

The Permission Paradox

Why Africa's Pension Capital Waits at the Gate



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Earlier this month, the East Africa Private Equity and Venture Capital Association reported that East African pension funds hold about 0.7% of their investments in private equity, against a permitted allocation of up to 10%.¹ The gap between what the rules allow and what portfolios hold is not a rounding error. It is an order of magnitude.

The usual response is to call for higher ceilings. Yet in several of Africa's largest pension markets, the ceilings are nowhere near binding. When a regulator permits ten times what trustees actually invest, raising the limit again changes very little.

This paper argues that, in several of Africa's largest pension markets, the domestic capital gap is no longer simply a permission problem. It is increasingly a conversion problem: turning regulatory headroom into actual allocation.

The journey has three stages: **permission**, **investability** and **allocation**. Most reform effort has gone into the first. The second is where capital stalls. Rules are necessary but not sufficient. Pension capital moves when trustees can understand, govern and defend the investment, and when the vehicle fits the fund's currency, liquidity, governance and reporting requirements.

The rulebook permits far more than the portfolio holds.

The Rulebook and the Portfolio

The pattern repeats across markets, though each defines its categories differently.

Kenya. Pension schemes may allocate up to 10% to private equity and venture capital.¹ At December 2025, the industry held KSh29.93 billion in private equity against total assets of KSh2.81 trillion, or about 1.1%.² Meanwhile, offshore holdings rose 25% in the year to June 2026, to KSh104.99 billion, as managers sought protection from domestic risks.³

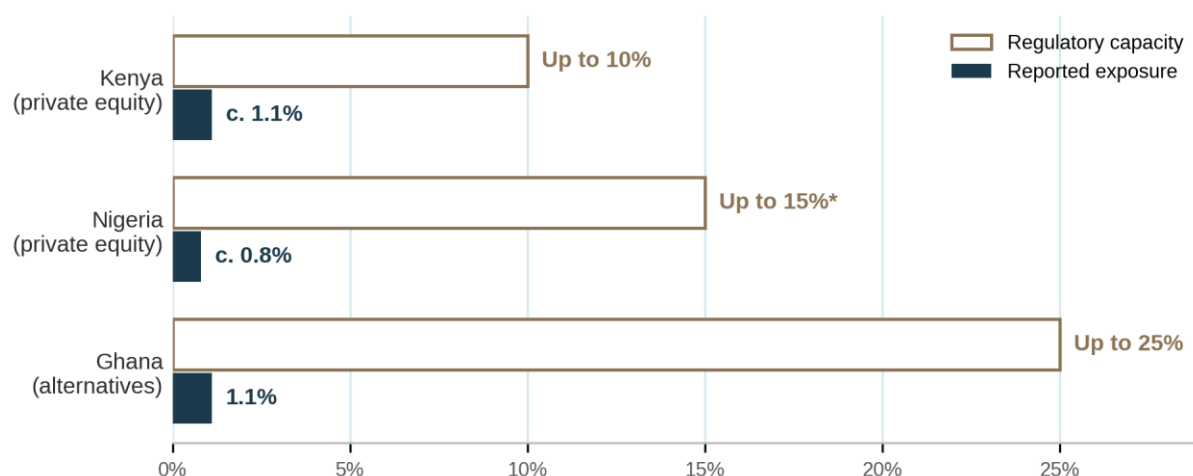
Nigeria. In September 2025, PenCom raised the permitted allocation to private equity funds from 5% to either 10% or 15%, depending on the fund category, and introduced twelve qualifying criteria for eligible funds.⁴ By May 2026, private equity stood at ₦258.34 billion within total pension assets of ₦31.32 trillion, or about 0.8%.⁵

Ghana. Pension funds may invest up to 25% in alternative investments. AVCA found that Ghana's pension assets reached GHS86.4 billion (US\$5.9 billion) in 2024, yet exposure to alternatives was just 1.1% of assets, and only 0.5% was allocated to private capital. AVCA estimates that full use of the permitted allocation could unlock over US\$1 billion for private capital.⁶

Ghana's numbers also reveal something more hopeful. Allocations to alternatives have risen from 0.03% of assets in 2020. More striking still, 57% of pension funds already have some private capital exposure, and a further 33% are seeking their first allocation.⁶ The task is no longer persuading

Ghanaian trustees that private capital exists. Most are already exposed or actively considering it. The challenge is converting interest and regulatory capacity into meaningful portfolio weight.

Figure 1. Regulatory headroom, limited deployment



Market	Regulatory capacity	Reported exposure	Category
Kenya	Up to 10%	c. 1.1% (Dec 2025)	Private equity
Nigeria	Up to 10% or 15%, by fund type	c. 0.8% (May 2026)	Private equity
Ghana	Up to 25%	1.1% alternatives; 0.5% private capital (2024)	Alternatives / private capital

*Investment categories, fund types and reporting dates differ by jurisdiction; in Kenya, the permitted limit covers private equity and venture capital, while the reported exposure is private equity. The comparison illustrates regulatory headroom rather than directly comparable portfolio classifications. *In Nigeria, the private equity limit is 10% or 15% depending on the fund category. Kenya and Nigeria percentages are Terramont Capital Partners calculations from regulator data. Sources: EAVCA; Retirement Benefits Authority; PenCom; AVCA.*

Why Trustees Hesitate

Low allocation is often put down to institutional conservatism. That explanation is too easy. Pension trustees manage long-duration obligations under fiduciary scrutiny, and many of their reasons for hesitating are rational responses to the products on offer. Six frictions stand out.

Fiduciary and governance risk. Accountability is asymmetric. A conventional allocation to government securities is generally easier to defend than a write-down in a private fund, which is visible, attributable and slow to reverse. This creates a form of career risk that no allocation ceiling addresses.

Valuation and reporting mismatch. Private funds typically show weak returns in their early years, as fees and costs run ahead of gains. That sits awkwardly beside the annual member statements and performance comparisons pension funds live by.

Liquidity mismatch. Private fund commitments can run for ten years or more. Pension funds must meet benefit payments on schedule, and many schemes are also managing withdrawals and transfers.

Currency mismatch. Many Africa-focused funds are denominated in US dollars, while pension liabilities are in local currency. Trustees who invest in such funds take on foreign exchange risk on top of the investment risk itself.

Capability and scale. Assessing a fund manager takes specialist expertise. Many smaller schemes lack in-house teams, and the cost of external advice weighs heavily on modest allocations.

The product gap. Trustees can only allocate to what exists. A shallow universe of institutionally investable local funds, short track records and high minimum commitments can make regulatory permission theoretical. In Ghana, 89% of pension funds interacted with fewer than three fund managers in a year.⁷ In Nigeria, PenCom itself cited a shortage of qualifying alternative assets when it revised its rules in February 2026.⁴

Each friction is distinct, and each needs its own answer. That is why a single reform lever, the allocation ceiling, has achieved so little on its own.

Permission is not allocation. Conversion is the work.

Domicile, Currency and Control

For pension supervisors, domicile is ultimately a question of oversight, enforceability and alignment. An internationally domiciled vehicle may be entirely appropriate. What matters is whether trustees and regulators are confident that its legal structure, reporting, currency and dispute mechanisms remain compatible with their obligations at home.

The Kenyan offshore figures suggest that reluctance to invest beyond domestic government securities is not the whole explanation: pension capital is demonstrably willing to seek exposure abroad, particularly through liquid instruments. The question is as much about the fit between vehicle and investor as about appetite.

Several factors shape whether a domicile earns supervisory confidence: legal certainty and enforceability of fund documents; recognition by the home pension regulator; the fund's currency and its match with local liabilities; the depth of the administration and custody ecosystem; regulatory standing and substance; and the cost and speed of administration.

Commentators are increasingly asking how much of Africa's institutional capital flows through vehicles domiciled and denominated on the continent.⁸ Several African jurisdictions, Mauritius among them, have long hosted cross-border fund structures, and others are building the same capability. The jurisdictions that satisfy pension supervisors on these criteria will carry more of this capital as allocations grow.

What Conversion Looks Like: Ghana's Ci Gaba

If the argument of this paper is right, the evidence should come from a vehicle designed to address the frictions directly. Ghana now offers one.

Ci Gaba is a US\$75 million fund of funds, domiciled in Ghana and designed to channel pension capital into private equity and private debt across Ghana and West Africa. Its first close in early 2026 exceeded the US\$30 million target, with more than two-thirds of commitments anchored by

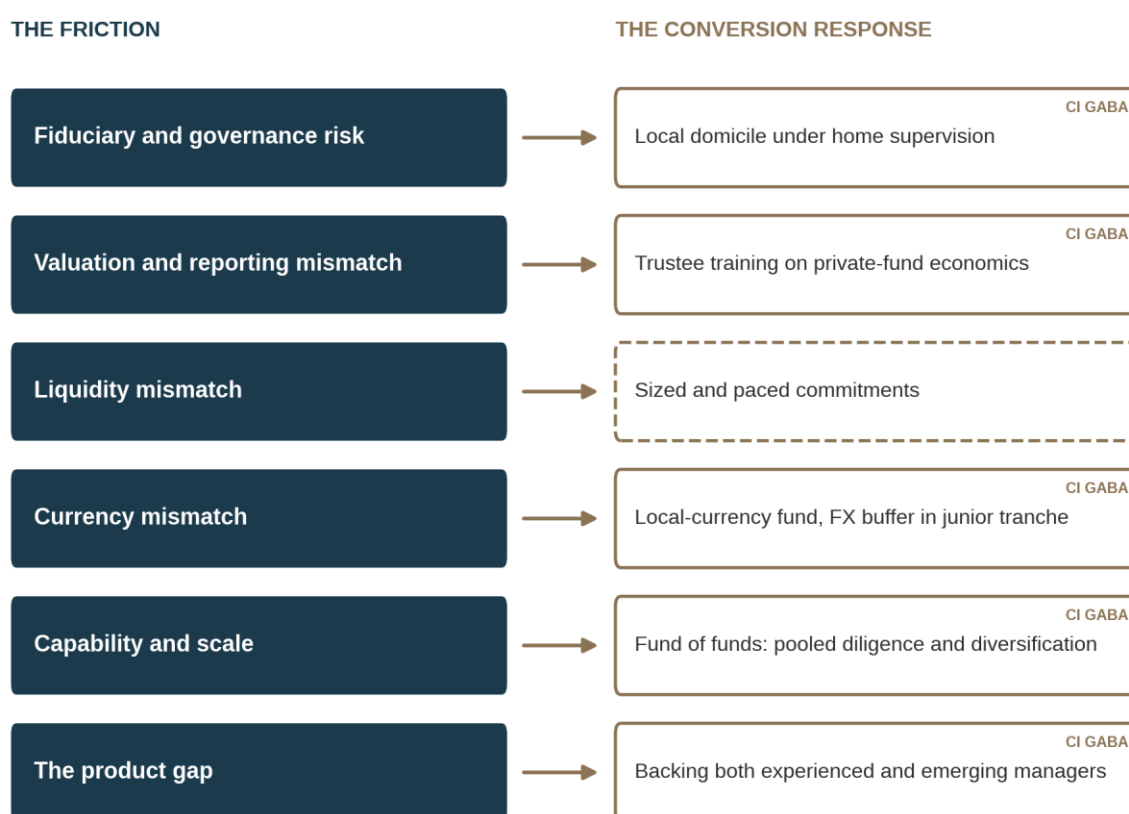
local pension funds.⁹ According to its sponsors, it marked the first time Ghanaian pension funds committed to private equity and debt vehicles in this way.¹⁰

What makes Ci Gaba instructive is not its size but its design. Most of the frictions met a specific answer.

Trustee uncertainty was met with training, which the sponsors describe as the least glamorous but most important part of the design.¹⁰ **Capability and scale** were met by the fund of funds structure itself, which gives pension funds diversified exposure without carrying the diligence burden alone. **Currency mismatch** was met with a cedi-denominated fund; as the sponsors note, a dollar fund would have added foreign exchange risk to everything else.¹⁰ **Risk concerns** were met with catalytic capital: FSD Africa Investments committed US\$7.5 million to the junior tranche, in US dollars, partly to absorb foreign exchange exposure between commitments and drawdowns.^{9,11} **The product gap** was addressed by investing across both experienced and emerging fund managers.⁹ **Governance and domicile** concerns were met with a Ghanaian structure under local supervision.

Liquidity is the one friction a vehicle's design cannot remove. It can only be managed through the size and pacing of commitments, which is why staged allocation matters.

Figure 2. From friction to conversion



Solid boxes show responses that were features of the Ci Gaba design. The dashed box marks liquidity, which remains a structural constraint managed through commitment sizing and pacing. Source: Terramont Capital Partners, drawing on FSD Africa, ImpactAlpha and Pioneers Post.

The lesson is sobering as well as encouraging. The sponsors are frank that the local trust behind Ci Gaba took years to build, and they caution that others attempting similar vehicles should expect years rather than months.¹⁰ Conversion is possible, but it is patient work.

From Anchor to Catalyst

Development capital still anchors African private markets. In 2025, DFIs contributed 64% of fundraising commitments, while African investors accounted for 21%.¹² That dependence is not a failure in itself. It becomes one only if it never changes.

One of the most durable roles for development capital is catalytic: absorbing risks the market cannot yet carry, building institutional capability, and drawing domestic investors into transactions they can ultimately finance without it.

Benin offers a timely example of that sequence. In February 2026, the African Development Bank signed a US\$330,000 grant with Benin's Caisse des Dépôts et Consignations (CDC Benin) to strengthen its role as an institutional investor and help it implement a fund of funds strategy for SMEs.¹³ In September, CDC Benin invested in Enko Capital's Francophone West Africa SME fund, describing the commitment as part of its mission to mobilise national savings while respecting its requirements for return, risk management and capital preservation.¹⁴ Capacity building came first; allocation followed.

This suggests a measure of success worth adopting: **catalytic graduation**. Where development capital supports domestic allocation, a meaningful test is whether successive vehicles need less concessional or first-loss support as domestic confidence grows. A first fund that requires a junior tranche is a success if the third fund does not.

Implications

For regulators and supervisors. The next reforms lie less in raising ceilings than in building capability: clear valuation guidance for private assets, trustee education, and regional cooperation through bodies such as the Africa Pension Supervisors Association. Where headroom is already unused, the most useful regulatory work is making it usable.

For trustees and pension boards. Staged allocation through fund of funds structures, clear investment policies for private assets, and co-investment rights can build experience and confidence together. A modest, well-governed first allocation teaches more than a long debate about a larger one.

For fund managers. Domestic pension capital will not scale into products designed primarily around international limited partner requirements. Local-currency options, reporting built for trustees, transparent fees and realistic minimum commitments will matter as much as track record.

For development finance institutions. Anchor and de-risk, but plan the exit from that role at the outset. Graduation should be part of the design, not an afterthought.

For advisers and structuring platforms. The task is to design vehicles around the realities of pension trustees rather than the conventions of global limited partners, and to structure capital around local obligations rather than transaction habit.

None of this argues for more pension capital in private markets at any price. Allocation should rise where governance, liquidity, currency, product structure and fiduciary requirements are properly addressed, and not before.

The constraint is not only the supply of savings. It is the machinery that converts savings into productive private capital.

Capital That Stays Home

There is a long-standing principle in capital-market development that domestic savings can play an important role in financing domestic enterprise. In several African markets, the rules increasingly permit it and substantial pools of savings already exist. What has been missing is the mechanism that converts one into the other: vehicles trustees can govern, currencies that match their obligations, and the patient capability that turns permission into allocation.

The measure worth watching over the rest of this decade is simple: the share of African institutional assets held in productive private assets at home. When that number moves, the continent's private markets will have found their most natural anchor.

This is one side of a larger intermediation challenge. Institutional savings must become investable capital, and established businesses must become institutional-quality recipients of it. Our October paper, *The Narrowing Gate*, turns to the other side of that gate.

Endnotes

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