Study on Africa as a jurisdiction for Domiciliation of Investment Vehicles

Report Summary

November 2024

Momentus

SAMAWATI
CAPITAL PARTNERS

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LEGAL PRACTITIONERS

MEDA

Contents

Acknowledgments

This report summary presents the key findings of a landscape study on Africa as a jurisdiction for the domiciliation of investment vehicles, commissioned by the Mastercard Foundation, in partnership with Mennonite Economic Development Associates (MEDA), and conducted by a team of experts from across the globe, including Momentus Global (formerly International Financial Consulting Ltd.), Samawati Capital Partners, and Stafford Law.

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Definitions

Domicile

The country where the investment vehicle/ fund's holding company is legally incorporated, and typically where the administration and management of the Investment Vehicle/Fund takes place.

Domiciliation

The jurisdiction that provides a legal framework within which the fund can operate and market its investment products to investors. Fund managers can take advantage of specific regulatory regimes, tax efficiencies, investor preferences, and market access opportunities by selecting a suitable domicile.

Funds

A fund is a subset of the broader investment vehicle category (See definition below).

Funds are designed with specific investment objectives, strategies, and guidelines.

There are various types of funds, including private equity, venture capital, impact funds, pension funds and mutual funds, each serving specific investor needs, preferences, and risk appetites.

Funds that focus on entrepreneurship are often categorized as venture capital (VC) or private equity (PE) funds. These funds specifically target investments in start-ups, early-stage companies, and micro, small to medium-sized enterprises (MSMEs) with high growth potential. They aim to provide capital, mentorship, and strategic support to help these entrepreneurial ventures succeed. These funds are managed by professional fund managers (See definition below)

Investment Vehicles (IVs)

Investment Vehicles (IVs) are entities that pool capital from investors and deploy it across various financial instruments. IVs may include private capital funds, venture capital funds, pension funds etc.

In the context of this Study, the term IV refers to all intermediaries (active in the markets where the Study was undertaken) which are involved in providing capital or investment to Micro, Small and Medium Enterprises (MSMEs) using varied instruments such as equity, quasi-equity, and debt or a blend of same. The purpose of the IV in relation to financing SMEs is, therefore, more important in this case than its legal structure, which could take various forms including but not limited to Special Purpose Vehicles, Collective Investment Schemes, Non-Banking Financial Institutions, Limited Liability Company etc. that are either domiciled within or outside of the country of interest.

Investment Vehicle Manager/Fund Manager (IVM/FM)

Responsible for implementing the investment strategy and managing the portfolio towards achieving set objectives.

The term "General Partner" is commonly used in private equity and venture capital funds. General Partners are responsible for the overall management and decision-making of the fund and typically play a key role in sourcing, evaluating, and executing investment opportunities

Background to the report

This report summary outlines the potential of investment vehicle domiciliation in African jurisdictions to mobilize and diversify investment capital for growth-oriented MSMEs. It presents the findings of a study commissioned by the Mastercard Foundation and conducted by Momentus Global, Stafford Law, and Samawati Capital in response to an observed gap in domiciliation that limits the availability of capital for MSMEs that could drive economic growth and opportunity across Africa.

The Africa Growth Fund[1], led by the Mennonite Economic Development Associates (MEDA)[2], was established in 2022 to prioritize African Investment Vehicles and catalyze African-based investment capital with a gender lens. The search for African-based investment vehicles (IVs) to serve as partners to the Fund revealed the scarcity of African-domiciled investment vehicles – and ignited efforts to encourage and increase the diversity of investment vehicles on the African continent. The hypothesis behind the study is that increased domiciliation will attract more international capital to the African continent and catalyze local capital mobilization, which will grow the investment ecosystem in Africa, promoting economic growth and transformation and bolstering dignified work opportunities for young people who comprise 70% of the population in the continent.

The report examines why and how investors choose fund domiciliation jurisdictions and what Africa needs to do to become a preferred destination. The study includes a landscape assessment of 13 African and 4 global investment destinations based on literature reviews and extensive stakeholder consultations. The report compares global investment vehicle domiciliation jurisdiction trends with the African context, relying on insights from investors, fund managers, regulators, and other ecosystem enablers and a detailed analysis of 13 African jurisdictions. The report aims to catalyze systemic change in the investment vehicles and capital market ecosystem by enhancing Africa's competitiveness and ensuring inclusive growth. It highlights emerging trends, growth drivers, key sectors, and the size of funds in Africa's investment landscape.

This report maps a path toward increasing the domiciliation of IVs in Africa. It presents insights gathered on the drivers of domiciliation decisions and the potential contribution of increased domiciliation in African jurisdictions to MSME growth and job creation. The document details the potential impact of domiciliation and then provides an overview and assessment of African jurisdictions' level of preparedness to attract IVs to domicile in these respective jurisdictions. It subsequently provides further detail on what it takes to increase domiciliation in Africa and provides stakeholder-specific, actionable, recommendations on developing attractive ecosystems for domiciliation. The report underscores Africa's potential as a domiciliation hub but emphasizes the need for improvements in regulatory frameworks, operational efficiency, and domestic capital mobilization. It highlights the urgent need for African jurisdictions to enhance their regulatory environments, oversight, and enforcement to attract more investment. The report emphasizes that operational efficiency and an enabling environment are crucial for fund domiciliation, and mobilizing domestic capital is essential for the growth of local investment vehicles.

[1] The Mastercard Foundation in partnership with MEDA established the Africa Growth Fund (Fund of Funds) in 2022 to catalyse African-based investment capital with a gender lens.
[2] MEDA is a partner in delivering innovative finance solutions that leverage public and private funding for social enterprises, with a focus on women and youth in rural communities in the Global South

The three-fold purpose of the study is as follows:

Firstly, for the investment vehicle ecosystem, the report contributes to field building and expanding the body of knowledge and evidence on the topic - investment vehicle domiciliation in Africa. The study and its outcomes enhance the existing body of knowledge and analytical tools related to Africa-based investment vehicles. This involves illuminating opportunities, identifying the barriers that hinder Africa from becoming an attractive jurisdiction for investment vehicle domiciliation and proposing strategies to improve enabling conditions for investment vehicles and facilitate greater domiciliation on the continent. A distinctive feature of the report is the introduction of a new analytical tool - the Fund Domiciliation Maturity Diagnostic Tool (FDMDT), designed to assess the attractiveness of African jurisdictions.

Secondly, the report aims to inspire solutions-oriented dialogue and engagement among relevant investment vehicle stakeholders to enhance investment vehicle conditions, thereby fostering greater domiciliation on the African continent. The study and its outcomes are intended to stimulate dialogue and serve as a crucial input into evidence-based discussions among state and non-state actors within the investment vehicle ecosystem. These dialogues should result in improved understanding and appreciation of the opportunities associated with increased investment vehicle domiciliation and inspire commitment to action towards better-enabling conditions. Ultimately, it aims to collectively develop the necessary conditions to make Africa an attractive destination for international capital and catalyze local capital mobilization.

Thirdly, the report aims to motivate and guide pertinent investment vehicle ecosystem stakeholders in taking action toward unlocking the potential of African jurisdictions as attractive destinations for investment vehicle domiciliation. The report and its outcomes serve as an actionable tool, providing targeted technical guidance and advice to African state actors, including policymakers and regulators. This guidance is designed to help key stakeholders develop and manage investment vehicle ecosystems that are conducive and capable of attracting investment vehicles. As such, individuals and entities seeking to incentivize investment vehicles to domicile on the continent and stimulate capital flows will find this report particularly valuable.

Methodology

The literature review of the global domiciliation landscape and extensive consultations held with key ecosystem players as part of the Study highlighted that a mature fund domiciliation jurisdiction is characterized by several key characteristics, which have been grouped into four main common parameters:

- Regulatory environment, oversight, and enforcement
- Judiciary framework
- Operational efficiency
- Enabling environment

The Fund Domiciliation Maturity Diagnostic Tool (FDMDT) parameters capture key parameters and sub-dimensions that investors and fund managers use to evaluate a jurisdiction’s attractiveness as a fund domicile. The 16 key dimensions, both individually and together, paint a fuller picture of a mature environment for the domiciliation of investment vehicles based on inputs received through our desk research and consultations.

Why it matters for Investment Vehicles to domicile on the African continent

Limited availability of capital hampers African businesses' access to affordable finance and their potential to drive growth and employment on the continent: MSMEs[3] are an important driver of private sector development and economic opportunity - especially for young people. The development of new businesses, the growth of existing ones and greater depth and resilience in African entrepreneurial ecosystems are critical to growing economies that can accommodate the world's fastest-growing population. Limited availability of capital, however, makes access to affordable finance difficult, hindering African entrepreneurs from starting, growing and scaling high-potential enterprises. MSME funding needs often fall into a gap between the typical ticket sizes of microfinance and traditional banks, requiring more diverse capital providers to support their establishment and growth. The demand and urgency for MSME funding is significant - the Collaborative for Frontier Finance's research shows that small and growing businesses (or MSMEs) generate approximately 80% of formal jobs in emerging markets but still face a USD 940 billion funding gap.[4]

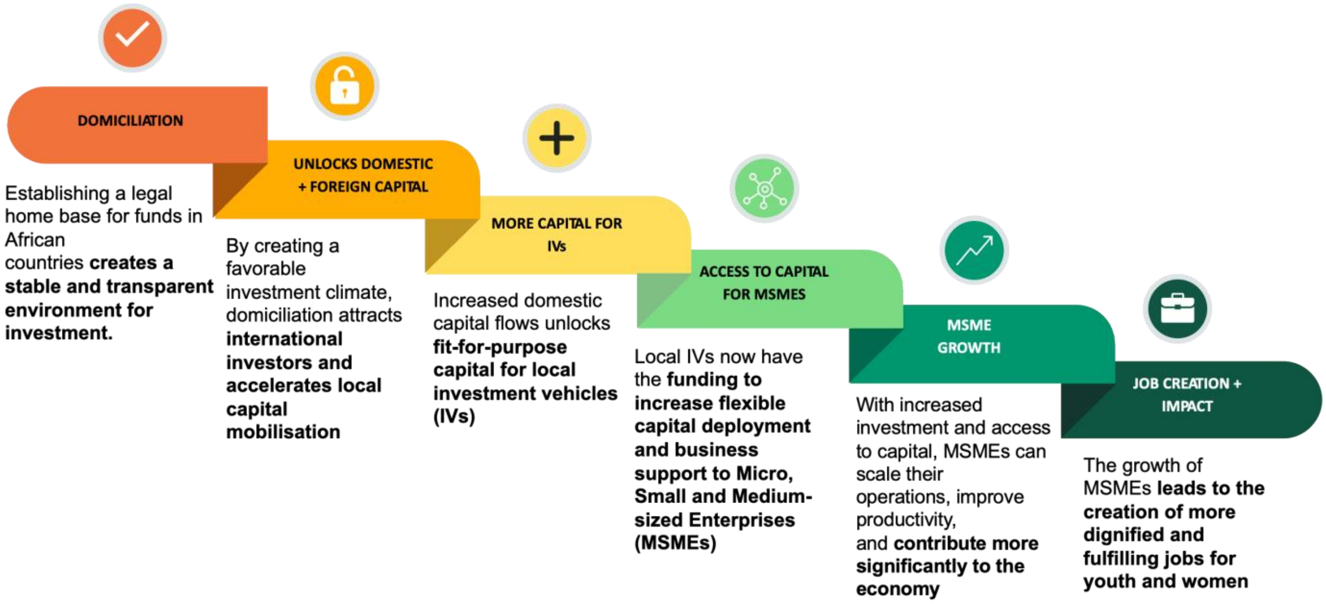
Developing mature African capital markets is imperative to drive investment in African MSMEs: Attracting investment vehicles to domicile in African jurisdictions can draw greater international investment and catalyze the mobilization of local capital for African enterprises. African or local domiciled Investment Vehicles (IVs) are best placed to source and channel capital into local businesses while contributing to the development of financial services ecosystems. There has been a rise in many new and diverse smaller-sized funds, with fund sizes less than USD 10 million being launched in Africa. Smaller-sized funds are significant in their ability to unlock funding for ticket sizes that include MSMEs- which are often too large to access microfinancing and are too small to access traditional banks and traditional PE and VC capital.

Domiciliation of IVs in African jurisdictions is a critical enabler of investment in African businesses by providing a legal home base for Africa-focused IVs that can deploy both local and international capital. Local domiciliation helps IVs to access local capital pools such as pension funds, brings IVs closer to pipelines of investable opportunities, and provides local legal structures which better respond to the needs and realities of both IVs and MSMEs. In addition to increasing the availability of capital, domiciliation contributes to the development of local capital markets and supporting services, reduces setup and transaction costs for IVs, and enables communities to invest using pooled capital. These advantages contribute to MSME development, economic growth, and opportunity.

[3] Micro, small, and medium-sized enterprises

[4] "About CFF." *Collaborative for Frontier Finance*, (n.d.).https://www.frontierfinance.org/about-cff.

FIGURE 1: WHY DOMICILIATION MATTERS | IMPACT ENABLING



Source: *Developed by the authors for the purpose of this report*

Intentionally increasing fund domiciliation on the continent will help boost diverse capital flows to local IVs by channelling assets from local pension funds and institutional investors and unlocking greater flows of funds from international investors. Enhancing the capacity of IVs to finance African MSMEs will accelerate and expand the creation of diverse employment and entrepreneurship opportunities for young people across the continent. Domiciliation can, therefore, play a critical role in market-based responses to Africa's demographic profile's urgent need and unique opportunity by increasing investment in the enterprises and entrepreneurial ecosystems that will power lasting impact and prosperity for Africa.

Domiciliation also helps to build local investment and entrepreneurship ecosystems. A theme emerging from the Study indicated that domiciliation has the potential to create a wider impact on the investment and financial services ecosystem: Domiciliation incentivizes the development of related legal and financial expertise, robust regulation and operational efficiency. It also serves as a mechanism for deploying diverse sources of capital into local enterprises, supporting financial depth and commercial innovation.

This report identifies and addresses the barriers to IVs domiciling in African jurisdictions. Approximately 60% of African-focused IVs are domiciled outside the continent.[5] This lack of domiciliation limits the development of local capital markets and, therefore, constrains the launch and scale of businesses that could contribute to economic growth and employment. The Study investigated the drivers of domiciliation and investment decisions; assesses African jurisdictions' preparedness to respond to these drivers; and identifies factors that limit domiciliation in Africa. It further outlines how

[5] Data from Oryx Impact (Top Domiciles for Africa Focused Fund, 2023)

African jurisdictions can better attract and serve IVs by developing the frameworks, resources and services needed and marketing this development - including addressing an observed gap in trust from investors, increasing the operational capacity and perception of financial sector services, and aligning regulatory frameworks to national and regional strategies.

Key findings and highlights of the report

Focused action to unlock local and international capital through domiciliation can level up African investment activity. Inclusive investment can capacitate grassroots economic participation and local retention of value and recognize and formalize local innovation. The report recommendations provide actionable steps for jurisdictions to build domiciliation-friendly ecosystems that can lead to an increase in reliable capital flow and unlock the potential of investment for strong, sustainable, inclusive economies and transformative entrepreneurial activity.

International investors and fund managers base domiciliation decisions on key characteristics of jurisdictions. These include perceptions of risk, familiarity with and trust in regulatory frameworks, and availability of relevant services and expertise. Stakeholders particularly highlighted the need for (a) Experienced legal professionals with technical expertise in fund structuring and related subject matter and **(b)** Banks with correspondent relationships capable of meeting the needs of the industry. In addition, many LPs and investors specify that disputes within jurisdiction be evaluated in English or American law. International investors and fund managers can be more easily attracted to new domiciles where risk perceptions are mitigated by the mobilization of substantial domestic capital and a sense of ecosystem development direction is set by, for example, a national industrial strategy.

The Fund Domiciliation Maturity Diagnostic Tool identifies the most effective levers for increasing domiciliation in Africa. The tool was designed to provide a forward-looking perspective on enhancing common characteristics that make African jurisdictions more attractive for domiciliation and to create an analytical framework for assessing opportunities and progress toward ‘maturity’ – equivalence of environment with leading international domiciles. The diagnostic tool evaluated these countries through four macro parameters: Enabling Environment, Judiciary Framework, Operational Efficiency, and Regulatory Environment. This analysis helped identify where each of the countries stands with respect to domiciliation and market opportunities that exist in each country. The tool provides a framework that will enable more targeted and effective domiciliation strategies tailored to each country's specific context.

Policymakers and ecosystem actors can maximize domiciliation and capital flows in their jurisdictions by tailoring the development of financial services ecosystems to their context. The FDMDT shows that countries vary significantly in their readiness to become jurisdictions for domiciliation. While some countries have not prioritized this in their policy agenda, any country wishing to establish itself as a jurisdiction for domiciliation must actively engage with policymakers, regulatory bodies, and advocacy groups to develop the necessary ecosystem. This will require medium to long-term commitment by African jurisdictions and the active promotion of the benefits of IV or fund domiciliation in the region. To differentiate themselves, African jurisdictions may also need to create a niche that addresses the needs of distinct investors and IV managers.

The report also highlights local institutional and retail investors as a promising source of investment capital. Many investors have agreed that there is an opportunity for fund domiciliation in regions with substantial local capital and capacity, which can be mobilized alongside international capital. There is also a case for wider engagement with pension funds on the continent with relatively large sums of capital that can be channelled towards driving economic development in Africa while providing diversification opportunities for these institutional investors. Where significant local and regional capital has been mobilized, there is a greater opportunity to mobilize international capital, particularly as a de-risking mechanism for the risky asset classes. Regarding local capital mobilization, there is a need for the creation of regional platforms and regulatory passporting, with the aim of creating pan-African investment vehicles and fund of funds to accelerate fundraising for pension systems, MSMEs, women-led businesses, rural demographics, and other marginalized groups, across African countries. Larger markets such as Nigeria, Kenya and South Africa could be favoured as a preferred domicile, because of their large local capital pools, even if they are FATF grey-listed for the moment. Countries like Ethiopia, Morocco and Uganda which have large pension fund assets, could permit the investment of pension funds in other asset classes (including investment vehicles and other alternative investments).

Key contribution – Fund Domiciliation Maturity Diagnostic Tool

The Fund Domiciliation Maturity Diagnostic Tool (FDMDT) is a key contribution of the Study. The tool identifies and assesses the key factors influencing investors' and IV managers' assessment of a jurisdiction's attractiveness. Using the tool, stakeholders can measure progress on improving common dimensions and features of a mature fund domiciliation ecosystem and focus collective action on improving these in their respective jurisdictions. The standard for maturity is based on the international jurisdictions that international investors most consider a "safe bet". They have historically attracted international investors and IV managers, given their track record and well-known domiciliation processes and systems.

The FDMDT tracks four macro parameters that reflect the needs of diverse stakeholder groups. These are Enabling Environment, Judiciary Framework, Operational Efficiency, Regulatory Environment, and Oversight and Enforcement. Each of these parameters comprises four dimensions that together define a jurisdiction's maturity in that area:

FIGURE 2: FUND DOMICILIATION MATURITY DIAGNOSTIC TOOL (FDMDT)

Source: *Developed by the authors for the purpose of this report*

The Study rates thirteen African jurisdictions along the FDMDT maturity scale. The purposive sampling includes a continental cross-section of jurisdictions with high potential for domiciliation based on the scale, dynamism, innovation or prominence of their financial services sectors. The scale classifies countries into colour-coded categories that indicate their stage of development and stability in establishing an ecosystem suitable for the domiciliation of IVs. This framework acknowledges the specific challenges and opportunities present in African jurisdictions and provides a systematic progression tailored to the continent's unique context and challenges:

Green: These countries have strong regulatory frameworks and favourable regulatory regimes that offer comprehensive, well-organized structures. They also feature efficient, reliable judicial and alternative dispute resolution mechanisms and permit investors to repatriate funds without undue restrictions or delays arising from illiquidity or capital controls beyond monitoring and compliance. Examples include Mauritius, South Africa[6], Rwanda, Morocco and Ghana.

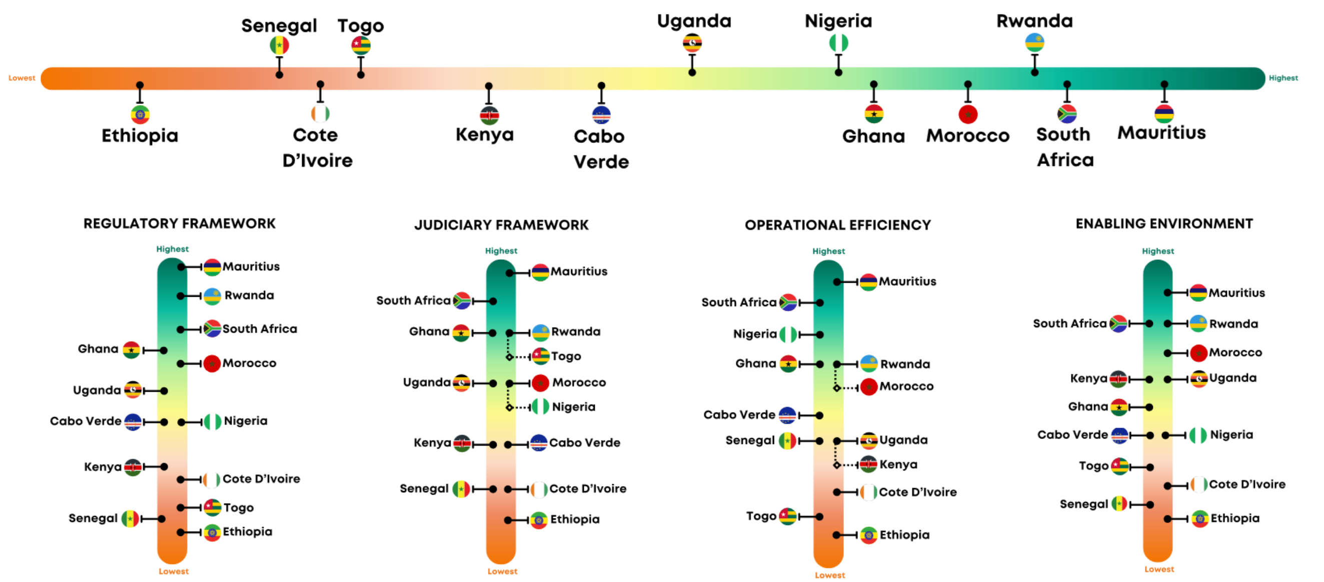
Yellow: These countries currently have relatively less developed systems but are on a trajectory to develop favourable ecosystems for the domiciliation of IVs. Such countries may have limited regulatory frameworks, tax incentives and available fund structures. However, they have demonstrated a commitment to improving their systems and policies to make them more favourable for IVs. These jurisdictions show moderate viability for building a fund domiciliation ecosystem and have some potential to attract IVs to domicile in their country. Examples include Nigeria, Uganda, Cabo Verde and Kenya.

Orange: These countries are in the early stages of development of a favourable environment for the domiciliation of IVs and have nascent fund ecosystems in place. They, however, have some potential to develop within several years and will require consistent and deliberate effort from government, regulators, and ecosystem enablers to develop the requisite frameworks for the domiciliation of IVs. In the immediate term, these jurisdictions can attract local IVs while building stronger ecosystems to mobilize capital, protect investors, and support entrepreneurship ecosystems. Examples include Côte d'Ivoire, Togo, Senegal and Ethiopia.

[6] South African authorities are working to align the already relatively liberalised foreign exchange regime with international standard open account systems.

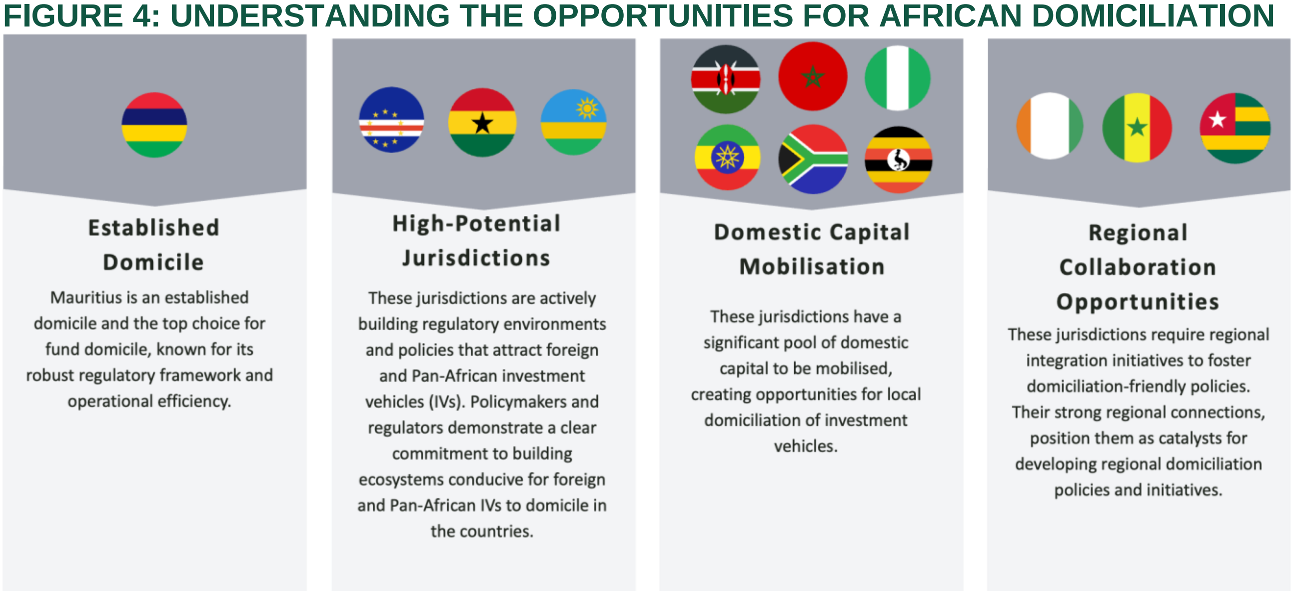
The FDMDT parameters represent sequential stages of creating a domiciliation-friendly ecosystem. A systematic progression toward maturity can be approached in phases that build upon one another: Political and economic stability provide a foundation for building regulatory frameworks and infrastructure that underpin efforts to enhance the ecosystem and create a comprehensively attractive environment for IV managers and investors.

FIGURE 3: FDMDT FINDINGS – DOMICILIATION MATURITY OF AFRICAN JURISDICTIONS



Source: *Developed by the authors for the purpose of this report*

FIGURE 4: UNDERSTANDING THE OPPORTUNITIES FOR AFRICAN DOMICILIATION



*With their inclusion in the FATF "grey list" as of October 2024, countries included in this Study like South Africa, Nigeria, Kenya and Côte d'Ivoire will need to prioritise efforts for compliance with global standards to build investor confidence.

Source: *Developed by the authors for the purpose of this report*

The jurisdictions covered in the Study present diverse and nuanced opportunities for IV domiciliation. These countries represent the strongest potential along four distinct developmental trajectories that constitute a dynamic framework rather than a one-size-fits-all approach. By understanding the alignment of each group with the concept of domiciliation, stakeholders can adapt to their unique circumstances and developmental trajectories and navigate the domiciliation landscape effectively, unlocking its full potential for inclusive growth and prosperity across the continent.

Mauritius stands out as an established domicile for international capital, symbolising stability, reliability, a trusted environment for international investors, and a strong role model for other African Jurisdictions.

High-potential jurisdictions like Cabo Verde, Ghana, Uganda, and Rwanda demonstrate a proactive approach to building regulatory environments conducive to attracting foreign investment and unlocking local capital. They prioritize creating ecosystems that foster international, pan-African and local investment vehicles, signalling readiness to capitalize on domiciliation opportunities for economic advancement.

Ethiopia, Kenya, Morocco, Nigeria, and South Africa, hold significant promise for local capital mobilization. These nations possess substantial pools of local capital, positioning them to drive domiciliation initiatives from within. Their focus should lie on harnessing local resources to fuel economic growth and create self-sufficient ecosystems for fund domiciliation. Differentiation through niche approaches, such as building investment around tourism or green finance, can also drive domiciliation.

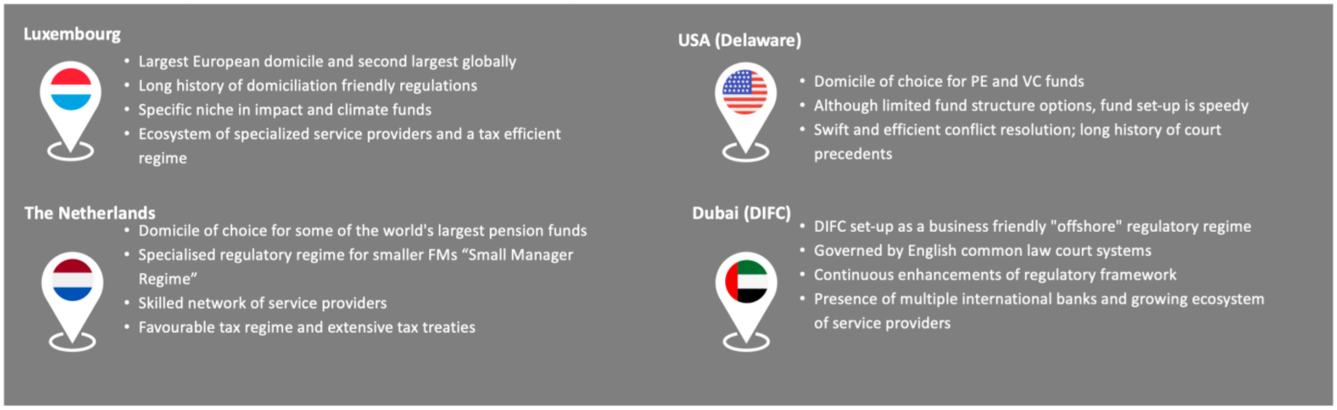
Lastly, regional integrated countries such as Côte d'Ivoire, Senegal, and Togo leverage their strong regional connections to foster cross-border domiciliation policies. By aligning with the concept of domiciliation, these countries promote seamless investment flows within their respective regions, facilitating economic integration on a broader scale.

What it takes to increase Domiciliation in Africa

Stakeholders consulted for this report provided valuable insights on actions needed to increase the competitiveness of African jurisdictions. The authors would like to preface these insights with a note of appreciation to the administrators, officials, service providers and others who provided their time and expertise to examine a relatively technical and complex subject. Their insights into the current dynamics have been instrumental in the domiciliation maturity analysis of African countries.

International jurisdictions that are prime choices globally for the purpose of fund domiciliation provide instructive examples. Each of these jurisdictions has established the basic ecosystem for the domiciliation of investment vehicles in terms of their legal and regulatory frameworks, a vast pool of skilled professionals, and reliable financial services. Additionally, to differentiate themselves, each has found a means of specializing or creating niches that address the needs of distinct investors and IV managers. Such specialization may be a strategic consideration for the African jurisdictions looking to grow their capabilities as fund domiciles, ultimately leading to the creation of a competitive industry.

FIGURE 5: KEY FEATURES OF NON-AFRICAN DOMICILES



***Source:** Developed by the authors for the purpose of this report*

Domiciliation of investment vehicles is increasingly viewed as key to enabling opportunities for driving investment capital to a jurisdiction and galvanizing local capital. The Domiciliation decision is a crucial step in the formation of an investment vehicle since a domicile is not only limited to designating the official address of the investment vehicle but plays a pivotal role in determining how it operates. As evidenced by the FDMDT, choosing a domicile is often a complex decision that requires a deep understanding of legal, regulatory, and operational factors to ensure confidence in the IV's performance in a competitive international financial landscape. African jurisdictions can positively influence domiciliation decisions by:

- **Bolstering investor confidence in the jurisdiction,** both internationally and across the continent**.** African jurisdictions should aim to develop a trusted and responsible fund domicile recognized by major investors and key decision-makers. For example, private capital activity in Africa is primarily driven by Development Finance Institutions (DFIs). Hence, a key goal for fund activity and domiciliation on the continent is aligning international development agendas with promoting local capital growth.

- **Building trust in national regulators and investment ecosystems.** Stakeholders cite a variety of conditions that help build trust. Legal factors such as dispute resolution, along with macroeconomic factors such as capital controls and unfavourable taxation, all impact the confidence of international and regional investors. Clarity around these factors and a commitment to strengthening the local financial ecosystem are critical to unlocking capital and becoming internationally accepted fund domiciles.

- **Developing and marketing specialized legal and financial services.** Building any new viable domiciliation ecosystem takes time and requires a range of specialised professional skills—fund administration, auditing, and custodial service, amongst others. As these are put in place, relevant audiences should also be made aware of them.

- **Creating a conducive macroeconomic environment for investment.** While these issues are not always in the hands of regulators, they influence the ability of international investors and IV managers to conduct their business. These may include (a) capital controls that restrict foreign currency disbursements and repatriation of monies, (b) unstable political and economic circumstances, and (c) unfavourable taxation arrangements.
- **Intentional alignment and commitment around a distinct investment agenda.** Achieving equivalence to long-established European fund domiciles, such as the Netherlands, Luxembourg, and the US (particularly Delaware), will require a medium to long-term commitment to driving this agenda and active promotion of the benefits of fund domiciliation in Africa. Additionally, to differentiate themselves, African jurisdictions may also need to position themselves as a niche that addresses the needs of distinct investors and fund managers.
- **Leveraging International Financial Centre models to build financial services sectors.** In addition to creating streamlined regulatory, legal, and operational frameworks for investors, IFCs signal a disciplined commitment to establishing a strong financial services sector. This approach has two benefits: demonstrating a necessary precondition for fund domiciliation and attracting capital in all forms to the country. Kigali International Finance Centre is one example of centres that offer a model for accelerating ecosystem behaviours in countries seeking to become more attractive to investors. Mauritius also has a strong IFC.
- **Active engagement across the ecosystem by policymakers, regulatory bodies, and advocacy agents** is critical for wider engagement with diverse capital pools, such as pension funds, that can be channelled towards driving economic development in Africa while providing diversification opportunities for these institutional investors. Foreign Direct Investment (FDI) also remains a priority for several countries covered in the Study, like Senegal, Ethiopia, and Togo. For both countries and investors, a distinction should be made between Africa as a destination for capital and fund domiciliation being one of the many tools to attract this capital.

The path forward

Deliberate action on fund domiciliation on the continent will position local and international investment vehicles to receive a significant boost of investment capital through channelling assets from local pension funds and institutional and retail investors or unlocking funds from international investors. This will enhance their capacity to finance African MSMEs, who can, in turn, contribute to economic growth and increase employment, growth and returns. For example, African countries with substantial local capital pools can direct investment toward MSMEs by following the lead of Kenya and South Africa in creating platforms for pension fund managers to pool capital for infrastructure investment.

Attractive fund domiciliation jurisdictions will be able to achieve the following:

- **Attracting international investment capital:** Investors are always looking for opportunities to deploy capital. Attractive domiciliation jurisdictions offering the needed incentives to investors, with competent professional service providers, an efficient legal system, etc., can draw international investors to invest in IVs domiciled in the local jurisdictions.

- **Unlocking of local capital, particularly from pension funds, into investment vehicles: Pension funds in various African countries control substantial under-deployed assets, with most of these funds investing predominantly in government-backed instruments** and real estate projects. Pension fund assets across Africa represent highly untapped resources, providing pension fund managers an opportunity to make alternative investments in the Private Equity and Venture Capital (PEVC) sector in various African countries. This could be unlocked as the right frameworks are created for investment vehicles to domicile smoothly in such jurisdictions. For example, the launch of the Kenyan Pension Funds Investment Consortium (KEPFIC) and the Asset Owners Forum of South Africa (AOFSA) unlocked commitments of more than USD 500 million into local funds and Africa-focused IVs investing in critical sectors[7].

- **Becoming key drivers for local capital mobilization and inclusive economic participation:** Although domiciliation is important for attracting international capital flows from institutional investors, it is equally as important to accelerate the flow of local capital through not only local Pension Funds but through locally innovative pooled funding mechanisms, such as REITs, equity crowdfunding and peer to peer lending – enabled by the passing of appropriate national guidelines. Local domiciliation will allow these structures to pool local retail and institutional capital to deploy in local currency, using funding instruments that meet the needs and realities of MSMEs on the ground.

Some additional observations from stakeholders consulted on the path forward include:

- **Effectively deploying investment capital within an African country should not be judged by fund domiciliation – or AUM (Assets under Management) – alone.** An equally important measure of progress is the extent to which funds mobilize investment for local enterprises in the jurisdictions where they are domiciled. For example, popular domiciles like Ireland and Luxembourg have achieved large AUM international capital flows, but these have not directly translated into investment

[7] USAID Invest. "How Africa's Pension Funds Are Financing the Continent's Infrastructure Gap". https://medium.com/usaid-invest/how-africas-pension-funds-are-financing-the-continent-s-infrastructure-gap-2bcd9aa39069

capital being put to active work in those jurisdictions. Therefore, AUM might not be the best measure of the success of a domiciliation jurisdiction.

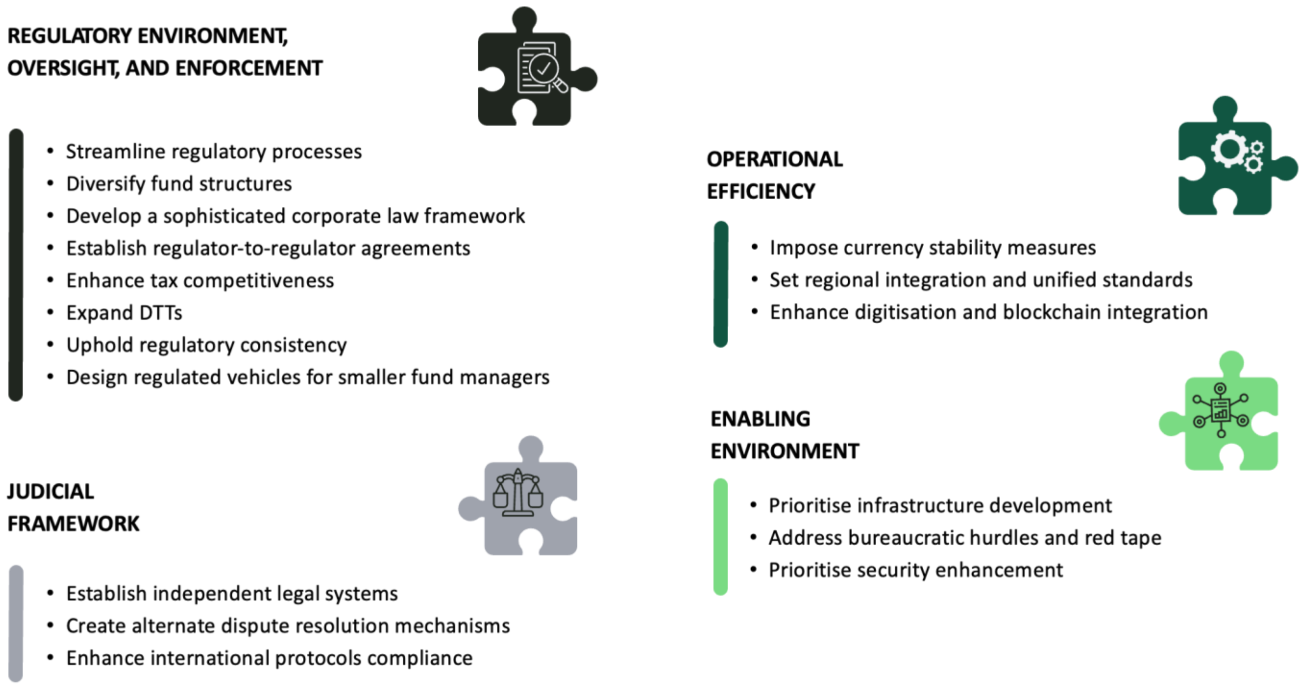
- **DFIs and policy-oriented private capital will play a significant advocacy role** in encouraging a wider choice of options for the domiciliation of funds in Africa. International investors, especially DFIs, have historically primarily domiciled their funds in international jurisdictions, but there is a case for them to consider diversifying their options. Given that DFIs drive the largest flow of private capital on the continent, this Study is intended to support a better understanding and clarification of options for the domiciliation of investment vehicles in African jurisdictions.
- **Fund domiciles are not the only way to attract capital to African countries.** Driving investment capital of all types to Africa is critical and will be for the foreseeable future. Fund domiciliation may not be a priority for all African jurisdictions, and this Study does not suggest that domiciliation is the exclusive way to attract investors. Domiciliation is fundamentally a business decision and may not always be the only means of driving capital into a given jurisdiction.

Domiciliation of investment provides a path to unlocking the untapped potential of Africa's youthful population by meaningfully deploying local and international investment capital for entrepreneurs and empowering businesses to create jobs, lasting impact and shared prosperity. The study findings and stakeholder observations lead to a call for retail and institutional investors, fund managers, African policymakers, regulators and ecosystem builders interested in strengthening institutions and enabling long-term growth to work together in building an inclusive and resilient investment ecosystem for future generations on the African continent. This report aims to stimulate an ecosystem dialogue that will inspire these stakeholders towards greater advocacy, collaborative action and system-level coordination to attain the end goal of catalyzing economic growth and transformation. In particular, key stakeholders can act on the following recommendations, listed by FDMDT parameters, stakeholder types and country contexts.

Stakeholder Call to Action

The above stakeholder observations translate to the following FDMDT-aligned recommendations and action steps for key stakeholder groups that support the creation of mature fund domiciliation ecosystems:

FIGURE 6: RECOMMENDATIONS BY FDMDT PARAMETERS



Source: *Developed by the authors for the purpose of this report*

Recommendations for key stakeholder groups

Any effort to strengthen African jurisdictions as internationally acceptable domiciliation destinations requires concerted and intentional actions by various stakeholder groups and advocacy agents. They must lead and support tangible efforts to grow fund domiciliation as a viable tool for Africa. Building on the analysis of maturity levels of the countries considered in the Study and the recommendations across the key parameters, the figure below summarises the actions needed by various stakeholders.

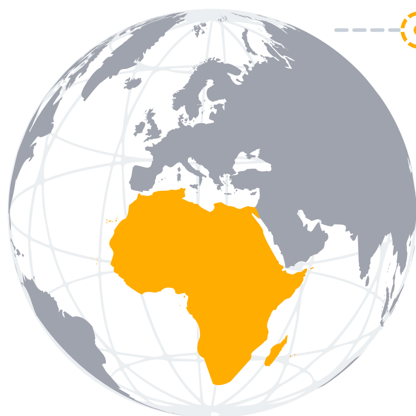
FIGURE 7: RECOMMENDATIONS BY STAKEHOLDER TYPE

NATIONAL POLICY MAKERS

- Political will and commitment to support domiciliation efforts
- Make fund domiciliation relevant in national strategies to build capital investment in support of African innovators and entrepreneurs
- Devise policies that draw significant capital from domestic, regional and international investors
- Leverage International Financial Centers (IFCs) to attract long-term capital
- Implement proactive measures to reduce red tape and promote ease of fund set-up
- Actively promote the integration of ESG and responsible financing standards
- Create targeted incentivisation mechanisms for funds
- Encourage mobilisation of local capital

REGULATORS

- Streamline regulatory approval timelines and licensing processes
- Enhance capacity of professionals in the legal, banking, investment, and finance sectors
- Work in close co-ordination with industry bodies and experts
- Encourage regional integration initiatives and development of unified standards
- Explore the strategic integration of technology in fund management



FUND MANAGERS AND INVESTORS

- Recognise the long-term opportunities available in Africa in the flow of investment capital and fund domiciliation
- For those investors with a social impact mandate, consider partnering with willing African jurisdictions to invest in fund domiciliation
- Larger global investors and fund managers could use their position to act as advocacy agents with policy makers

INTERNATIONAL DEVELOPMENT FINANCE INSTITUTIONS

- Support and partner with willing African jurisdictions to develop fund domiciliation ecosystems
- Assist willing African jurisdictions in exploring whether regional strategies could be considered to enhance domiciliation reputation

ECOSYSTEM BUILDERS

- Engage with national policy makers to gain political will and commitment
- Garner political support for projects from relevant ministries to avoid overlap
- Assist national policy makers in deepening their sectoral expertise and support in programmes to strengthen their internal capacity
- Develop capacity building programmes to create in-country expertise and pool of skilled service providers
- Engage with industry bodies and associations to develop partnerships for joint advocacy efforts
- Collaborate with Investment Promotion bodies and industry associations to "publicise" the domiciliation potential of African jurisdictions

Source: *Developed by the authors for the purpose of this report*

Annex: Recommendations by Country

The countries profiled in this report are at different stages of their journeys towards creating attractive investment ecosystems. Actions needed will hence require differing levels of effort from country to country, and the Study lays out specific recommendations to achieve this:

Country	Recommendations
 **Cabo Verde**	• Develop a clear “National Domiciliation Strategy” linked to the Cabo Verde Ambition 2030 plan, to be driven by a newly established steering committee within the state department of business development. • Position the country as an upcoming domicile through rigorous marketing and promotion, targeting funds focused on trade and logistics, technology, and the blue economy. • Invest in training and developing an adequate pool of skilled legal professionals versed in investment vehicle laws and structuring and other professionals and support services for investment vehicles. The diaspora could be leveraged in this regard. • Initiate benchmarking and knowledge exchange engagements with other high-potential jurisdictions, such as Ghana in West Africa and Rwanda in East Africa, to learn about initiatives being undertaken by these countries in their domiciliation strategies.
 **Côte d’Ivoire**	• Use growing pension assets to catalyze capital markets development and local capital mobilization for long-term investments in funds and other investment vehicles. • Initiate and lead a UMOA-wide consultation to accelerate the adoption and implementation of the Industry Associations' recommendations for a comprehensive framework and incentives for the ecosystem. • Authorities to work with the FATF to address the deficiencies in the jurisdiction’s AML/CFT/CPF regimes to facilitate its removal from the FATF Grey List to which it was added in the FATF’s October 2024 release.
 **Ethiopia**	• Use the assets held by Ethiopian Investment Holdings (in excess of USD 43.6 billion) to catalyze private sector involvement in the economy. • Progressively increase private sector and foreign participation in banking, insurance and telecommunications to deepen the operational environment for funds. • Mobilise the vast and growing local pension assets to catalyze capital market development for long-term investment in funds and other investment vehicles. • Leverage the huge diaspora community to encourage the creation of specialist investment vehicles and funds to invest in agribusiness, fin-tech, and other strategic sectors.
 **Ghana**	• Promulgate the Limited Partnership Law and Trust Law to expand the permissible legal structures for funds and provide alternatives for fund managers and investors. • Establish an Accra International Financial Centre framework to provide a dynamic and investor-friendly business environment and adaptable regulatory framework.
	• Elevate the agenda of domiciliation in the country by further engaging policymakers. The current government has shown openness to support the full establishment of the Nairobi International Finance Centre (NIFC) and its Steering Council.

 **Kenya**	• Support institutional strengthening for NIFC as the lead authority responsible for driving the domiciliation agenda for the country. There is fragmentation between the different financial authorities in the country, creating some overlap and lack of coordination in driving the domiciliation agenda forward. • Develop incentives to increase local pension fund investment in PEVC. Following the recent adoption of the Alternative Investment Funds (AIFs) regulation, the jurisdiction has an opportunity to drive greater local capital mobilization. Policy incentives need to be developed to encourage pension fund managers to increase their investments into alternative vehicles from the current 1% to the regulatory minimum of 10%.
 **Mauritius**	• Support initiatives such as Mauritius Impact Finance Gateway to Africa (MIFGA)[8] and other initiatives to reduce entry costs into Mauritius.
 **Morocco**	• Use the new amendment of the Moroccan Investment Law to strengthen the role of private equity in view of the Mohammed VI Fund for Investment (M6FI), which is aimed at catalyzing investment by mobilizing local and international private and public sector investors in fund domiciliation in the country. • Promote inter-stakeholder coordination to support marketing, business and investor promotion, and registration of funds to complement the M6FI. • Initiate and implement policies that progressively target and increase limits of pension assets to invest in local private equity and venture capital funds.
 **Nigeria**	• Utilise significant pools of institutional funds through appropriate investment vehicles such as Private Equity, Venture capital, infrastructure funds, and real estate investment schemes (REISs), attracting both local and international investors seeking diverse asset classes. • Strengthen retail Investment channels, e.g. the existing Crowd Funding policy by the Securities and Exchange Commission (SEC) can present a unique opportunity for mobilising the retail sector, including informal sources of local capital. • Promote Infrastructure Investment, as Nigeria's infrastructure deficit presents an opportunity for international and local institutional investors. • Encourage diaspora investment to leverage the large diaspora population with significant financial resources. • Utilise the vibrant entrepreneurial ecosystem and MSME sector to identify opportunities for local capital crowding-in and investments from international impact investors.
	• Promote and position KIFC as a premier Sub-Saharan Africa investment domicile centre targeting Africa-focused impact funds and regional investors.

[8] Mauritius Investment and Financial Services Global Authority (MIFGA). MIFGA, https://www.mifga.fund/

Rwanda	• Target technology-focused funds as these have high potential. This could also drive interest in the domicile while leveraging the association factor to attract other players in the tech ecosystem and beyond.
 **Senegal**	• Use the experience, profile and assets of Fonds Souverain d'Investissement Stratégiques de SA (FONSIS) to catalyze capital markets development and local capital mobilization for long-term investments in funds and other investment vehicles. • Actively pursue policies and measures that leverage Senegal's unique regional position within the West African Economic and Monetary Union (WAEMU) as the technology and diplomatic hub to attract investment vehicles financing fin-tech and diplomatic partners across the WAEMU and the wider Francophone Africa.
 **South Africa**	• Actively advocate for the government to implement a robust strategy aimed at positioning the country as a leading fund domicile. This aggressive approach can enhance South Africa's standing in the international market by leveraging its well-established ecosystem and robust financial sector. • Allocate the nation's substantial pension assets into emerging funds focused on technology, green initiatives, or climate resilience. This strategic deployment will catalyze the formation of a new ecosystem and incentivize international investors to establish similar funds, thereby fostering growth and innovation in these sectors and creating new demand.
 **Togo**	• Togo should be supported by private and public stakeholders to develop into a domiciliation hub in the West African Economic and Monetary Union (UEMOA) region. This is because it has existing regional developmental banks and international status that host multiple structures for local and international investors.
 **Uganda**	• Leverage the large local pension assets to catalyze MSME financing and invest in MSME funds. • Tap into the sizable diaspora and develop targeted funds for them. • Expand the available fund structure options to include General Partners (GPs), LPs, and other specialized fund structures.

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