

# A BRINGING EUROPE-AFRICA MULTILATERALISM TO THE NEXT LEVEL: MOBILIZING PRIVATE CAPITAL IS NO LONGER AN OPTION.

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This commentary is jointly published with Jacques Delors Institute

“Promoting Peace and Prosperity through Multilateralism”: the theme of the summit held between the African Union (AU) and the European Union (EU) last November in Angola is taking on a new dimension while tensions over Greenland are far from over and amid a deepening crisis of multilateralism.

In this context, the stakes of the relationship between Europe and Africa have become increasingly evident: access to critical minerals and rare earth elements, diversification of energy sources, repositioning of value chains through friendshoring... The strategic importance of Africa across these essential areas is now beyond debate, and both sides have acknowledged their shared interest in revitalizing multilateralism. A joint statement underscored both the willingness and the necessity to cooperate across a broad range of issues, including infrastructure development, access to electricity, the climate transition, the digital revolution, and beyond.

While some understandably fear that these commitments may remain confined to declarations of principle, the shift in Europe’s approach to its relationship with the continent—from one largely centered on development aid to one grounded in strategic partnership—must be welcomed.

However, there is one element that is as fundamental as it is prosaic and that would deserve a summit of its own: money. There is a persistent Euro-African financing gap that represents a major brake to the fulfilment of these objectives. Europe’s financial capacity has not kept pace with intensifying competition—not only from China, whose massive investments are well known, but also from India and Turkey, and more recently from the Gulf countries, which have invested several billions of U.S. dollars ranging from agriculture to infrastructures, as well as from the United States, now aggressively positioning itself around critical minerals. Worse still, it has suffered from an eviction effect that originated in the 2008 financial crisis and has materialised,

since the middle of the last decade, with the gradual but steady, withdrawal of major European international banks from the continent.

Indeed, in the aftermath of the crisis, and to protect the financial system, the regulator tightened the prudential ratios imposed to the banks: one key consequence was an exponential decrease in the return of transactions exceeding a certain risk threshold – defined by the BBB rating, the famous "investment grade".

Yet, one of the main characteristics of most African markets is precisely their sub-investment grade rating – a feature shared with many growth markets from Latin America to Southeast Asia. As a result, risk-adjusted returns for a same transaction decreased, and the premium over higher-rated markets became no longer attractive enough: an arbitrage effect then prompted international banks to refocus on their domestic markets. This collateral damage was further amplified by heightened reputational and image risks, in the context of ESG policies originally designed for the European markets and that have at times been applied too indiscriminately.

As a result, for more than a decade European financing for African markets has been provided primarily by development finance institutions. This has created a fundamental problem as they don't have the capacity to replace private capital, nor were they ever designed to bear that burden. Moreover, their capacity is now being further strained by the announced decline in aid budgets, driven by highly indebted public finances and by the reallocation of part of these same resources toward the reconstruction of Ukraine and increased defence spending.

Private capital from Europe is urgently needed to halt the erosion of its commercial positions across the continent and to support projects developed by European companies with their African partners. The challenge would be less acute if Africa's own financing gap had ceased to widen, supported by stronger domestic financial systems and increased engagement from other international partners. However, while progress has been real, it has not been sufficient to offset the continent's rapidly growing financing needs, driven by sustained economic growth and demographic expansion.

One simple example illustrates the scale of the challenge: in infrastructure alone, the funding gap was estimated at around USD 60 billion per year a decade ago, but is now assessed at over USD 100 billion annually, despite the substantial investments that have been made.

There is therefore a shared interest in restoring European private capital to African markets. Achieving this will require addressing the cost of risk faced by traditional banking institutions, while also reassuring non-bank investors—who have historically had limited exposure to the continent—about the true nature of that risk. Perceptions remain largely anchored in an outdated

view of Africa; few investors, for instance, are aware that default rates on infrastructure project finance in Africa are among [the lowest globally](#) (Moody's).

More fundamentally, European investors are currently facing constraints that Africa is well placed to address. Liquidity in European markets remains abundant, and investors are once again seeking new high-yielding opportunities in anticipation of a declining interest-rate environment. At the same time, they are looking to diversify portfolios as geopolitical tensions reintroduce volatility within Europe itself—particularly as some reassess their exposure to U.S. markets.

Yet the gap between theory and practice, between strategy and execution, may prove difficult to bridge. Achieving the stated objectives will require starting from the concrete constraints faced by different categories of investors on the ground. Several avenues could therefore be explored:

1. **Addressing the cost of risk:** one option would be to allow a clearly defined portion of banks' balance sheets—calibrated and capped by regulators—to operate under less restrictive prudential requirements, for instance by reverting to pre-crisis ratios. The stability of the banking system would remain safeguarded through tightly controlled exposure limits to emerging markets, while enabling banks to achieve significantly higher returns than those available in euro-area markets.

Such an approach is all the more justified as regulation of the U.S. financial system is becoming more flexible, enhancing the competitiveness of American banks relative to their European counterparts - JPMorgan Chase announced last year its return to the continent, beginning with Kenya and Côte d'Ivoire.

2. **Attracting new classes of non-bank investors:** investment funds could be a powerful tool for attracting investors who do not have the same regulatory constraints as banks, by addressing their needs for deployment, diversification and yield. There are several opportunities for public institutions and development banks to play a catalytic role by participating in private initiatives where their presence will provide reassurance and an implicit guarantee against political risk:
  - **Fostering the development of and investing in debt funds:** This asset class is still nascent in Africa—and more broadly across emerging markets. To illustrate the potential, the total assets under management globally (primarily in the U.S. and European markets) stood at around USD 800 billion before the COVID-19 crisis; today, that figure has nearly reached USD 2 trillion.
  - **Developing partnerships with African institutional investors:** setting up co-investment strategies would enable to benefit from their presence and knowledge of African markets, while promoting their access to European ones. This would create intercontinental and mutually beneficial opportunities for institutionals from major economies such as Nigeria,

South Africa, Kenya or Morocco, which are increasingly seeking new alternative investments outside their borders.

- **Adopt cross-cutting approaches that leverage existing resources: launching a European fund exclusively targeting emerging markets can be challenging, as concentrated geographic exposure may deter investors. However, many funds already manage tens of billions of euros in sectors where demand is strongest in Africa—such as infrastructure, energy, and the climate transition. By encouraging the allocation of a small percentage of these existing funds to Africa and other sub-investment-grade growth markets through guarantee mechanisms, investors could apply their sectoral expertise in new markets without compromising their geographical prudential policies.** While these allocations may be modest as a percentage of total funds, the absolute volumes would be substantial in markets such as Africa, where this segment of the financial industry remains far from reaching its potential—combined assets under management by private equity, infrastructure, and debt funds total less than €60 billion.

There is no silver bullet, and many other options will need to be explored, particularly in light of the development of the Savings and Investment Union project put forward in [Enrico Letta's report](#). If this vision were to be realised, as it hopefully will, there would undoubtedly be a massive multiplier effect on the capacity and dynamism of the European financial system. One thing remains certain: the revitalisation of Euro-African multilateralism will require resolving the financing gap through a dialogue rooted in operational realities between policy makers, regulators and the private sector.