



The Cost of Capital in Africa

Understanding the "Africa Premium" and its Implications

 Financial Markets

•  Economic Development

•  Investment Strategies

RENEWABLE ENERGY WACC

8.5-9%

vs. 4.7-6.4% in North America/Europe

SOVEREIGN BOND YIELD

9.1%

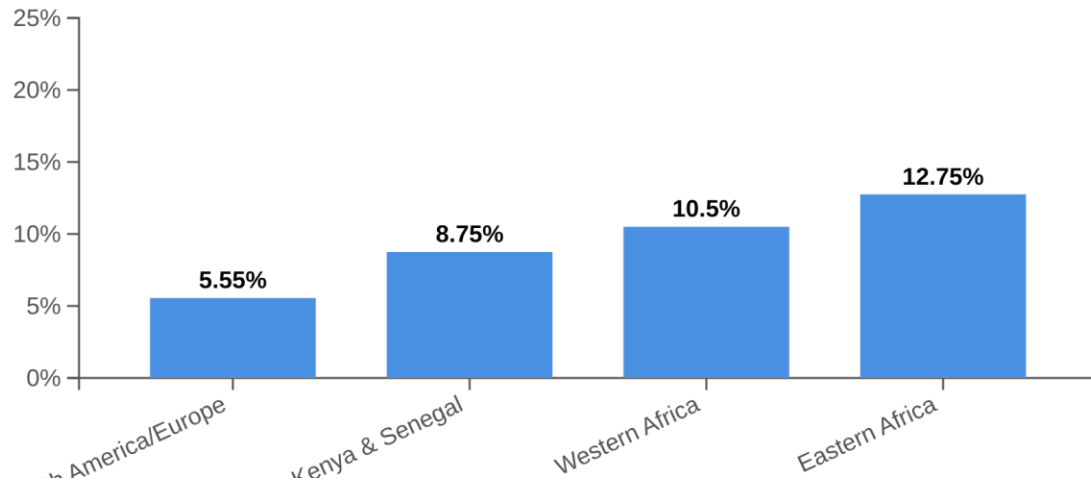
vs. 4.7% in emerging Asia

The Africa Premium - Understanding the Scale



Africa faces a significant **cost of capital premium** compared to global markets, impacting investment and development across the continent.

Renewable Energy WACC



Source: IEA, 2025; CATF, 2024

Sovereign Bond Yields

Region	Yield
Africa (Kenya & Senegal)	9.1%
Latin America	6.5%
Emerging Asia	4.7%

Source: The Global Observatory, 2025

Domestic Borrowing Costs

Government bond yields in many African countries:

- Often in the **mid-teens** or higher
- Eastern Africa has the highest costs
- Northern Africa has the lowest costs

Source: FinDevLab, 2025



Key Drivers of High Capital Costs



Africa's elevated cost of capital is driven by a combination of country-level risks and project-specific challenges.

Macroeconomic & Country-Level Risks



Perceived Political Instability

Higher political risks increase borrowing costs.



Subjective Credit Ratings

Only 2 African countries have investment-grade ratings. Credit rating agencies cost African countries an estimated \$75 billion.



Currency Volatility

Kenyan shilling depreciated 28% against the USD (2018-2024), increasing devaluation risk.

Sector & Project-Specific Risks



Off-taker Risk

State-owned utilities in Kenya and Senegal have high debt levels, increasing non-payment risk.



Regulatory Uncertainty

Inconsistent regulatory environments deter investment, despite improvements in countries like Kenya and Senegal.



Underdeveloped Capital Markets

Limited local financial market maturity leads to reliance on external funding at higher costs.

AfricaSignal.com



Key Insight

A combination of macroeconomic risks and project-specific challenges creates a high-cost environment for investors.



Impact on Investment

- 🚫 **Reduced Project Viability:** High capital costs render numerous projects, particularly in capital-intensive sectors like clean energy, less financially viable.
- ⌚ **Delayed Investments:** Energy transition and infrastructure development projects face significant delays due to uncompetitive project economics.
- 🏗️ **Increased Costs:** Higher expenses for infrastructure development and critical projects, ultimately stifling economic growth.

The persistently high cost of capital in Africa significantly impedes investment across various sectors, affecting the speed of energy transition and overall economic development.

Source: OECD, 2005; IEA, 2025

✈️ Strategic Responses: The 'Nomadic' Corporation

Major South African corporations with global ambitions have relocated their primary stock exchange listings to international markets, particularly London, to access lower-cost capital.



Anglo American

Cost of Capital: **17% → 9%**

Nearly halved capital cost by moving head-listing to London



SABMiller

WACC: **9.5% → 7.5%**

Reduced WACC by 2% after acquiring Miller Brewing in the US

⚖️ Trade-offs

Benefits:

- Access to lower-cost capital
- Enhanced global competitiveness

Drawbacks:

- Hinder local market development
- Reduced liquidity in African markets