

Local Capital Markets Spark the Innovation Needed for Sustained Prosperity

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Efficient and liquid capital markets create the conditions that enable entrepreneurs to thrive. This is hardly a revolutionary idea, but establishing such markets is challenging work.

Years ago I settled into my first job at a development finance institution. The location: Abidjan, which made me one of the few Chinese people living in Côte d'Ivoire. So I was surprised, during a visit to the western city of Daloa, to encounter an intrepid Chinese entrepreneur who made a living selling sweet wormwood — an Asian herb known for its antimalarial properties. She had noticed that despite the high risk of malaria, malarial remedies weren't easily available. So she decided to start a business, moving from town to town and selling the herbs in a stall at local markets.

Private entrepreneurship is fundamentally a form of problem solving — recognizing a human need and finding the most effective way to

meet it. Stall operators at the local market in Daloa do it all the time. So do other businesses across the spectrum from small to large. Collectively, their creativity drives economic growth and helps spread prosperity. In short, they are essential. Their success should be a priority for governments, development agencies and the private sector everywhere. Our ability to address some of the world's greatest development challenges depends on it.

Today, small and medium enterprises generate two-thirds of all jobs in the formal sector, yet not nearly enough entrepreneurs are able to realize their vision. Across the world, such businesses face a financing gap of more than \$600 billion. What I hear

time and again from entrepreneurs — the shopkeeper in Haiti, the agribusiness owner in Rwanda or the owner of an airline in Nepal — is that they cannot obtain the funding they need in a way that makes sense: a loan in their local currency, for a period of at least three years and at a reasonable interest rate.

Providing financing on such terms is easier said than done. To whom do you turn if your business is considered too risky by your local commercial bank simply because you're the first to invest in solar power and the bank doesn't know how to assess your credit risk?

principles and policies governing the capital markets need to be transparent and enforced. It means setting reasonable fees for companies to issue bonds or access the markets. Economic stability and low inflation are also key to encourage savings and make loans feasible.

Investing in human capacity is essential. Policymakers, regulators and investors must be equipped with the knowledge and skills necessary to develop and deepen capital markets. This is often overlooked — the focus is usually on drafting regulations and implementing policies. This is why

countries, but continued investment in telecommunications, power and other key infrastructure is essential to entrepreneurship.

African leaders recognize the importance of developing vibrant capital markets. Under IFC's Pan-African Domestic Medium-Term Note Program, we are working with 11 countries to put in place sound regulatory frameworks to encourage domestic and international issuers to come to markets. We have issued local currency bonds in Nigeria, Rwanda and Zambia. In addition, we're supporting local companies with their first-time bond issuances and offer local-currency finance to domestic companies to help avoid currency risk.

We are starting to witness a sea change in local capital market development — sovereign and private-sector bond issuances in Africa are increasingly attracting international investment. But there is much left to do, and it must be done quickly. The recent depreciation in emerging-market currencies and the drop in commodity prices remind us why: Strong domestic markets and investment can shield local economies from external shocks.

I often wonder what happened to the Chinese woman I met in Daloa. I imagine her walking into a local bank with her business plan and obtaining a loan in West African francs for her startup. I imagine her business growing to the point that it would issue bonds in the domestic capital markets to raise additional funding. This would not be a guarantee of financial success, of course. But access to a deep and vibrant capital market would have measurably improved her odds — and staved off the debilitation of malaria for many more people.

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What if you want to issue a bond to raise funds but can't because the local market lacks a rating system or because your company isn't sufficiently known to investors? Your only choice under those circumstances would be to borrow abroad — and run the potentially debilitating risks of exchange-rate fluctuations.

Efficient and liquid capital markets create the conditions that enable entrepreneurs to thrive. This is hardly a revolutionary idea, but establishing such markets is challenging work. It means creating a macroeconomic and regulatory environment that supports markets. It means

IFC and the Milken Institute are partnering with The George Washington University to offer the first academic program focused on capital-market development. We hope to create a network of practitioners in Africa and other emerging regions who will lead capital-market development in their countries.

And there's infrastructure. When asked about the key constraint to growth, the overwhelming majority of Nigerian business leaders point to the lack of consistent and affordable electricity. Connectivity is rapidly advancing and reaching the most remote areas in developing