



# Investment Risk and Regulatory Frameworks in African Nations

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## Introduction

Africa’s rapid growth trajectory, resource wealth, and growing consumer markets continue to attract investors worldwide. Yet risks—ranging from political instability and regulatory fragmentation to infrastructure deficits and climate shocks—shape the investment landscape. This article explores the major sources of investment risk within African economies and examines the evolving regulatory frameworks aimed at enhancing investment confidence and economic resilience into 2025.

## Understanding Investment Risk in Africa

### Political and Security Risks

- **Civil Conflict & Instability:** Political transitions, intra-state violence, and civil conflict impose substantial country risk. For example, Ethiopia’s post-Tigray conflict environment, Sudan’s ongoing civil war, and recurrent coups in West Africa introduce uncertainty for investors<sup>[1][2]</sup>.
- **Geopolitical Tensions:** Transboundary water and resource disputes, such as those around the Nile Basin, and cross-border terrorism increase risk premiums and can disrupt regional projects<sup>[1]</sup>.

### Economic and Financial Risks

- **Debt and Currency Volatility:** Many African nations have seen public debt ratios exceed 60% of GDP, increasing default risk and currency devaluation. For instance, Ethiopia’s external debt stood at \$28.9B in 2024, with a Eurobond default contributing to heightened caution among international financiers<sup>[1][2][3]</sup>.
- **Macroeconomic Vulnerabilities:** Fluctuating commodity prices—on which more than half of African countries depend for at least 60% of export earnings—translate to growth volatility, especially evident during global price shocks or pandemics<sup>[2]</sup>.
- **Infrastructure Deficits:** Inadequate transport, logistics, and energy infrastructure drive up trade costs (about 50% above global average), challenge returns, and deter FDI in many regions<sup>[4][1]</sup>.

### Environmental and Climate Risks

- **Climate Hazards:** Drought, floods, and extreme weather events inflict significant losses. The Horn of Africa, for example, faces economic damages estimated at \$7–15B/year due to climate shocks—impacting agriculture, infrastructure, and insurance markets<sup>[1][2]</sup>.
- **Energy Transition Risk:** The global shift from fossil fuels exposes African economies that are heavily dependent on oil, gas, or coal, while renewable investment remains insufficient (just \$15B in 2023, or 2.3% of global renewables investment)<sup>[2]</sup>.

### Market and Operational Risks

- **Weak Financial Markets:** Shallow banking and capital markets in many states restrict access to finance and liquidity, amplifying operational risk for both local enterprises and foreign investors<sup>[1][2]</sup>.
- **Cybersecurity:** Rising digital adoption exposes critical sectors and investment platforms to new risks—nearly 70% of IoT devices in Africa are known to have vulnerabilities<sup>[1]</sup>.

## Quantitative Risk Overview

Country/Region	Risk Factor	Quantitative Impact
Ethiopia	Conflict, debt	\$28.9B external debt, default event



Sudan	Civil war	-15.1% GDP (2024); 11M displaced
Kenya	Debt, credit squeeze	65.5% public debt/GDP
Africa (region)	Debt servicing	\$74B in 2024 vs \$17B in 2010
Africa (climate)	Extreme weather	\$7–15B in annual losses

## Trends in Foreign Direct Investment and Sectoral Differences

- **FDI Trends:** FDI in Africa declined sharply in Q1 2025, with greenfield projects dropping from \$17B (2021) to \$6B (2025)<sup>[5]</sup>. Yet, there are positive signals as the African Continental Free Trade Area (AfCFTA) advances toward full ratification, offering long-term integration benefits.
- **Sectoral Divides:** Growth is concentrated in select markets (South Africa, Nigeria, Kenya) and sectors (infrastructure, fintech). Climate-related sectors present both heightened risk and opportunity, especially as investors increasingly seek sustainability<sup>[5][6]</sup>.
- **Global Dynamics:** Africa’s ability to attract FDI now depends more on retaining global investor confidence than on national factors alone, reinforcing the need for stable, continent-wide regulatory regimes<sup>[5]</sup>.

## The State of Regulatory Frameworks in Africa

### Regulatory Evolution

- **Patchwork Progress:** Regulatory frameworks across Africa are highly variable. Eight countries—Egypt, Ghana, Nigeria, Rwanda, Senegal, South Africa, Tanzania, and Zimbabwe—achieved WHO “Maturity Level 3” for their national regulatory authorities (NRAs) as of Jan. 2025, signifying effective oversight and better protection for investors and consumers<sup>[7]</sup>.
- **Continental Harmonization:** Recent milestones include the full regional harmonization of medicines regulation with the North Africa Medicines Regulatory Harmonization Initiative (NA-MRH, 2025), signaling a move toward unified standards and more predictable investment climates<sup>[8]</sup>.

### Key Regulatory Pillars

- **Financial Sector Oversight:** Anti-money laundering (AML) and counter-terrorism financing (CTF) laws have seen significant strengthening, with many countries fully updating their frameworks by 2025<sup>[6]</sup>.
- **Digital & Fintech Law:** Regulatory clarity for digital assets and DeFi platforms remains uneven. Mauritius and a handful of other countries are leading with proactive blockchain KYC/AML laws, but cross-border frameworks remain under development<sup>[9][10]</sup>.
- **Business Environment Reforms:** Efforts to streamline licensing, improve contract enforcement, and harmonize data governance are underway, particularly in support of SMEs and startups<sup>[10]</sup>.
- **Investment Codes and Incentives:** Many countries offer tax incentives, free-zone structures, and public-private partnership frameworks to attract high-value investment—though the effectiveness varies widely across jurisdictions<sup>[11][12]</sup>.

## Strategic Risk Management & Opportunities

### Managing Investment Risk

- Geographical diversification—through investments in comparatively stable economies such as Rwanda and Botswana—helps offset regional risks<sup>[1][12]</sup>.
- Risk-sharing and insurance in partnership with development finance institutions (e.g., World Bank, AfDB) help mitigate exposure to sovereign and currency risk<sup>[1][12]</sup>.
- Local currency financing, hedging instruments, and stress-testing for climate events are increasingly used tools among multinationals and major investors<sup>[1][12]</sup>.
- Close monitoring of political and economic developments, especially during electoral cycles or cross-border negotiations, remains essential.

## Growth from Improving Regulatory Environments



- Stronger, more predictable regulation is correlated with long-term investment growth. Nations with robust regulatory agencies (e.g., South Africa, Egypt) attract more FDI and enable thriving business climates<sup>[7][8]</sup>.
- The adoption of the AfCFTA Protocol on Investment heralds a new era for intra-African investment, with African investors now financing up to 20% of international projects in critical sectors<sup>[2]</sup>.

## Comparative Overview: Regulatory Maturity in Leading African Economies

Country	Regulatory Achievement	Year
Egypt	ML3 for medicines & vaccines	2022/2024
South Africa	ML3 for vaccine production	2022
Ghana	ML3 for medicines	2020
Nigeria	ML3 for medicines	2022
Rwanda	ML3 for medicines	2024
Senegal	ML3 for medicines	2024
Tanzania	ML3 for medicines	2018
Zimbabwe	ML3 for medicines	2024

## Visualizing Risk: Select Graphs and Data Illustrations

### Graph: Decline in FDI Greenfield Projects in Africa (2021–2025)

*Annual global capital expenditure (capex) in open greenfield FDI projects in Africa (US\$ Billions):*

2021: \$17B

2024: \$7B

2025 (Q1): \$6B<sup>[5]</sup>

### Chart: Key Sources of Investment Risk in Africa (2025)

- Political instability/Cups: High impact in >25 countries
- Debt crisis: >20 countries with >60% debt/GDP
- Currency volatility: Reported as a top concern by 32% of African SMEs
- Climate hazards: \$8.5B damage (2022); 110M affected<sup>[2]</sup>
- Regulatory fragmentation: Slow progress in 2/3rds of states

## Toward a Resilient Investment Environment

### Recommendations for Policymakers and Investors

- **Regulatory Harmonization:** Accelerate moves toward continental alignment of investment codes, licensing, and digital standards—building on the momentum of AfCFTA and recent medicines regulatory harmonization<sup>[8][10]</sup>.
- **Fiscal & Monetary Stability:** Adhere to prudent macroeconomic management, curb excessive borrowing, and diversify revenue sources to maintain a predictable, low-inflation environment.
- **De-risking & Insurance Development:** Broaden access to risk insurance products—especially for climate and political hazards—via public-private partnerships.
- **Digital and SME-Focused Regulation:** Streamline compliance for tech and small business sectors, improving fintech policy and enhancing access to digital finance<sup>[10]</sup>.
- **Sustainability & ESG Focus:** Embed climate risk assessment, green finance incentives, and robust ESG standards into regulatory codes<sup>[2]</sup>.

## Conclusion

African nations stand at a crossroads—rich in resources and opportunity, but facing complex and interconnected risks. 2025 marks significant progress toward more mature, harmonized regulatory frameworks, yet persistent risks—political, economic, climatic, and market—still temper the continent’s

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vast investment promise. Stronger legal frameworks, holistic risk management, and a renewed policy focus on harmonization and resilience are essential. With continued reforms and innovative approaches to risk sharing and regulation, the African investment landscape can realize its full potential as a global growth engine.

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