance institutions — the AfDB, Afreximbank, the AFC, ATIDI, and the regional and national development banks— have moved well beyond their traditional role as lenders of last resort, positioning themselves instead as market-builders: issuers of local-currency bonds, providers of credit guarantees and hedging instruments, and architects of pan-African payment and coordination infrastructure.

The evidence from Nigeria's pension sector shows that the raw material for this shift — large, growing, long-term pools of domestic savings, part of an estimated $4 trillion in African institutional capital — already exists in many African markets. The harder, slower work lies in building the institutional infrastructure — credible debt management, diversified investor regulation, DFI-backed credit guarantees, and a stronger tax base — that allows that capital to flow productively into the real economy rather than sitting concentrated in sovereign debt alone. NAFAD is now the continent's principal coordinating framework for that task, and the nine policy directions identified in this article offer a practical roadmap for making it work in practice.

References

1. African Development Bank Group. (2026). Africa's growth holds firm amid global turbulence. 2026 African Economic Outlook, May 2026. https://www.afdb.org/en/news-and-events/press-releases/africas-growth-holds-firm-amid-global-turbulence-says-2026-african-economic-outlook-93626
2. Mukasa, A., & Simpasa, A. (2024). Make domestic resource mobilization work for Africa's structural transformation. African Development Bank Group, August 2024. https://www.afdb.org/en/news-and-events/make-domestic-resource-mobilization-work-africas-structural-transformation-73243
3. African Development Bank Group. (2025). African Development Bank forecasts improved growth for Africa, November 2025; Africa's economic resilience holds firm amid global headwinds, March 2026.
4. Brookings Institution. (2026). Mobilizing Africa's resources for development, February 2026. https://www.brookings.edu/articles/mobilizing-africas-resources-for-development/
5. UN Office of the Special Adviser on Africa. Scaling up local currency lending: A strategic imperative for Africa. https://www.un.org/osaa/news/scaling-local-currency-lending-strategic-imperative-africa
6. African Exponent. (2025). Top 10 initiatives shaping development finance institutions in Africa's capital markets in 2025, April 2025. https://www.africanexponent.com/top-10-impactful-initiatives-shaping-development-finance-institutions-in-africas-capital-markets-in-2025/
7. Quaynor, S. (2021). Long-term local currency financing is key to economic development in Africa. GuarantCo, October 2021. https://guarantco.com/blended-knowledge/long-term-local-currency-financing-is-key-to-economic-development-in-africa/
8. OECD. (2025). Local currency bond markets for development financing in Africa. Africa Capital Markets Report 2025. https://www.oecd.org/en/publications/africa-capital-markets-report-2025_7d26e1d3-en/full-report/local-currency-bond-markets-for-development-financing-in-africa_b9d9f859.html
9. OECD. (2025). Africa Capital Markets Report 2025. https://www.oecd.org/en/publications/2025/11/africa-capital-markets-report-2025_a973e07d/full-report/local-currency-bond-markets-for-development-financing-in-africa_b9d9f859.html
10. African Development Bank Group. (2025). Capital markets. Investor Resources, December 2025. https://www.afdb.org/en/about-us/corporate-information/financial-information/investor-resources/capital-markets
11. African Development Bank Group. (2025). African Development Bank approves equity investment in The Currency Exchange Fund to support access to local currency financing across Africa, September 2025. https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-approves-equity-investment-currency-exchange-fund-support-access-local-currency-financing-across-africa-86961
12. African Development Bank. (2025). African Development Bank Group and Private Infrastructure Development Group team up to scale-up domestic capital mobilization across Africa, May 2025. https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-group-and-private-infrastructure-development-group-team-scale-domestic-capital-mobilization-across-africa-83809
13. Afreximbank. African Export-Import Bank — Transforming Africa's Trade. https://www.afreximbank.com/
14. BusinessDay Nigeria. (2026). Afreximbank strengthens Africa-focused financing model with Central Bank alliances, May 2026. https://businessday.ng/news/article/afreximbank-strengthens-africa-focused-financing-model-with-central-bank-alliances/
15. Afreximbank. (2026). Africa Infrastructure Financing Facility launched to strengthen continental financial sovereignty, February 2026. https://www.afreximbank.com/africa-infrastructure-financing-facility-launched-to-strengthen-continental-financial-sovereignty/
16. ImpactAlpha. (2024). Three Africa-led blended finance models mobilizing billions for development, October 2024. https://impactalpha.com/three-africa-led-blended-finance-models-mobilizing-billions-for-development/
17. FSD Africa. (2025). Financial Markets, April 2025. https://fsdafrica.org/financial-markets/
18. Adesanya, A. (2026). Nigeria's pension fund assets jump 22% to N27.45trn in 2025. Business Post Nigeria, February 2026. https://businesspost.ng/economy/nigerias-pension-fund-assets-jump-22-to-n27-45trn-in-2025/
19. The Punch. (2025). Nigeria pension fund assets soar to over N26 trillion, November 2025. https://punchng.com/pension-fund-soars-to-n26tn/
20. BusinessDay Nigeria. (2026). New pension rules add sophistication to capital markets, January 2026. https://businessday.ng/editorial/article/new-pension-rules-add-sophistication-to-capital-markets/

21. allAfrica.com. (2026). As pension assets deepen market influence, PFAs' exposure to equities, govt securities rises to N23.87tn, June 2026. https://allafrica.com/stories/202606150387.html

22. Mondaq. (2019). Deepening the Nigerian capital market amidst global turmoil; pension funds as a vital home-grown recipe, March 2019. https://www.mondaq.com/nigeria/commoditiesderivativesstockexchanges/788728

23. OECD. (2025). Revenue statistics in Africa 2025, November 2025. https://www.oecd.org/en/publications/2025/11/revenue-statistics-in-africa-2025_d880cbe4.html

24. Ecofin Agency. (2025). IMF warns WAEMU may miss 20% tax-to-GDP target until 2048 or beyond, May 2025. https://www.ecofinagency.com/finance/2105-46912-imf-warns-waemu-may-miss-20-tax-to-gdp-target-until-2048-or-beyond

25. International Monetary Fund. (2025). Regional economic outlook: Sub-Saharan Africa, October 2025. https://www.imf.org/-/media/files/publications/reo/afr/2025/october/english/text.pdf

26. CFA Institute. (2024). How capital market development can help shape Africa's future, December 2024. https://www.cfainstitute.org/insights/articles/capital-market-development-africa-future

27. African Development Bank Group. (2026). African Development Bank Group's New African Financial Architecture for Development gets off to a bold start at Abidjan meeting, April 2026. https://afdb.africa-newsroom.com/press/african-development-bank-groups-afdb-new-african-financial-architecture-for-development-gets-off-to-a-bold-start-at-abidjan-meeting?lang=en

28. African Development Bank Group. (2026). Africa Forward Summit backs New African Financial Architecture for Development and Pan-African guarantee mechanism to unlock investment and jobs across Africa, May 2026. https://www.afdb.org/en/news-and-events/press-releases/africa-forward-summit-backs-new-african-financial-architecture-development-and-pan-african-guarantee-mechanism-unlock-investment-and-jobs-across-africa-93131

29. African Development Bank Group. (2026). African Development Bank Group approves $125 million investment in ATIDI to expand risk insurance capacity in Africa, June 2026. https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-group-approves-125-million-investment-atidi-expand-risk-insurance-capacity-africa-94103

30. Afreximbank. (2026). Africa Infrastructure Financing Facility launched to strengthen continental financial sovereignty, February 2026. https://www.afreximbank.com/africa-infrastructure-financing-facility-launched-to-strengthen-continental-financial-sovereignty/

31. claude.ai (2026). Used to organize the ideas and create a systematic flow of the article.