



# The Africa We Build: Strengthening Domestic Capital and Intermediation Architecture for Infrastructure

The Africa Finance Corporation's State of Africa's Infrastructure Report 2026 (the “**Report**”) advances a conclusion that is both clear and compelling: Africa's binding development constraint has shifted from capital availability to capital deployment. The continent holds over US\$4.5 trillion in domestic capital across pension funds, insurance companies, sovereign wealth funds, public development banks, commercial banks and central bank reserves, yet infrastructure investment, industrialisation, employment creation and economic resilience remain persistently below what the continent's demographic trajectory and growth potential require.

The gap is not financial. It is a problem of systems: the intermediation platforms, regulatory architectures and institutional structures that channel savings into long-term, productive assets. This commentary examines the legal dimensions of that challenge, drawing on the Report's findings on key areas such as capital and energy.

## **The Growing Decline of External Capital**

The external financing environment for African infrastructure has deteriorated sharply and, as the Report demonstrates, structurally. Official development assistance fell from its 2020 peak of US\$83.8 billion to US\$73.5 billion in 2023 and is projected to decline a further 20-28% in sub-Saharan Africa from 2025, driven by budget cuts across the United States, France, the United Kingdom and Germany, with no expectation of reversal. Sovereign Eurobond issuance collapsed from over US\$29 billion in 2018 to just US\$4-6 billion annually during 2022–2023. Chinese bilateral lending, once a meaningful source of infrastructure financing, has declined materially from its 2010s peak.

The Report's conclusion is clear: external capital can no longer serve as the dependable foundation of Africa's development model. That role must be assumed by domestic capital, with external flows playing a complementary rather than primary function. The legal and regulatory architecture required to make this shift work is as consequential as the capital itself.

## The Scale of Domestic Capital and the Problem of Allocation

Africa's domestic institutional capital base has reached meaningful scale. Non-bank financial assets alone exceeded US\$2 trillion by the end of 2025. Pension and insurance assets crossed the US\$1 trillion threshold in 2025. Sovereign wealth funds stand at approximately US\$164 billion, with over 60% now carrying explicit domestic investment mandates. Central bank reserves strengthened to US\$530 billion in mid-2025, with gold now representing approximately 17% of total reserves.

Yet the allocation of this capital tells a different story. Across virtually every African market, institutional portfolios are overwhelmingly concentrated in short-term, low-risk government instruments. Allocations to infrastructure, private equity and alternative assets remain minimal across the board. This pattern reflects limited pipelines of bankable projects and the absence of risk mitigation instruments, not a lack of capital or investor appetite.

## Building the Intermediation Architecture

The Report correctly locates Africa's next frontier in intermediation. Scaling the deployment of Africa's domestic savings will require intermediating institutions capable of aggregating savings, structuring investments and deploying capital as scale. The challenge is not only to mobilise resources, but also to build institutions with the mandate, balance sheet and technical capacity to intermediate between fragmented savings pools and long-term investment opportunities.

Public investment institutions, notably sovereign wealth funds and *Caisses des Dépôts et Consignations* (Deposits and Consignments Funds/Institutions) (CDG) are identified as critical anchors of this architecture. Where these institutions are well-capitalised, clearly mandated and integrated into the wider financial system, as demonstrated by Morocco's CDG, they can mobilise long-term savings, incubate projects and crowd in private capital.

Intermediation is not simply a technical financing function. It is institutional plumbing: the legal, regulatory, financial and governance architecture that allows savings to be transformed into investible capital at the appropriate scale, tenor and risk profile. This requires, among others, the design of instruments that reshape risk-return profiles to make infrastructure assets investable for domestic institutional investors, while remaining consistent with their fiduciary obligations.

Guarantees, first-loss tranches and blended finance structures are central to this effort. By providing credit enhancement and absorbing downside risk, they enable institutional participation in assets that would otherwise fall outside acceptable risk thresholds. Development finance institutions play a catalytic role, both in deploying these tools and in supporting the standardisation of transaction structures.

Credit enhancement platforms, particularly those supporting local currency infrastructure debt, demonstrate how effective intermediation can unlock institutional capital and establish infrastructure as a viable asset class. These are not merely financial mechanisms, but legal and regulatory frameworks that redefine risk allocation and require careful structuring to ensure compliance and market confidence.

### **Energy as a Systemic Constraint**

The Report's treatment of energy is not simply a sectoral assessment; it is a diagnosis of structural fragility that runs through the entire African economy. Africa's energy challenge is not a power deficit alone. It is a systemic constraint evident in stagnating per capita energy supply, growing reliance on traditional biomass, deepening dependence on imported refined fuels, ageing generation assets, chronically underfunded transmission networks and almost total absence of the cross-border grid integration that would allow the continent's abundant resources to reach its industrial demand centres.

Only a small proportion of Africa's total energy supply is directed to industry, and this has remained largely unchanged over time. This is not a marginal gap; it reflects a structural disconnect between energy systems and economic productivity.

### **Transmission as the Key to Unlocking Africa's Power Market**

Transmission has long been an overlooked constraint in Africa's power sector and can no longer be treated as a peripheral issue. Private investment has historically been concentrated in generation, with minimal allocation to transmission, despite its central role as the bottleneck that determines whether generation capacity can be effectively delivered and utilised.

The model for change is emerging. What is now required is the legal, contractual and regulatory scaffolding that makes this investment bankable, across concession structuring, transmission service agreements, government support arrangements, creditworthy off-take frameworks and multi-party risk allocation.

### **Cross-Border Power Trade: The Continental Integration Imperative**

The Report's most compelling energy argument is systemic - the greatest gains in energy efficiency and cost reduction across Africa will come not from building more generation but from integrating what already exists across borders. Full integration across Southern, East, North and West Africa could reduce system costs by tens of billions of dollars over the next fifteen years.

The legal infrastructure required for cross-border power trade is substantial: power purchase agreements spanning multiple sovereigns, interconnection agreements between national utilities, cross-border regulatory harmonisation, government

support arrangements and dispute resolution mechanisms capable of operating across different legal systems.

### **Hydropower Rehabilitation: A Compelling and Overlooked Legal Opportunity**

The Report identifies hydropower rehabilitation as one of Africa's most immediate and cost-effective energy opportunities, and it is one that carries significant implications for private capital and legal structuring. The economic case is compelling. The legal case for private participation is equally so.

Recent transactions demonstrate that private capital is willing to engage where a clear commercial framework exists. These transactions require a combination of concession structuring, power purchase documentation, government support frameworks, environmental and social compliance and financing architecture.

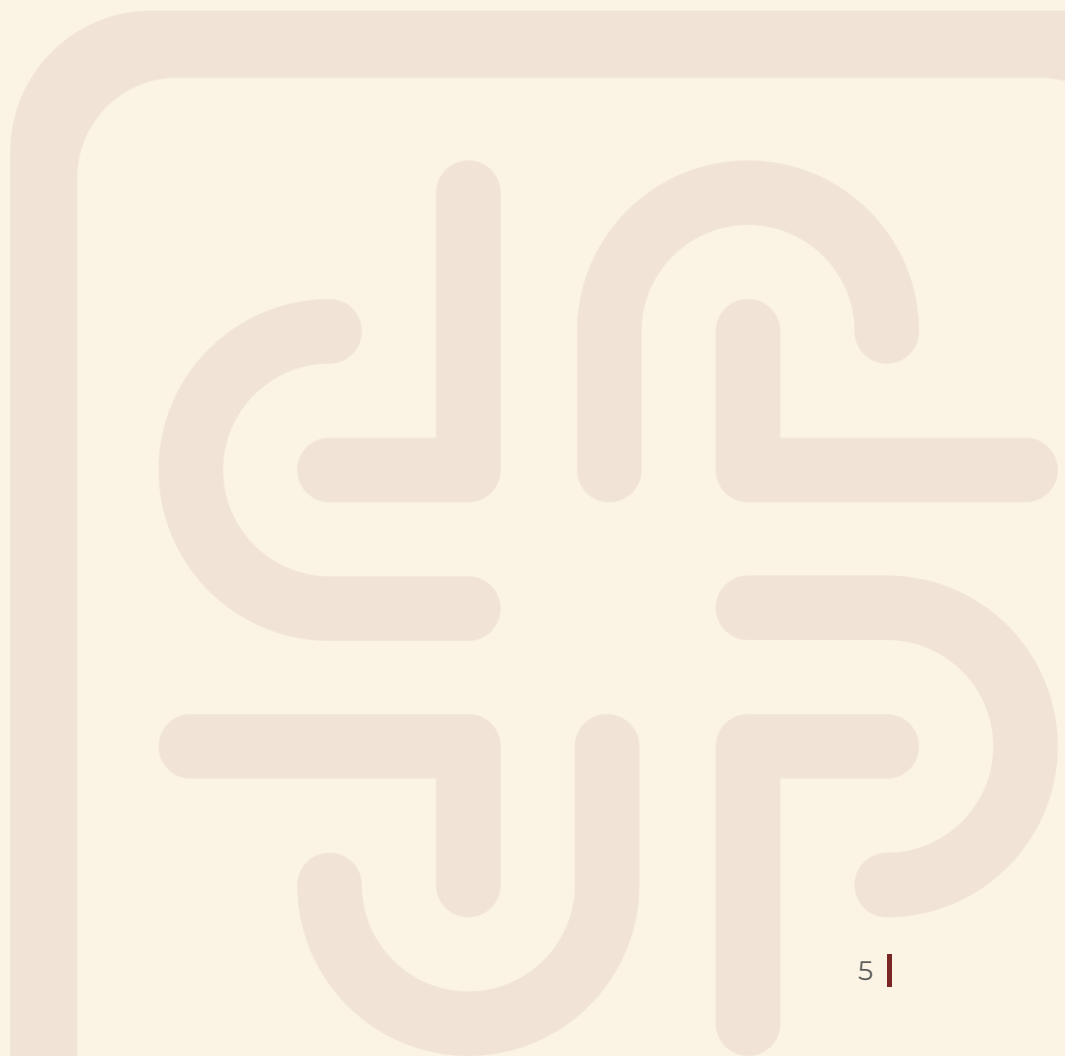
### **What This Moment Requires, and What Parsons Delivers**

The implications of the Report are significant. Africa's infrastructure challenge is no longer primarily a question of capital or resources. It is a question of systems, and systems are built, governed and enforced through law. The intermediation architecture that channels domestic savings into infrastructure investment is a legal architecture. The energy resilience that protects African economies from external shocks requires legal frameworks for refining investment, transmission concessions, strategic reserves and cross-border power trade. The institutional structures, sovereign wealth funds, guarantee platforms, that anchor long-term capital deployment require enabling legislation, governance design and multi-jurisdictional structuring. In short, as Africa increasingly relies on its own capital base, well-designed legal frameworks will play a central role in mobilising domestic institutional investors, structuring public-private partnerships, enabling transmission and corridor investments, and supporting integrated energy and industrial systems.

At Parsons, our lawyers advise across this entire spectrum. We work with investors, project developers, development finance institutions, pension fund managers and governments on the legal frameworks that underpin the transformation the Report describes. Our practice spans development finance and capital markets, energy and infrastructure, regulatory compliance and cross-border investment structuring, with offices in Lagos, London and the UAE, and a focus on the markets where this work is most consequential.

We do not approach Africa's infrastructure agenda as a peripheral practice area. It is our core focus. And the moment the Report describes a continent at the inflection point between a development model anchored in external capital and one anchored in its own resources, institutions and legal architecture, is precisely the moment for which our practice has been built.

For further information on how Parsons can support your engagement with Africa's infrastructure, energy and development finance landscape, contact us at [info@parsons-legal.com](mailto:info@parsons-legal.com) or visit [www.parsons-legal.com](http://www.parsons-legal.com).





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