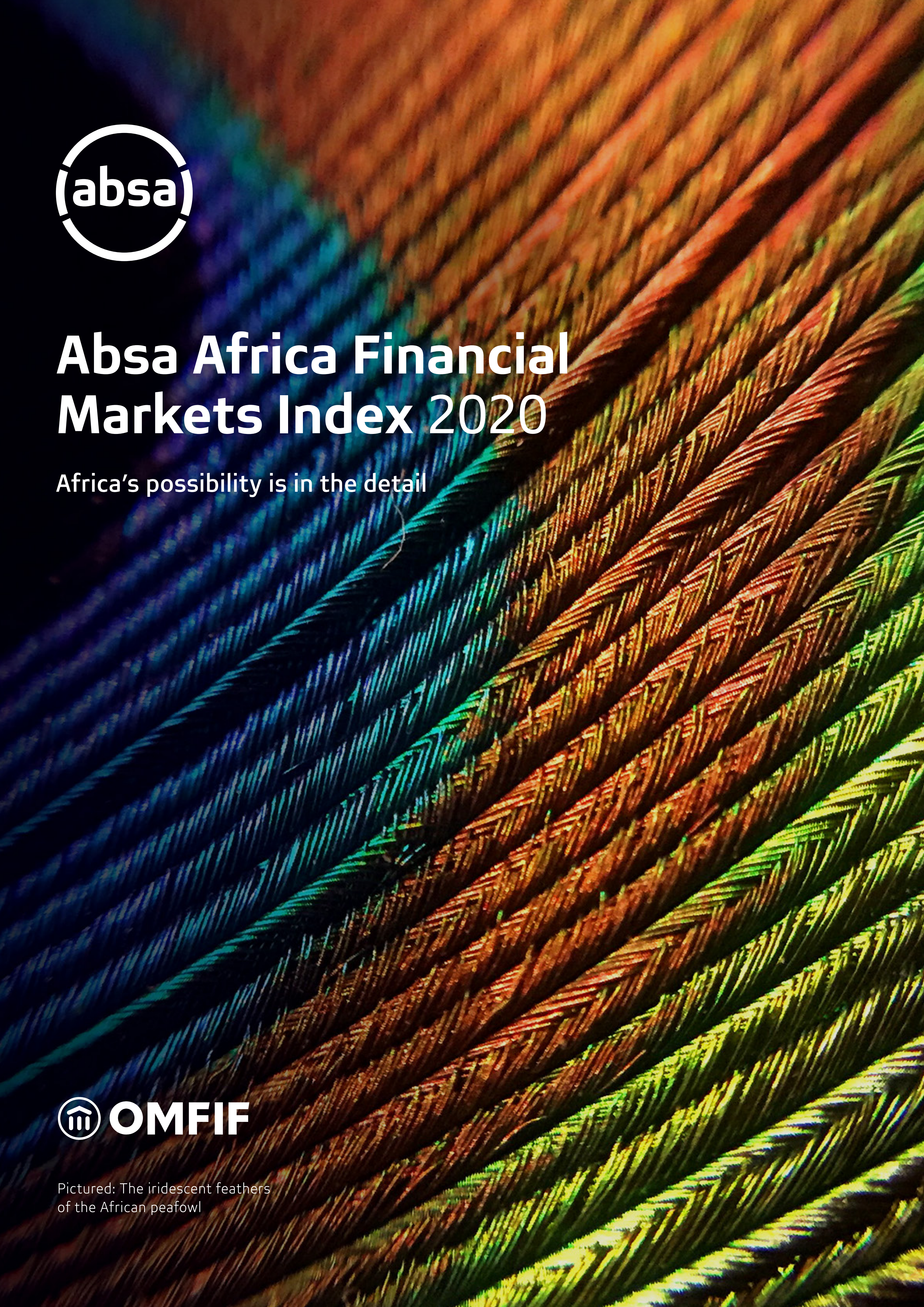

Absa Africa Financial Markets Index 2020

Africa's possibility is in the detail

OMFIF

Pictured: The iridescent feathers of the African peafowl

The Absa Africa Financial Markets Index was produced by OMFIF in association with Absa Group Limited. The scores on p.7 and elsewhere record the total result (max=100) of assessments across Pillars 1-6. For methodology, see individual Pillar assessments and p.38-39.

OMFIF conducted extensive quantitative research and data analysis. Qualitative survey data were collected and analysed by OMFIF.

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Absa Group Limited ('Absa Group') is listed on the Johannesburg Stock Exchange and is one of Africa's largest diversified financial services groups.

Absa Group offers an integrated set of products and services across personal and business banking, corporate and investment banking, wealth and investment management and insurance.

Absa Group has a presence in 12 countries in Africa, with approximately 42,000 employees.

The Group's registered head office is in Johannesburg, South Africa, and it owns majority stakes in banks in Botswana, Ghana, Kenya, Mauritius, Mozambique, Seychelles, South Africa, Tanzania (Absa Bank Tanzania and National Bank of Commerce), Uganda and Zambia. The Group also has representative offices in Namibia and Nigeria, as well as insurance operations in Botswana, Kenya, Mozambique, South Africa, Tanzania and Zambia.

For further information about Absa Group Limited, please visit www.absa.africa

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The Official Monetary and Financial Institutions Forum is an independent think tank for central banking, economic policy and public investment – a non-lobbying network for best practice in worldwide public-private sector exchanges. At its heart are Global Public Investors – central banks, sovereign funds and public pension funds – with investable assets of $39.4tn, equivalent to 43% of world GDP. With offices in both London and Singapore, OMFIF focuses on global policy and investment themes – particularly in asset management, capital markets and financial supervision/regulation – relating to central banks, sovereign funds, pension funds, regulators and treasuries. OMFIF promotes higher standards, invigorating exchanges between the public and private sectors and a better understanding of the world economy, in an atmosphere of mutual trust.

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Contents

Building the foundation for tomorrow's successes

Daniel Mminele
Group Chief Executive
Absa Group

The Absa Africa Financial Markets Index is being released at a time when many African countries are grappling with the profound economic and health challenges posed by Covid-19. The outlook remains highly uncertain in most markets, as downside risks continue to persist. With the global economy forecasted to contract in 2020, our continent is expected to experience the first severe recession since 1992, placing pressure on public finances, and eroding the progress that many countries had made towards poverty alleviation and the Sustainable Development Goals. Volatility, uncertainty, and risk are likely to remain at elevated levels, making medium-term planning difficult until such time as effective vaccines are successfully developed, comprehensively tested, and globally distributed.

These unpredictable operating conditions foretell challenging times for financial markets for the foreseeable future, requiring continued effort from stakeholders, and even more regional economic collaboration than ever before, in order to maintain stability and regain market confidence.

In this landmark year, we are proud to partner once again with OMFIF in releasing the fourth edition of the Afmi. We are particularly pleased that this 2020 edition adds a further three markets, taking the total to 23 countries evaluated, further expanding our coverage of Africa's financial markets.

Since its launch in 2017, the Afmi has become a key reference tool used by policymakers and market participants to guide their efforts in developing robust financial markets in Africa. By establishing a common fact-base that allows cross country comparisons, the index helps anchor policy discussions between regulators, exchanges, investors and corporates on how to promote the open, accessible and transparent markets, that are best placed to mobilise capital, and promote investment on the continent.

Africa's path through and beyond the Covid-19 crisis will be determined largely by the decisions that governments, the private sector, and development partners take over the next few months; bold and urgent decisions are required for us to successfully navigate this turbulent time, but such decisions must also be informed, collaborative and responsible.

The Absa Group is one of Africa's largest diversified financial services institutions and, as a proudly pan-African business, we are committed to playing our part in co-creating solutions that will support this continent to not only survive these challenging times, but help ensure an even stronger foundation on which tomorrow's successes can be built.

Aim of index

African economies are undergoing a significant period of transition and appraisal, with growing foreign investment interest and much examination of the continent's potential for mobilising local resources. Now in its fourth year, the index has become a benchmark for the investment community and Africa generally to gauge countries' performance across a host of indicators important for financial market development.

Harnessing the power of capital markets

Jingdong Hua
Vice-President and Treasurer, World Bank

The fourth annual Absa Africa Financial Markets Index comes at an unprecedented time in history when the region, and the world, face complex Covid-induced challenges. The pandemic has generated a wide range of spillover effects in Africa, including direct health impacts of the disease, severe economic shocks from a sudden stop in trade and tourism, and lockdowns that slowed domestic demand. International financial flows seized up, and many domestic markets did not have the depth to support the sharp increase in fiscal needs.

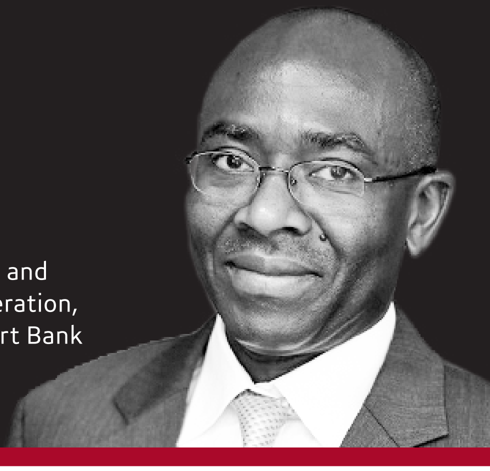
Governments across Africa have responded quickly to the virus outbreak, particularly in terms of monetary and prudential actions. Efforts are underway to reprofile sovereign debt across the region through the debt service suspension initiative, and there is renewed focus on building local markets.

The World Bank acted rapidly to approve projects that addressed emergency needs of member countries – including those in Africa. The International Development Association accessed international capital markets to provide concessional, low-cost loans to countries in need. Over a period of 15 months, the World Bank Group committed to deploy up to $160bn to help more than 100 countries protect poor and vulnerable people, support businesses, and bolster economic recovery. Funding from the World Bank Group includes up to $50bn for African countries, of which $847m will be spent on 32 health projects. A further $2.9bn will be dedicated to 17 economic policy loans.

As we look ahead, it is clear how the power of capital markets can be harnessed to build back better. Therefore, it is exciting that the index now includes a focus on sustainable finance.

Sustainable financing, insuring against natural disasters and pandemics, hedging against commodity volatility, and securing local currency financing are ways governments can support the next generation of growth in Africa. The World Bank Treasury is engaged across these areas throughout the continent, including building sustainable capital markets and helping governments consider the full range of financial solutions for managing risks.

Reasons to be optimistic



Hippolyte Fofack
Chief Economist and Director of Research and International Co-operation, African Export-Import Bank

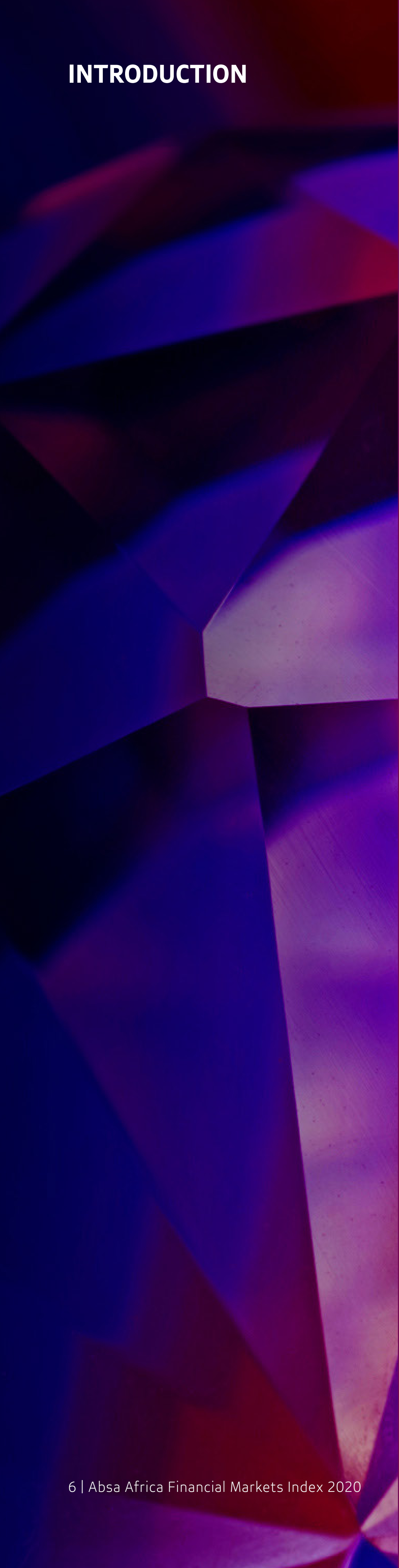
Africa is heading for its first recession in more than 25 years. However, there are reasons to be optimistic about the continent's growth prospects. The near-term outlook points to increased resilience of African economies, with output expanding above trend growth rates in 2021.

Fiscal and monetary stimulus programmes are supporting local debt markets, helping prevent bankruptcies, and spurring global demand and trade. The countercyclical liquidity support of multilateral development banks, including the African Export-Import Bank's pandemic trade impact mitigation facility, is helping countries adjust to the virus-induced macroeconomic fall-out and deal with pressures on liquidity.

Recovery will rely on Africa's commitment to macroeconomic stability. Decreasing inflationary pressures and expectations have enabled central banks to extend monetary stimulus and other policy responses to support small- and medium-sized enterprises, helping them avert payment defaults. This shift from a single monetary policy objective (inflation targeting) towards the dual objectives of price stability and growth represents a profound change in the region's policy-making landscape. It denotes the deepening integration of Africa into the world economy.

Another key driver of Africa's improved resilience is the African Continental Free Trade Agreement. Companies are capitalising on economies of scale and productivity gains associated with the defragmentation of African economies to spread the risk of investing in smaller markets across the region. Expanding growth opportunities and returns on investment are sustaining investment flows and shifting their composition away from natural resources towards labour-intensive manufacturing industries.

This structural transformation will increase domestic resource mobilisation and deepen capital markets. This will set Africa on a path to fiscal and debt sustainability. Expected rising returns on investment will expand the pool of investors to include those who are pricing in sustainability preferences to enable Africa's industrialisation latecomers to leapfrog into climate-resilient growth models. As the Africa Financial Markets Index 2020 so neatly illustrates, opportunities abound in this diverse and propitious region.



Testing resilience

During a difficult year, African countries are facing enormous challenges from Covid-19. As the health crisis persists, the resilience of financial systems in every economy is being tested. Financial markets have been disrupted, but expansion and innovation in recent years will benefit the rebound and recovery process.

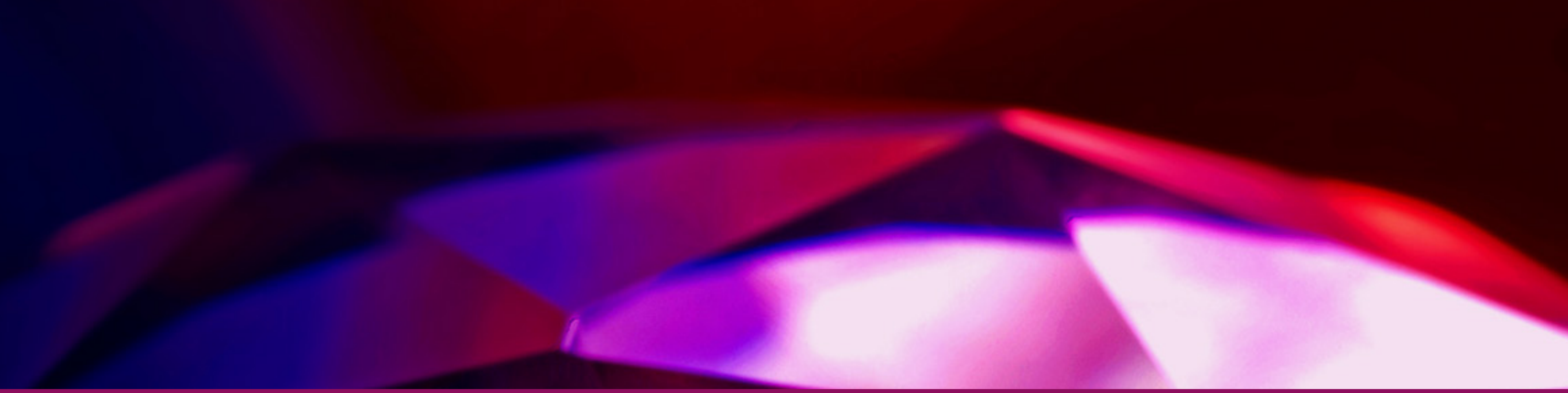
On its fourth year, the Absa Africa Financial Markets Index presents a wide-ranging view of progress across the region. Coverage of this year's edition has expanded to include three new countries: Eswatini, Lesotho and Malawi. The addition of these countries reflects mounting interest in the region's potential as a source of growth and opportunity.

When the index was first released in 2017, only six out of 17 countries scored above 50, with many performing poorly on more than 40 indicators considered. This year, 14 out of 23 countries scored above 50, indicating improvements across the board. Stronger legal frameworks and growing local investor capacity contributed to better scores overall.

The countries whose standing improved the most from last year are Ghana, Morocco and Seychelles. Firmer rules enforcing close-out netting boosted Ghana's standing. Improving business environments in Morocco and Seychelles earned them points.

The initial impact of the pandemic was felt by countries with high levels of external debt as global investors pulled back investments. The withdrawal of international capital impacted the region's stock markets as liquidity dropped in the first half of 2020. The sudden drop in foreign activity showed the value of having deep and liquid local markets that can withstand external shocks.

Central banks and financial policy-makers have responded by supporting local debt markets with a variety of tools, earning praise from individuals and institutions that participated in this year's survey. While the longer-term outlook largely relies on the extent to which activity could resume in the local and global economy, recent progress in financial market development will only serve to improve Africa's chances of having a rapid and sustainable recovery.



Rank 2020	Rank 2019		Score 2020	Score 2019	Comments
1	1	South Africa	**89**	88	Foreign exchange controls eased but ratings downgrade hits liquidity
2	2	Mauritius	**79**	75	Market infrastructure and tax environment favourable to foreign investment
3	6	Nigeria	**65**	63	Firmer close-out netting rules set to boost repo and derivatives markets
4	5	Botswana	**63**	64	T-bill issuance reform expected to deepen bond market
5	4	Namibia	**61**	65	Large pension fund assets under management, but illiquid markets
6	13	Ghana	**59**	50	Active foreign exchange market and stronger legal framework
7	3	Kenya	**58**	65	Improving corporate action governance structure
8	12	Morocco	**56**	51	Improving market and business environment
9	8	Zambia	**53**	55	Stronger framework for resolving insolvency
10	10	Uganda	**52**	52	New primary dealer system set to spur bond market activity
11	14	Seychelles	**51**	47	Rapid growth in market capitalisation and number of equity listings
12	7	Tanzania	**50**	55	High transparency in stock market and low tax on dividend income
13	9	Rwanda	**50**	53	Strong macroeconomic outlook and healthy banking assets
14	11	Egypt	**50**	51	Liquid equity and foreign exchange markets
15	-	Eswatini	**49**	-	Large pool of domestic assets and growing stock exchange
16	16	Ivory Coast	**43**	41	Expanding bond market and positive macroeconomic outlook
17	15	Mozambique	**43**	44	Growing stock exchange and attractive tax environment for listed securities
18	-	Malawi	**37**	-	Improving transparency and financial stability after IFRS and Basel III adoption
19	18	Senegal	**37**	35	Promising regional market growth but lacking local institutional investors
20	-	Lesotho	**33**	-	Securities exchange still awaiting inaugural listings
21	19	Cameroon	**32**	35	Bond and equity markets lifted by regional merger of exchanges
22	17	Angola	**30**	36	Debt crisis overshadows positive tax reforms
23	20	Ethiopia	**27**	27	Development of market infrastructure in progress

Score across all pillars, max = 100. The fourth edition of the index adds three new countries, Eswatini, Lesotho and Malawi.

Building Africa's financial markets

The Absa Africa Financial Markets Index evaluates financial market development in 23 countries, and highlights economies with the most supportive environment for effective markets. The aim is to show present positions, as well as how economies can improve market frameworks to bolster investor access and sustainable growth. The index assesses countries according to six pillars: market depth; access to foreign exchange; market transparency, tax and regulatory environment; capacity of local investors; macroeconomic opportunity; and enforceability of financial contracts, collateral positions and insolvency frameworks.

OMFIF conducted extensive quantitative research using data from central banks, securities exchanges and international financial institutions. In addition, OMFIF surveyed over 30 policy-makers and top executives from financial institutions operating across the 23 countries, including banks, securities exchanges, central banks, regulators, audit and accounting firms and international financial and development institutions.

As the index grows, the network of institutions providing data and lending expertise to OMFIF's research is also expanding. Changes to scoring on certain indicators using more granular data impacted scores of some countries, but these all contribute to the overall reliability of the index as a benchmark of progress.

Continued on p.10 >>

Pillar 1: Market depth	
South Africa	**100**
Nigeria	**70**
Mauritius	**70**
Botswana	**55**
Kenya	**52**
Ghana	**48**
Namibia	**48**
Egypt	**45**
Uganda	**42**
Zambia	**41**
Mozambique	**41**
Senegal	**38**
Morocco	**37**
Ivory Coast	**36**
Tanzania	**35**
Angola	**34**
Seychelles	**34**
Rwanda	**30**
Cameroon	**28**
Eswatini	**24**
Malawi	**23**
Ethiopia	**11**
Lesotho	**11**

Pillar 2: Access to foreign exchange	
South Africa	**80**
Uganda	**67**
Rwanda	**66**
Seychelles	**65**
Egypt	**64**
Botswana	**60**
Zambia	**60**
Tanzania	**59**
Lesotho	**58**
Kenya	**57**
Namibia	**54**
Ghana	**54**
Mauritius	**54**
Morocco	**49**
Ivory Coast	**47**
Senegal	**46**
Eswatini	**45**
Mozambique	**45**
Cameroon	**36**
Malawi	**32**
Angola	**30**
Ethiopia	**30**
Nigeria	**22**

Overall pillar scores max = 100

Pillar 3: Market transparency, tax and regulatory environment		**Pillar 4:** Capacity of local investors		**Pillar 5:** Macroeconomic opportunity		**Pillar 6:** Legality and enforceability of standard financial markets master agreements	
South Africa	**94**	Namibia	**92**	South Africa	**78**	Mauritius	**98**
Nigeria	**89**	Mauritius	**90**	Egypt	**78**	South Africa	**94**
Mauritius	**88**	South Africa	**86**	Botswana	**72**	Nigeria	**87**
Ghana	**83**	Morocco	**67**	Mauritius	**72**	Zambia	**83**
Botswana	**82**	Eswatini	**64**	Morocco	**72**	Ghana	**78**
Uganda	**80**	Botswana	**61**	Uganda	**70**	Kenya	**57**
Rwanda	**80**	Nigeria	**54**	Namibia	**70**	Rwanda	**50**
Zambia	**75**	Seychelles	**48**	Eswatini	**68**	Botswana	**46**
Kenya	**74**	Kenya	**41**	Malawi	**67**	Tanzania	**43**
Morocco	**74**	Tanzania	**34**	Nigeria	**67**	Mozambique	**40**
Tanzania	**73**	Ghana	**27**	Kenya	**67**	Uganda	**39**
Namibia	**71**	Egypt	**26**	Seychelles	**66**	Morocco	**36**
Ivory Coast	**66**	Mozambique	**20**	Lesotho	**65**	Ivory Coast	**35**
Egypt	**66**	Malawi	**20**	Ghana	**65**	Eswatini	**33**
Seychelles	**62**	Angola	**16**	Rwanda	**62**	Seychelles	**32**
Malawi	**62**	Uganda	**15**	Tanzania	**59**	Namibia	**31**
Mozambique	**59**	Cameroon	**14**	Ivory Coast	**58**	Senegal	**24**
Eswatini	**58**	Rwanda	**14**	Ethiopia	**55**	Egypt	**23**
Senegal	**54**	Ivory Coast	**14**	Cameroon	**54**	Lesotho	**21**
Angola	**51**	Senegal	**12**	Mozambique	**51**	Cameroon	**21**
Cameroon	**40**	Lesotho	**12**	Senegal	**49**	Malawi	**21**
Ethiopia	**37**	Zambia	**12**	Zambia	**47**	Ethiopia	**19**
Lesotho	**33**	Ethiopia	**10**	Angola	**41**	Angola	**10**

KEY

Pillar 1 Market depth

Pillar 2 Access to foreign exchange

Pillar 3 Market transparency, tax and regulatory environment

Pillar 4 Capacity of local investors

Pillar 5 Macroeconomic opportunity

Pillar 6 Legality and enforceability of standard financial markets master agreements

(xx) = overall score

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The team consulted more than 30 policy-makers, regulators and market practitioners across African financial markets in writing this report, whom we thank for their views and opinions. Although some requested anonymity, we thank the following:

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The report finds that:

- South Africa and Mauritius retain the top spots in the index, scoring 89 and 79, respectively. Although both perform well in most pillars, South Africa maintains a sizeable lead because of its much deeper capital and foreign exchange markets. Nigeria, Botswana and Namibia round off the top five. All three score above 50 in nearly all pillars. Namibia loses points from its failure to align with international contractual standards, while Nigeria's lack of a unified exchange rate system pulls down its score.
- Overall performance in **Pillar 1: Market depth** deteriorated, partly because of the impact of Covid-19 on market capitalisation and activity. On average, countries' scores dropped by 0.6 from last year. Despite this, certain countries showed improvement. Seychelles' Merj exchange attracted additional listings, leading it to be only one of three countries where market capitalisation increased over the year. The Stock Exchange of Mauritius amended its trading rules to open its market to international central securities depositories. Uganda launched its new primary dealer system designed to encourage secondary market activity

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and price discovery.

• Ghana rises the most in **Pillar 2: Access to foreign exchange** with its foreign exchange liquidity increasing, as measured by interbank foreign exchange turnover. Angola implemented rules to route more foreign currency through its commercial banks. Survey respondents said efforts in Nigeria to unify its multiple exchange rates and South Africa's easing of capital controls for the broader economy would increase international participation in the market.

• Collectively, countries perform best in **Pillar 3: Market transparency, tax and regulatory environment** where the average score is 67. Morocco gained additional corporate ratings from international ratings agencies and a higher score for protection of minority shareholders. Kenya's Capital Markets Authority introduced rules for share buybacks, potentially encouraging market activity. Angola's first tax treaty, which it signed with Portugal, came into force.

• Namibia leads **Pillar 4: Capacity of local investors**. Its pension funds have shown rapid growth in recent years and the country now has the highest level of pension assets per capita in the index. Eswatini, a new addition to the index, has the largest pension funds relative to the size of its local market, which shows the potential available for local investors to propel market development. Survey respondents highlighted a number of successful financial inclusion initiatives such as Angola's Kwenda project and Mauritius and Nigeria's embrace of fintech companies.

• Ivory Coast rises one place in **Pillar 5: Macroeconomic opportunity**. The West African nation has one of the brightest growth outlooks and is one of five countries where economic growth has averaged above 5% over the last five years. South Africa reclaims the top spot. Despite its worsening growth outlook, it has a low non-performing loans ratio and relatively low external debt to GDP ratio.

• Ghana climbs five places in **Pillar 6: Legality and enforceability of standard financial markets master agreements**. Ghana has made the Global Master Repurchase Agreement mandatory for repos and introduced rules to enforce close-out netting. Nigeria made changes to its insolvency laws, making allowances for close-out netting. Uganda has adopted the GMRA and is reviewing insolvency laws to make close out netting enforceable.

• Although the pandemic disrupted markets, it presented opportunities for capital market development. The African Development Bank issued coronabonds in March to help finance Covid-19 response measures. Other sustainability initiatives are gaining momentum, especially in green finance. Nigeria, Kenya and Egypt are among countries that have issued sovereign green bonds in the past year. Rwanda is establishing a green investment bank, while Uganda plans to develop a fund for post-disaster environmental restoration.

Highlights 2019-20

Sustainable financial markets

Nigeria and Kenya innovate with sovereign green bonds
Nigeria is set to launch its third sovereign green bond. Kenya issued its first green bond in 2019, with proceeds used to finance sustainable student housing in Nairobi. The government has introduced financial incentives to invest in such bonds, with investors exempt from paying withholding tax on interest earned. Egypt issued a green bond in September, the first in the Middle East and North Africa.

Coronabonds made in Africa
The African Development Bank sold the world's largest social bond in March, a set of $3bn three-year bonds to help finance the fight against Covid-19. The AfDB also joined the Nasdaq Sustainable Bond Network in June.

Sustainable stock exchanges
The Johannesburg Stock Exchange is expanding its green bond segment to a sustainability division which will include green, social and sustainability bonds. In October 2019, the stock exchanges of Nigeria and Luxembourg signed a memorandum of understanding to allow cross listing and trading, to help expand the green bond market.

Private sector takes action
South Africa's Standard Bank sold a $200m green bond, the country's largest sale. Meanwhile, Absa was the first African corporate to issue a social bond. Nedbank, in partnership with AfDB, introduced a sustainable development goals-linked tier 2 bond. Last year, Nedbank became the first bank in South Africa on the JSE to launch a specific renewable energy bond.

New vehicles for green growth in east and southern Africa
Rwanda and the Coalition for Green Capital are establishing the Rwanda Catalytic Green Investment Bank. Uganda plans to create a $200m fund to help finance environmental restoration from natural disasters. The Trade and Development Bank of Eastern and Southern Africa has signed a partnership with the French development agency for a $150m line of credit to fund sustainable infrastructure in East Africa. The Development Bank of Southern Africa and the Green Climate Fund have launched a specialised climate finance facility for South Africa, Namibia, Lesotho and Eswatini. Namibia's Environmental Investment Fund, designed to counter drought effects, secured $8.4m from the UN's green climate fund.

The Banco Nacional de Angola adopted a foreign exchange electronic trading system to bring greater efficiency and transparency to its foreign exchange market.

120%:
Oversubscription of Cameroon's Cfa25bn issue of its first 10-year T-bond on the Bank of Central African States market.

The Eswatini Stock Exchange launched an automated trading system that includes mobile trading for retail investors.

The Namibian Stock Exchange listed its first bond exchange-traded fund.

Uganda reformed its primary dealer system to spur secondary market activity.

Market developments and policy changes boost growth of financial markets across the continent

$3bn: New ceiling of Botswana's expanding government bond issuance programme.

The Dar es Salaam Stock Exchange is developing a mobile trading platform.

The World Bank issued the first ever Rwandan franc bond.

€1bn: Sovereign bonds sold by Morocco, evenly split in two tranches of 5.5-year and 10-year bonds.

$594m: Amount raised by Ivory Coast from social bonds sold on the West African Economic and Monetary Union securities market.

The Nairobi Securities Exchange released a revamped mobile application for retail investors.

$5bn: Eurobonds sold in Egypt's largest-ever international issuance.

The Nigerian Stock Exchange is preparing to introduce derivatives trading.

Senegal is forming a state-backed €100m private equity fund.

Zambia formed a capital markets tribunal to enhance dispute resolution and settlement.

Ethiopia drafted legislation to create a stock market authority that will regulate its stock exchange when it opens.

Lesotho enacted legislation that requires pension funds to invest a portion of their portfolio in domestic assets.

South Africa is removing currency exchange controls.

Seychelles established the Securities, Commodities and Derivatives Exchange, listing both traditional and digital assets.

Ghana adopted legislation to enforce close-out netting.

The Stock Exchange of Mauritius' new trading rules enable links with international central securities depositories like Euroclear.

The Reserve Bank of Malawi implemented an automated trading system for the Malawi Stock Exchange.

Pictured: A brilliant round-cut Namibian diamond

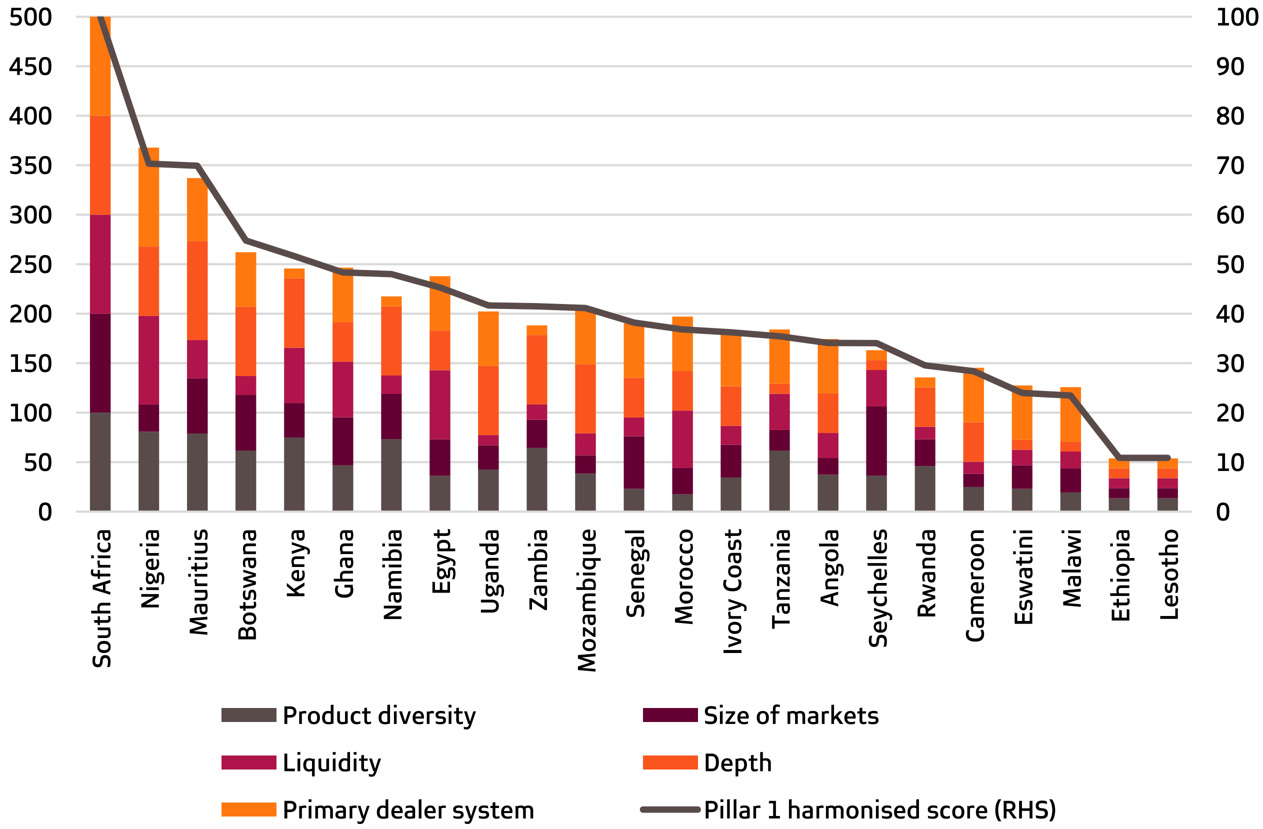
Pillar 1:
Market depth

Stunted progress

Countries made strides in growing their markets, boosting international activity and linking exchanges, but some initiatives were put on hold due to the pandemic.

Figure 1.1: Greater market capitalisation improves Seychelles' performance

Scores for Pillar 1 categories, max=500; harmonised score, max=100 (RHS)



Sources: National securities exchanges, national central banks, World Federation of Exchanges, Association of African Exchanges, OMFIF analysis. Note: Category scores (LHS) provide the average of indicator scores within each category. The harmonised score (RHS) represents the average of all Pillar 1 indicators and is used to compile the total scores for Pillars 1-6. More information on p.38-39.

Pillar 1 considers the size and liquidity of local financial markets, as well as the diversity of products available. On average, countries' scores dropped by 0.6 from last year. This partly reflects the decline in local equity indices as markets reacted to Covid-19. Liquidity was more mixed, as a fall in foreign investor activity in equities was partly offset by central banks and local investors in bond markets.

Market capitalisation decreased across most markets in the index, but exchanges have remained operational with staff working remotely during the virus disruption. In many countries, initial public offerings were put on hold because of the pandemic. This included Lesotho, where the Maseru Securities Market was set to become fully operational with its first two IPOs.

Seychelles climbs two places in Pillar 1. The country's Merj Exchange has been successful in lifting the size of its equity market since it was rebranded from Trop-x in 2019. Following a number of listings, equity market capitalisation rose to 89% of GDP from 21% to give Seychelles the third largest stock market relative to the size of its economy in the index. It remains behind South Africa at 275% of GDP and Botswana at 176% of GDP.

As of mid-2020, the Merj Exchange hosts 41 listed companies, up from 25 in the same period last year, with financial instruments available in dollars and euros. Earlier this year, the exchange launched a direct access model, which it says limits the need for brokers and has incorporated distributed ledger technology into its trading infrastructure. Survey respondents highlighted several factors that could further lift liquidity and international activity in Seychelles' capital market, such as regulatory co-operation in the International Organisation of Securities Commissions.

Bolsa de Valores de Mocambique is another smaller exchange that has been expanding. It has 11 listed equities, up from eight last year and six in the 2018 edition of the index. New listings include Hidroeléctrica de Cahora Bassa, Arko Seguros and Revimo. Mozambique has one of the smallest markets measured against GDP at 3%, but lands in the middle of the index for liquidity.

Mauritius maintained third place. In early 2020, the Stock Exchange of Mauritius announced it had amended trading rules to open its market up to international central securities depositories such as Euroclear and Clearstream. This allows foreign investors who invest in debt securities, Eurobonds and exchange-traded funds on the exchange to transfer these securities directly via the ICSD to other investors. The initiative is aimed at making the market more attractive to international investors. Mauritius and South Africa are the only markets in the index with such links to ICSD.

Money markets

Central banks in the region provided emergency liquidity to quell market panic that struck in March and April, and markets have mostly calmed since. In South Africa, however, the start of the pandemic coincided with credit ratings downgrades and the country's consequent removal from the World Government Bond Index. One survey respondent said the downgrade had hit liquidity in the secondary bond market.

Sell-offs can increase liquidity, but with many markets depending on foreign participation for a large proportion of their liquidity, less international participation has hindered market liquidity. To promote the functioning of domestic financial markets, some central banks made use of the unconventional monetary policy tools developed over the past decade. The South African Reserve Bank implemented a programme of purchasing government securities in the secondary market. The central banks of Botswana, Egypt and Ghana also conducted asset purchases. The Bank of Central African States, which serves Cameroon, undertook purchases in a restricted way to ensure consistency with rules against direct monetary financing.

Authorities across the countries featured in the index were proactive in supporting money market liquidity. They did so in different ways, but common policies included reducing repo rates, widening collateral accepted for central bank lending facilities, and reducing liquidity and capital requirements for banks. Survey respondents said authorities had overall successively managed the early stages of the crisis. However, some said that while policy action had supported finance and liquidity more broadly, it had less of an impact on equity markets where liquidity was dependent on foreign investors.

Central banks continue with efforts to build yield curves in domestic government securities that can be used as the basis for pricing for other assets. The South African Reserve Bank proposed in June replacing the South African benchmark overnight rate with the South African rand overnight index average, known as Zaronia, which is an

'Some survey respondents said that while policy action had supported finance and liquidity more broadly, it had less of an impact on equity markets where liquidity was dependent on foreign investors.'

unsecured overnight rate.

Botswana is doubling its T-bill auctions to eight per year from quarterly to assist market price discovery. In combination, it will issue standardised three- and six-month T-bills. The Bank of Botswana has extended the collateral pool for its lending facilities to corporate bonds listed on the Botswana Stock Exchange.

Uganda is nearing completion of its primary dealer reforms. In September, the central bank appointed seven commercial banks that will be able to take part in competitive bids above a certain size in the primary market. Other commercial banks will still be able to access the primary market, but only for smaller bids.

Linking exchanges

The Africa Exchange Linkages Project offers new opportunity to link African exchanges and boost cross-border activity. In April, it began procurement for an order-routing technology platform to enable a broker on one exchange to channel a client's buy or sell order to a broker on a second exchange where a target security is listed. The AELP is a joint initiative by the African Securities Exchanges Association and the African Development Bank to encourage pan-African investment flows. It is funded by the Korea-Africa Economic Co-operation Trust Fund through the African Development Bank.

Pilot exchanges that are participating in the project include: Bourse Régionale des Valeurs Mobilières, Casablanca Stock Exchange, the Egyptian Exchange, Johannesburg Stock Exchange, Nairobi Securities Exchange, the Nigerian Stock Exchange, and Stock Exchange of Mauritius.

Cameroon's Douala Stock Exchange merged with the regional Bourse des Valeurs Mobilières de l'Afrique Centrale last year, raising its equity market capitalisation to 1.1% of GDP. This earns Cameroon extra points for market size, though it loses roughly the same amount for market liquidity.

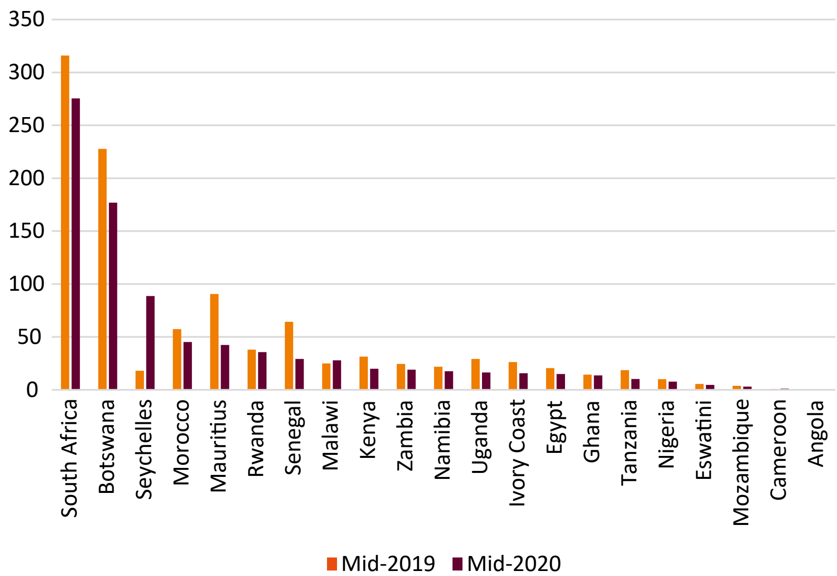
Figure 1.2: Market size and liquidity

	Equities		Bonds	
	Market capitalisation, % of GDP	Turnover of equities, % of market capitalisation	Total sovereign and corporate bonds listed on exchanges, $bn	Total turnover in bond market, % of listed bonds outstanding
South Africa	275.4	33.4	209.2	301.3
Botswana	178.4	0.3	1.6	16.4
Seychelles	88.6	1.2	0.3	46.0
Morocco	45.2	10.7	0.5	6.3
Mauritius	42.4	6.6	1.2	2.3
Rwanda	35.6	0.1	0.6	4.7
Senegal	29.1	2.1	8.8	0.6
Malawi	27.9	1.7	0.4	0
Kenya	20.0	7.8	20.4	27.5
Namibia	17.6	1.7	4.0	3.1
Uganda	16.4	0.1	3.1	0.0
Ivory Coast	15.7	2.1	8.8	0.6
Zambia	14.6	0.8	3.8	4.5
Ghana	13.7	0.7	19.6	90.6
Egypt	12.1	35.4	76.1	31.4
Tanzania	10.3	4.6	5.2	15.2
Nigeria	7.7	8.2	65.7	94.3
Eswatini	4.7	1.3	0.4	0
Mozambique	3.0	1.9	0	0
Cameroon	1.1	0.5	1.3	0
Ethiopia	-	-	0	0
Angola	-	-	7.5	31.8
Lesotho	-	-	0	0

Source: Refinitiv, national stock exchanges, national central banks, World Federation of Exchanges, the Association of African Exchange, OMFIF analysis

Figure 1.3: Seychelles, Malawi and Cameroon trump decline in equity market capitalisations

Market capitalisation, % of GDP



Sources: National securities exchanges, national central banks, World Federation of Exchanges, Association of African Exchanges, OMFIF analysis

Pictured: Dewdrops on a South African sunflower

Pillar 2:

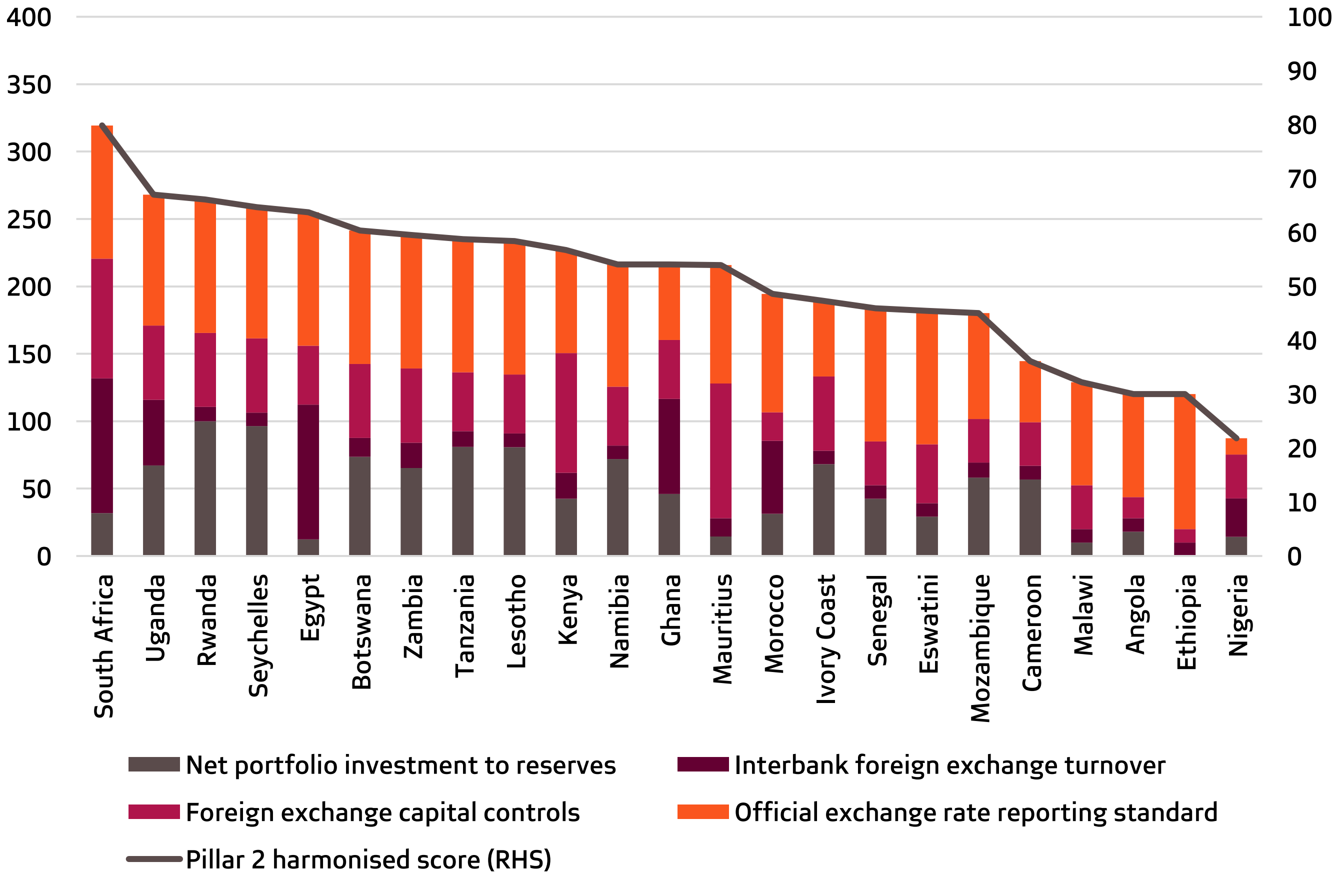
Access to foreign exchange

Easing restrictions

Loosening capital controls has improved liquidity in some foreign exchange markets, but further easing is needed to encourage greater activity.

Figure 2.1: Active foreign exchange market improves Ghana's standing

Scores for Pillar 2 indicators, max=400; harmonised score, max=100 (RHS)



Sources: International Monetary Fund, national central banks, OMFIF analysis. Note: The harmonised score (RHS) represents the average of all Pillar 2 indicators and is used to compile the total scores for Pillars 1-6. More information on p.38-39.

Pillar 2 evaluates African markets' openness to foreign investment based on the ease of moving capital, liquidity of foreign exchange markets, rigidity of foreign exchange regimes and availability of reliable foreign exchange data. It considers countries' resilience to volatility by measuring portfolio flows against foreign exchange reserves. Since the first edition of the index in 2017, several countries have loosened capital controls and moved towards more flexible exchange regimes.

On average, scores in this pillar were largely unchanged. Generally, countries maintained strong reserve positions, although there was more variability in foreign exchange activity.

An increase in foreign exchange liquidity and a lower ratio of portfolio flows to reserves lift Ghana five places in Pillar 2. The country's interbank foreign exchange turnover has been climbing steadily since it loosened surrender and repatriation requirements for exporters in 2016. The reforms direct more foreign currency through the commercial banking system rather than through the central bank. Total interbank turnover reached $25.5bn in the 12 months to March, the third highest in the index. Interbank turnover excluding central bank transactions gives a gauge of local foreign exchange liquidity in the two-way market. Active interbank markets are an important enabler and source of pricing for broader derivative products whose prices are linked to market exchange rates.

Banks based in Morocco traded $18.6bn of foreign currency in the 12 months to June, double from the previous year. This was despite a drop in liquidity between March and April as a seize-up in general trade led to lower demand for foreign currency. The country's ranking remains constant as its boost from foreign exchange turnover offset a decline in score for its ratio of portfolio flows to reserves.

Covid-19 had a mixed impact on foreign exchange turnover. While it declined in Morocco, it increased in markets such as Egypt as sell-offs of local assets spurred market activity. Egypt's interbank exchange turnover spiked in March to $15.3bn, five times higher than its average monthly turnover of $3bn in 2019.

South Africa has the highest interbank foreign exchange turnover by a large margin, despite the fact it has been on a steady decline for the last several years. Turnover was $929.3bn in 2019, helping the country maintain top place in Pillar 2.

Nearly half the countries in the index have markets with negligible interbank foreign exchange turnover, with central banks playing a large role in allocating foreign currencies. Some are taking measures to promote the interbank market. Angola introduced new rules at the beginning of the year that encouraged oil companies to sell foreign exchange directly to commercial banks.

> **'Nearly half the countries in the index have markets with negligible interbank foreign exchange turnover, with central banks playing a large role in allocating foreign currencies.'**

These companies will become another source of foreign currency for commercial banks and reduce the market's reliance on the Banco Nacional de Angola. This has been undertaken alongside the introduction of Bloomberg trading infrastructure to automate transaction processes on the foreign exchange market. The reforms should encourage greater trading in the interbank foreign exchange market.

Portfolio flows and reserves

Fluctuations in the ratio of portfolio flows to foreign exchange reserves led to several ranking changes. A higher ratio indicates potential difficulty for central banks in meeting foreign currency demand from investors.

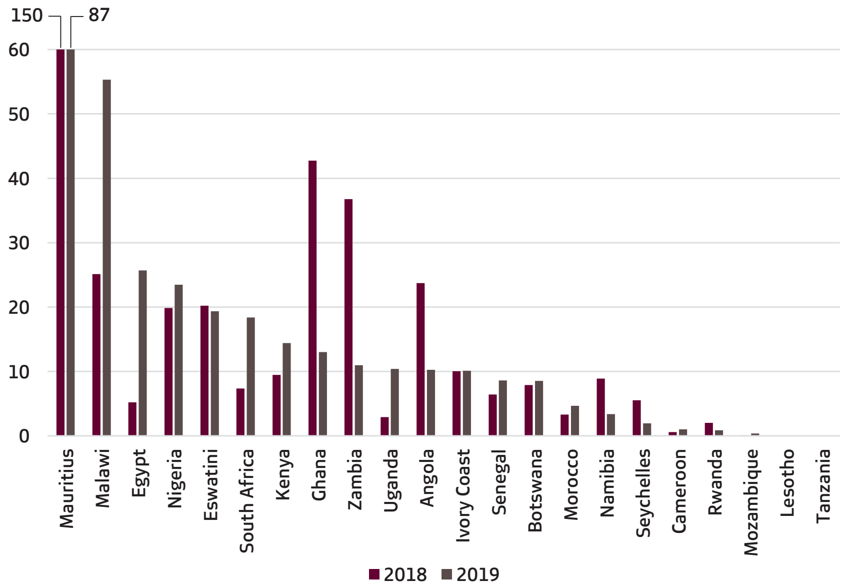
A fall in net portfolio flows in Namibia reduced the ratio to reserves to 3.4% from 8.9%, boosting the country's ranking in this pillar by three places. Rwanda ranks third, climbing one place due to a 61% increase in its reserves to $1.4bn, which reduced its ratio to 0.9% from 2%.

Angola moves up one place following an improvement in its reserve position. In 2019, its foreign exchange reserves climbed to $16.3bn from $15.4bn. Its net portfolio investment came down as greater acquisition of foreign assets increased. After being hit badly by the 2014 oil price decline, Angola had readjusted and been running current account surpluses since 2018. A halving in the value of the kwanza against the dollar over the last three years helped in this regard.

This year's oil price shock has not been kind to Angola or its exchange rate. The Angolan kwanza dropped 25% between January and September. One respondent from Angola said that the Covid-19 crisis and oil price crises 'put immense pressure on the exchange rate and prevent both the authorities and international players from undertaking any risky or complex transactions'. The largest depreciation

Figure 2.2: Ghana, Zambia and Angola went into crisis with stronger FX positions relative to net portfolio investments

Net portfolio investment to reserves, %



Sources: International Monetary Fund, national central banks, OMFIF analysis

'The largest depreciation has been in Zambia, where the kwacha has fallen 40% against the dollar amid a shortage of dollars resulting from lower copper exports.'

has been in Zambia, where the kwacha has fallen 40% against the dollar amid a shortage of dollars resulting from lower copper exports. Ratings agencies expect both countries will need to renegotiate external liabilities.

Most index currencies have depreciated against the dollar, with an average depreciation of 8% across the index between January and September. The exceptions have been countries with pegs to the euro: Ivory Coast, Senegal and Cameroon, where currencies have strengthened.

Since the onset of the pandemic, foreign exchange reserves have largely held up for those countries with timely data available. Prior to the virus outbreak, large annual increases in reserves were recorded in a number of index countries. Ghana and Mozambique raised reserves by 20%, while the West African Economic and Monetary Union increased by 18% and Mauritius by 15%. Collectively, countries in the index grew foreign exchange reserves by 5% to $256.6bn in 2019.

Mauritius has high net portfolio investment but is less vulnerable to foreign exchange fluctuations despite the high ratio to reserves. The significant inward flow is due to its position as a favourable domicile for investment funds, often comprised of international money invested globally.

Capital controls and currency regimes

Both Nigeria and South Africa took important steps over the last 12 months to make their market more accessible to international investors. The governor of the Central Bank of Nigeria said in June that the country will continue to pursue unification of its various exchange rates. One survey respondent in Nigeria said foreign exchange stability through the convergence of different exchange rates would be key to unlocking greater international activity in the market.

In February, South Africa's finance ministry announced changes to its foreign exchange system that will ease approval processes for foreign currency transactions. While prudential limits on domestic banks and institutional investors remain, these caps will be reviewed periodically.

In September, the WAEMU delayed the planned launch of its new currency, the eco. The eco will keep many of the characteristics of the CFA franc, including its peg to the euro and free convertibility guaranteed by France. However, there will be less French oversight.


Pictured: Coils of Copper wire from a Zambian mine

Pillar 3:

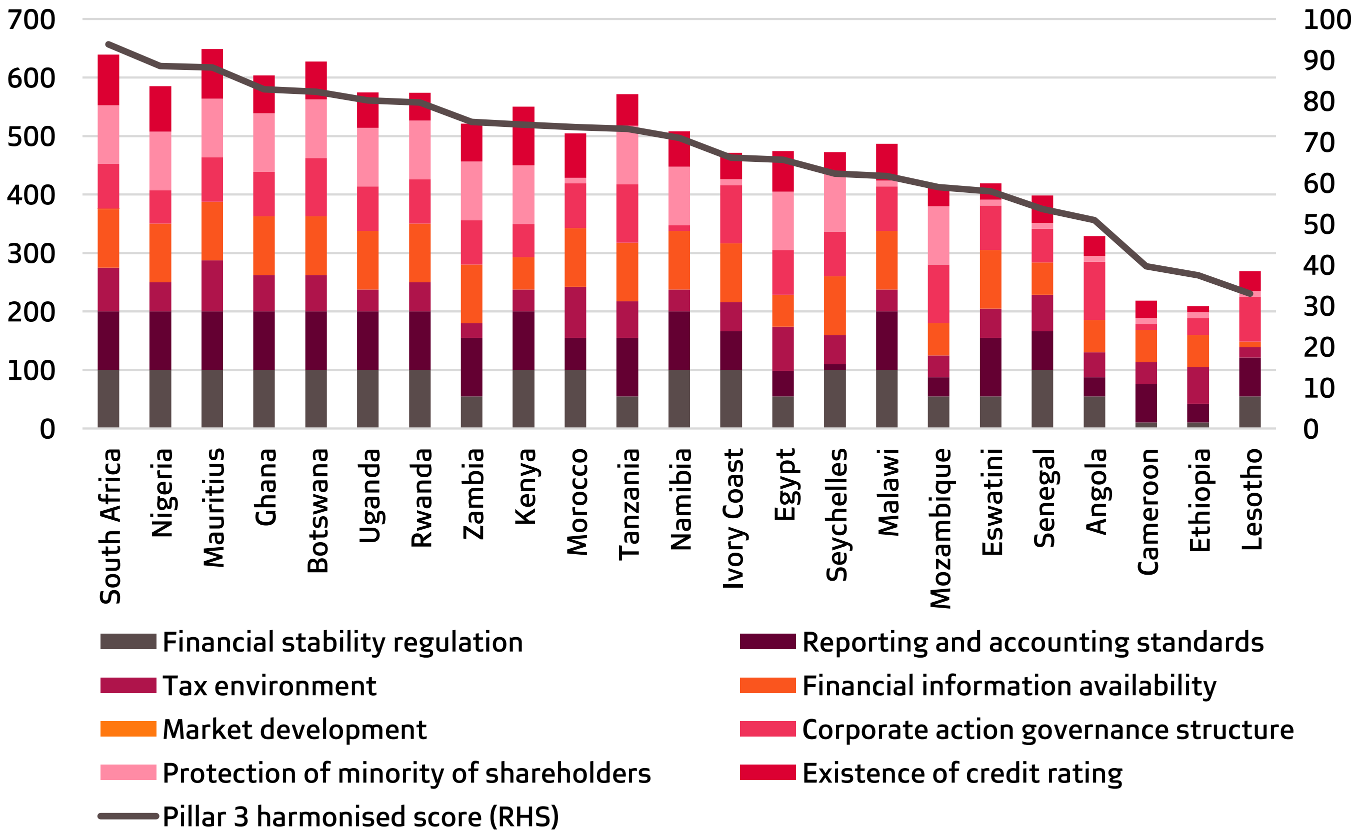
Market transparency, tax and regulatory environment

Supportive regulatory environment

Most index countries have tax systems that promote capital market development. Many have adopted the International Financial Reporting Standards, though some lack audit capacity and transparency.

Figure 3.1: Nigeria improves ranking with greater number of corporates rated

Scores for Pillar 3 categories, max=800; harmonised score, max=100 (RHS)



Source: Bank for International Settlements, International Financial Reporting Standards, Deloitte International Accounting Standard Plus, World Bank, Standard & Poor's, Moody's, Fitch, GCR Ratings, OMFIF analysis. Note: Category scores (LHS) provide the average of indicator scores within each category. The harmonised score (RHS) represents the average of all Pillar 3 indicators and is used to compile the total scores for Pillars 1-6. More information on p.38-39.

A healthy market environment is key to attracting capital. Pillar 3 scores countries based on regulatory frameworks, tax systems and market transparency. Overall, countries perform best in this pillar, scoring 67 out of 100 on average. This is unchanged from last year, but has improved from 63 in the inaugural 2017 edition of the index.

Morocco rises six places, gaining points for additional corporate ratings from international ratings agencies as well as for a higher score for the protection of minority shareholders. As of September, there were nine corporate ratings, a new high for Morocco since the index began. The World Bank has highlighted Morocco's progress in strengthening minority investor protection through 'expanding shareholders' role in major transactions, promoting independent directors, increasing transparency on directors' employment in other companies, and making it easier to request general meetings'.

Kenya climbs two places after scoring better in corporate governance structure. The Kenyan Capital Markets Authority issued guidance allowing listed firms to purchase their own shares. These share buybacks, which can help encourage stock market activity, boost the country's score in this indicator.

Tax environment

Tanzania and Ethiopia score highly for their low rates of withholding tax on income from interest and dividends, with Tanzania improving its score by levying a lower rate of withholding tax for dividends paid out by listed firms. In Tanzania, the rate of withholding tax falls to 5% for dividends from listed firms compared with 10% for unlisted firms. Mozambique has taken a similar approach. Dividends from listed firms are subject to a 10% withholding tax rather than the unlisted rate of 20%. Ethiopia has a low withholding tax rate of 10% on dividends and has the sixth-highest number of tax treaties in the index with 18.

On the measures used in this survey, Morocco and Mauritius offer the most attractive tax environments overall.

Figure 3.2: Ghana offers investors generous tax rates

Witholding tax rates, %

	Interest	Dividends
Ghana	8	8
Ivory Coast	10	10
Ethiopia	10	10
Morocco	10	15
Namibia	10	20
Nigeria	10	10
Tanzania	10	5
Eswatini	10	12.5
Botswana	15	7.5
Kenya	15	15
Mauritius	15	0
Rwanda	15	10
Seychelles	15	15
South Africa	15	20
Uganda	15	15
Angola	15	10
Senegal	16	10
Cameroon	16.5	16.5
Egypt	20	10
Mozambique	20	10
Zambia	20	20
Malawi	20	10
Lesotho	20	25

Source: Deloitte, OMFIF analysis.

Note: WHT may be reduced under applicable tax treaties. Where applicable, the rate shown is for non-residents

Both have low levels of withholding taxes and a high number of double taxation treaties with other countries. Mauritius generally has no withholding tax on dividends, but some are specified in tax treaties.

Survey respondents in Ghana said its tax system was 'broadly supportive' of capital market development. Ghanaian regulators are using tax breaks to develop new market segments. From this year, the fees charged by a local fund manager for the management of a licensed private equity fund, venture capital fund or mutual fund are exempt from value-added tax and the country's health and education levies. Private equity is increasingly being viewed as a means to provide capital to smaller firms and create a pipeline of companies that can list on stock exchanges. Gains from the realisation of securities listed on the Ghana Stock Exchange are exempt from tax until next year.

Angola maintains a low ranking in Pillar 3, but may be nearing an inflection point. One survey respondent said the country's capital market development initiatives were beginning to bear fruit in the form of a friendlier and simpler tax system. Along with Ivory Coast, Angola has tax discounts on income from longer-term government bonds, which could help bond market activity and foster the formation of a yield curve against which other assets can be priced. Angola's first tax treaty, which it signed with Portugal, came into force in late 2019. It is no longer the only country in the index without a double taxation agreement.

Accounting standards

There is wide adoption of International Financial Reporting Standards across the index countries, with most requiring listed firms to report according to IFRS. The lowest-scoring countries for accounting standards are Ethiopia and Seychelles, but it is an area of focus among business leaders and policy-makers in both. Larger corporates in Seychelles are gradually taking up the IFRS, and major banks and insurers have already adopted these standards. In 2018, Ethiopia gave banks three years to transition to IFRS from Generally Accepted Accounting Principles. Wider roll-out is planned for non-financial firms and small- and medium-sized enterprises.

Covid-19 is making it challenging to meet financial reporting requirements. IFRS 9, which came into effect in 2018, requires banks to estimate expected credit losses based on historic, current and forecasted economic conditions. The uncertain environment makes this more difficult and may exacerbate problems in fulfilling capital adequacy requirements.

Even with higher standards in place, survey respondents often cited a lack of audit capacity as a barrier to improvements in financial transparency. Other respondents noted that their markets do not tend to have a culture of transparency.

Across the index countries, survey respondents said that major financial institutions, often subject to additional oversight by a specialised regulator, had high standards of financial reporting and audit capacity. Reporting varies more in quality for non-financial corporations.

While some countries have high accounting standards, firms may need to improve their communication on financial results. One respondent in Uganda said: 'The lack of press release, investor presentation and a narrative section in the annual statements makes it impossible for recipients of the data to make informed investment decisions.'

The quality of financial reporting in Mauritius and Tanzania was praised. Both rank highly in this pillar overall. One respondent in Mauritius said the next step for regulators should be to look at making financial reporting using XBRL, the globally recognised format for digital accounts filing, more efficient. 'It should be possible to generate the XBRL file directly from a company's accounting system and upload it to the database of the registrar of companies.' This would make the process of collecting data and converting them into reports for regulators and other end-users more efficient, increasing market transparency.

Corporate ratings

Nigeria and South Africa lead Pillar 3 overall, and both stand out in the number of credit ratings for their corporates. Nearly all index countries have a sovereign rating from one of the three major international ratings agencies. However, with the exception of a handful of countries, corporate ratings from international ratings agencies are scarce.

While South Africa, Nigeria and Mauritius have 93, 38, and 31 corporate ratings from international ratings agencies, respectively, all other index countries are in single figures. For some, the number of ratings has grown slightly. Kenya has seven corporate ratings, up from five last year. Uganda has three, up from two last year, which contributed to its rise of three places in Pillar 3.

The international ratings agencies generally do not have a local presence in the index countries, which has created opportunities for African agencies such as Johannesburg-based GCR. Most of GCR's ratings are for South African corporates, but it has also rated firms in Kenya, Tanzania, Ghana, Botswana and Uganda. Other African ratings agencies include Datapro and Agusto & Co, which are both focused mostly on Nigerian firms. The methodology for this year's index incorporates local ratings activity, awarding additional points for countries with corporate ratings from African agencies.

> 'International ratings agencies generally do not have a local presence in the index countries, which has created opportunities for African agencies.'

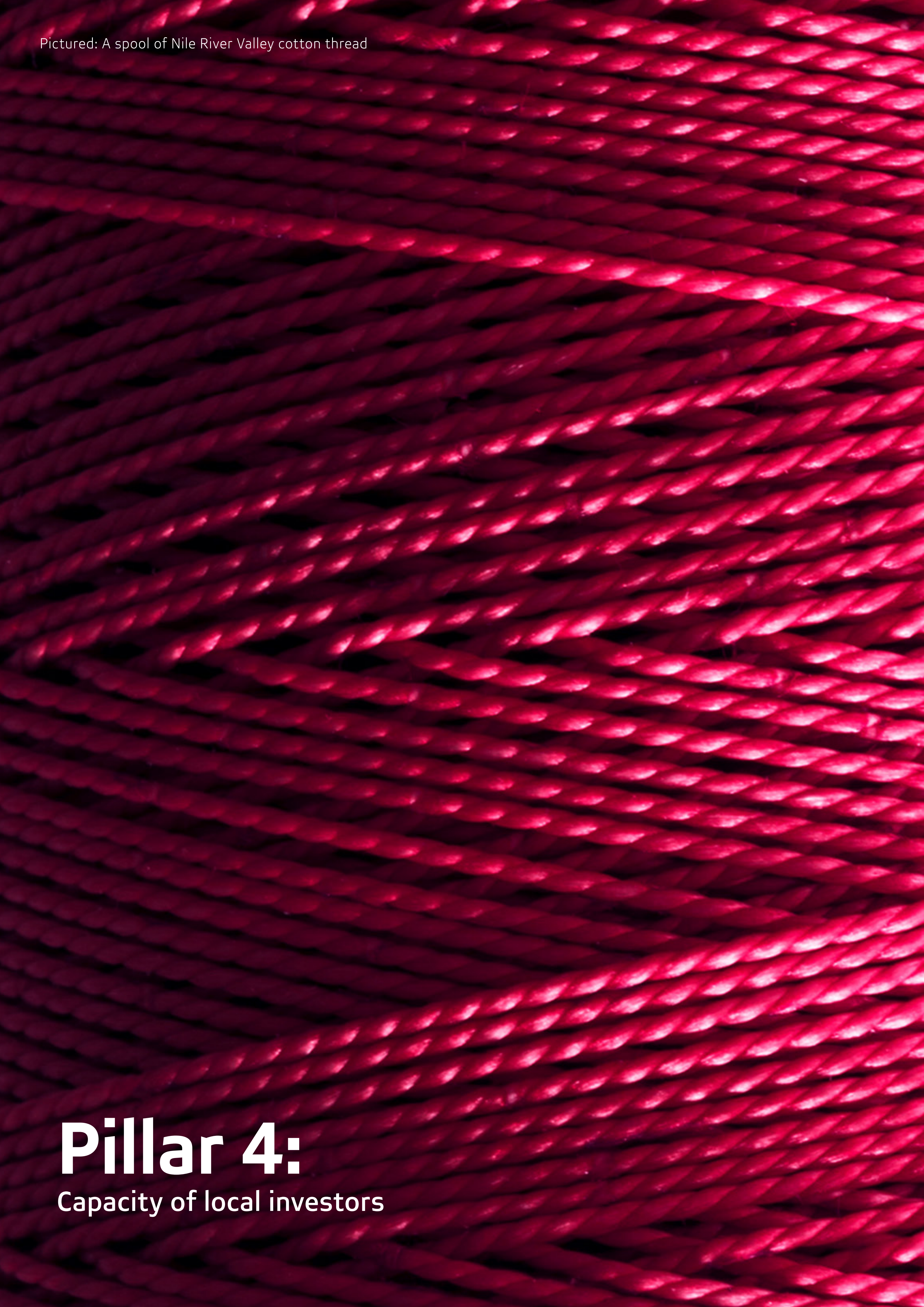
Figure 3.3: South Africa and Nigeria lead in corporate ratings

Number of corporates rated by ratings agencies

	International ratings agencies			Regional ratings agency
	Fitch	Moody's	S&P	GCR
South Africa	18	45	30	274
Nigeria	16	12	10	126
Mauritius	7	19	5	3
Morocco	8	1	0	0
Kenya	4	3	0	52
Angola	2	3	1	0
Namibia	3	2	0	6
Uganda	2	1	0	9
Zambia	2	1	0	4
Egypt	3	0	0	2
Ghana	1	1	0	11
Botswana	0	2	0	9
Rwanda	1	0	0	5
Cameroon	1	0	0	1
Senegal	1	0	0	0
Tanzania	0	0	0	12
Malawi	0	0	0	3
Mozambique	0	0	0	3
Ivory Coast	0	0	0	2
Eswatini	0	0	0	1

Source: Refinitiv, OMFIF analysis
Note: Ethiopia, Lesotho and Seychelles have no ratings

Pictured: A spool of Nile River Valley cotton thread



Pillar 4:

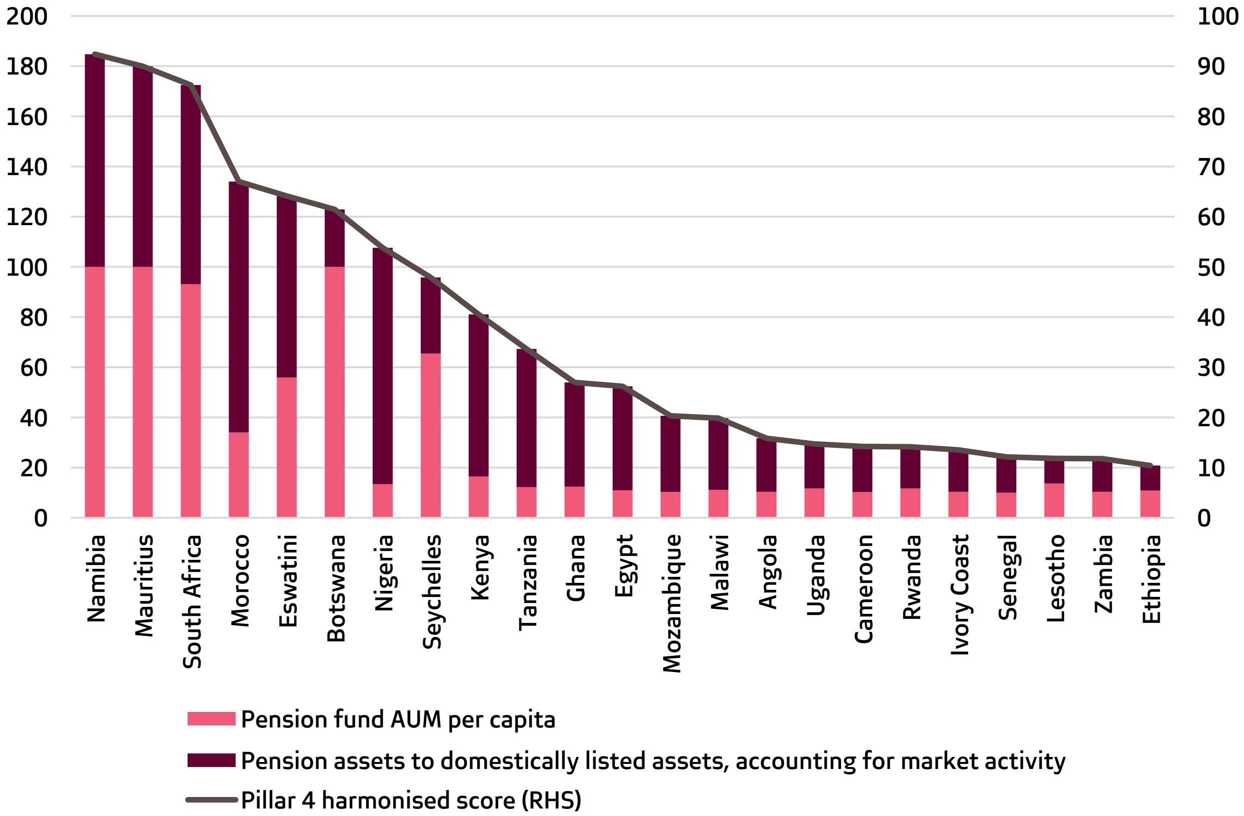
Capacity of local investors

Long-term assets propel capital market development

Pension funds are an important source of capital and liquidity for local markets, but their size varies widely across the index countries.

Figure 4.1: Namibia tops pillar with high concentration of pension assets

Scores for Pillar 4 indicators, max=200; harmonised score, max=100 (RHS)



Sources: African Development Bank, Organisation for Economic Co-operation and Development, International Monetary Fund, national securities exchanges, national central banks, national pension regulators. Note: The harmonised score (RHS) represents the average of both Pillar 4 indicators and is used to compile the total scores for Pillars 1-6. More information on p.38-39.

‘Total assets are nearly twice the size of local market capitalisation, indicating that Namibian pension funds can play an important role in spurring market activity.’

Local investors’ willingness to invest in domestic markets can have a significant impact on market development and growth. Pillar 4 measures local investor capacity based on the amount of pension fund assets available in the country relative to the population and market capitalisation. Countries tend to perform poorly in this pillar, especially if their pension systems are not yet well established. However, this pillar shows the greatest improvement from last year, with country scores climbing by 3.2 on average due to growing pension assets.

Namibia tops Pillar 4. Its pension assets rose on the back of strong market performance in 2019. Pension assets per capita climbed 9.6% year-on-year to $4,582 at the end of 2019. Total assets are nearly twice the size of local market capitalisation, indicating that Namibian pension funds can play an important role in spurring market activity. High exposure to overseas markets suggests Namibian pension funds will be partly insulated from worsening local economic conditions, as they invested 58.3% of their aggregate portfolio to foreign assets last year. This allocation is likely to go down, as Namibian funds are now required to allocate at least 45% of their portfolios to domestic assets.

Among index countries, there is high disparity in the amount of pension fund assets relative to the size of the population. Mauritius, South Africa, Seychelles and Eswatini have pension assets per capita exceeding $1,000. Morocco is just below at $938, while all other countries are significantly lower; 12 have pension assets per capita below $100.

Pension funds and other institutional investors can play a significant role in capital market development. Not only do they become large sources of capital, their long investment horizon allows them to move away from government bonds and bank deposits towards investments such as equities and corporate bonds, providing local markets with liquidity. They are an important source of liquidity for local government debt, reducing reliance on external finance.

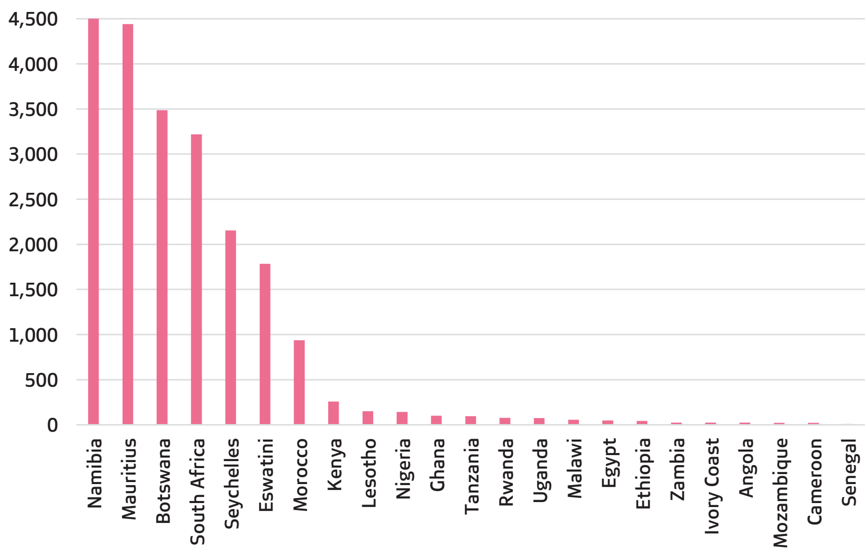
Survey respondents across the index markets said pension funds remain limited in their ability or desire to invest beyond listed equities and government bonds. One respondent in Nigeria said local government bonds offer high returns, reducing the need to invest in higher-earning or riskier assets. In markets such as Ethiopia, pension funds are required to invest a large portion of their securities in local government debt. In Kenya, one respondent said pension investment practices were improving, but conflicts between pension fund trustees and external managers tend to hamper longer-term approaches to investment.

Pension assets and local markets

Pillar 4 also considers the size of the pension market relative to the local listed market to give an indication of which countries could engage their pension funds further in capital market development. Eswatini, a new addition to the index, has the highest pension assets to local market capitalisation ratio. Its pension fund assets are three times the size of domestic listed

Figure 4.2: Namibia has largest pension pool relative to population

Pension fund AUM per capita, $



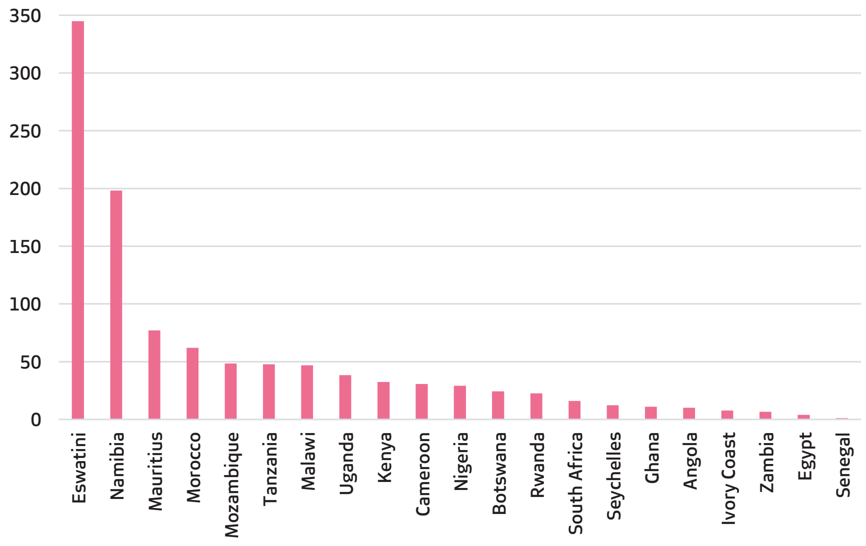
Sources: National central banks, national financial regulators, pension industry trade bodies, national finance ministries, African Development Bank, Organisation for Economic Co-operation and Development, International Monetary Fund, OMFIF analysis assets. The country's pension funds invest 42% of their assets locally, which shows they are a leading source of capital and liquidity for the local market.

Only 3% of Lesotho's pension fund assets are invested domestically, with the remainder making its way to markets in Johannesburg. In 2019, Lesotho introduced a regulatory framework for pension funds, moving oversight to the central bank and requiring a portion of pension funds to be invested in Lesotho to develop the domestic capital market.

While this indicator gauges the extent to which pension funds can propel capital market development, low market liquidity can prevent pension funds from investing in local assets and encourage them to adopt buy-and-hold strategies or invest internationally. For this reason, a local liquidity weighting is applied to pension fund assets. Morocco and Mauritius score highly because they have a high ratio of pension fund assets relative to their local market, and because their local market is relatively liquid.

Figure 4.3: Eswatini pension funds can boost local market activity

Pension fund assets, % of listed securities



Sources: National central banks, national financial regulators, pension industry trade bodies, national finance ministries, African Development Bank, Organisation for Economic Co-operation and Development, International Monetary Fund, national securities exchanges, OMFIF analysis

Mobilising local savings

Policies that support financial inclusion and encourage long-term savings help bolster the capacity of domestic capital available for investment, and contribute to broader development goals. Survey respondents in all index countries reported a high use of payments accounts, including both formal and informal sector workers. However, longer-term savings products such as savings accounts, pension plans and insurance are not as popular.

In Angola, a project designed to transfer money to low income households launched earlier this year brought more individuals into the financial system. One respondent said: 'The Kwenda project, which provides money transfers to poor people in rural regions, is improving financial inclusion by contributing to the engagement of these people with the financial system, some of them for the first time.'

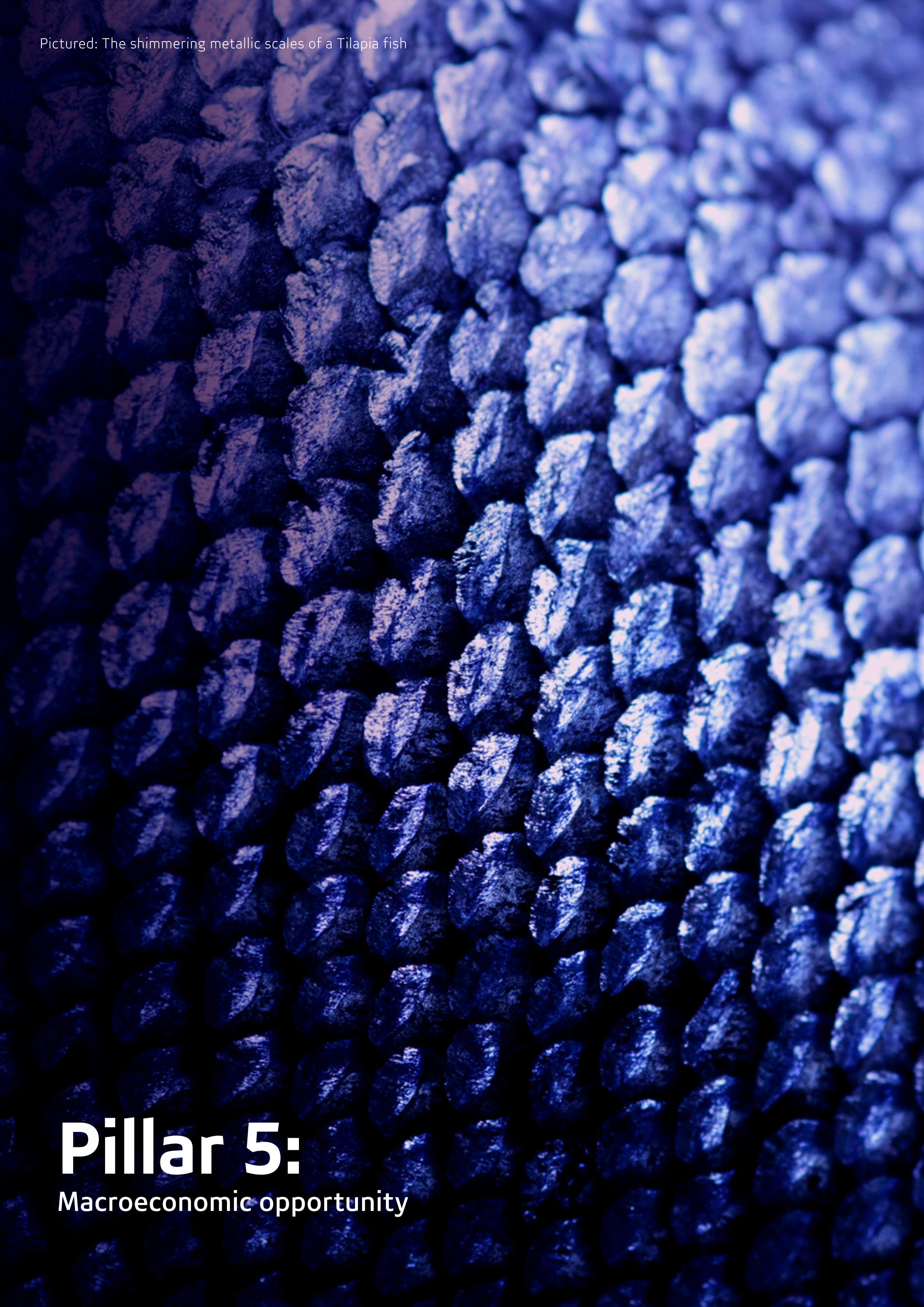
In May, the National Bank of Rwanda published the results of a wide-ranging financial inclusion survey undertaken every four years. It found that 93% of Rwandan adults have access to formal services such as bank accounts and mobile payments, and informal ones such as savings groups. This is up from 89% in 2016 and 72% in 2012. The government aims for all adults to be formally included by 2024. More and more employers are paying wages into accounts, which is driving bank account use. Education and information were highlighted as key to improving mobile accounts take up.

In February, Kenya launched Treasury Mobile Direct, allowing more of the retail investment market, banked and unbanked, to access the government bond market. The Nairobi Securities Exchange launched a mobile application in June to increase local and foreign investor participation in the market. The application is expected to pave the way for other institutions to use digital platforms such as brokers and investment banks.

Mauritius launched its MauCAS payments system, which routes transactions made through cards and mobile phones for settlement at the Bank of Mauritius. The new system makes it easier for new payments firms to provide services to existing bank account holders, creating opportunities for fintech firms.

A professional services firm in Nigeria said fintechs had helped improve access to finance for small and medium-sized enterprises. 'The [fintech] industry has revolutionised the administration of loans to consumers with SMEs leveraging on technology,' they said. 'This has created healthy competition for commercial banks that are only now fast becoming active players by establishing business units focused on financial inclusion and SME customers.'

Digital and mobile platforms are proving to be important tools during the Covid-19 disruption, especially in enabling the delivery of financial services. Central banks, financial institutions and technology firms should continue working together to provide innovative means of access to widen participation in the formal financial system, whether through saving, investing or accessing credit.



Pictured: The shimmering metallic scales of a Tilapia fish

Pillar 5:

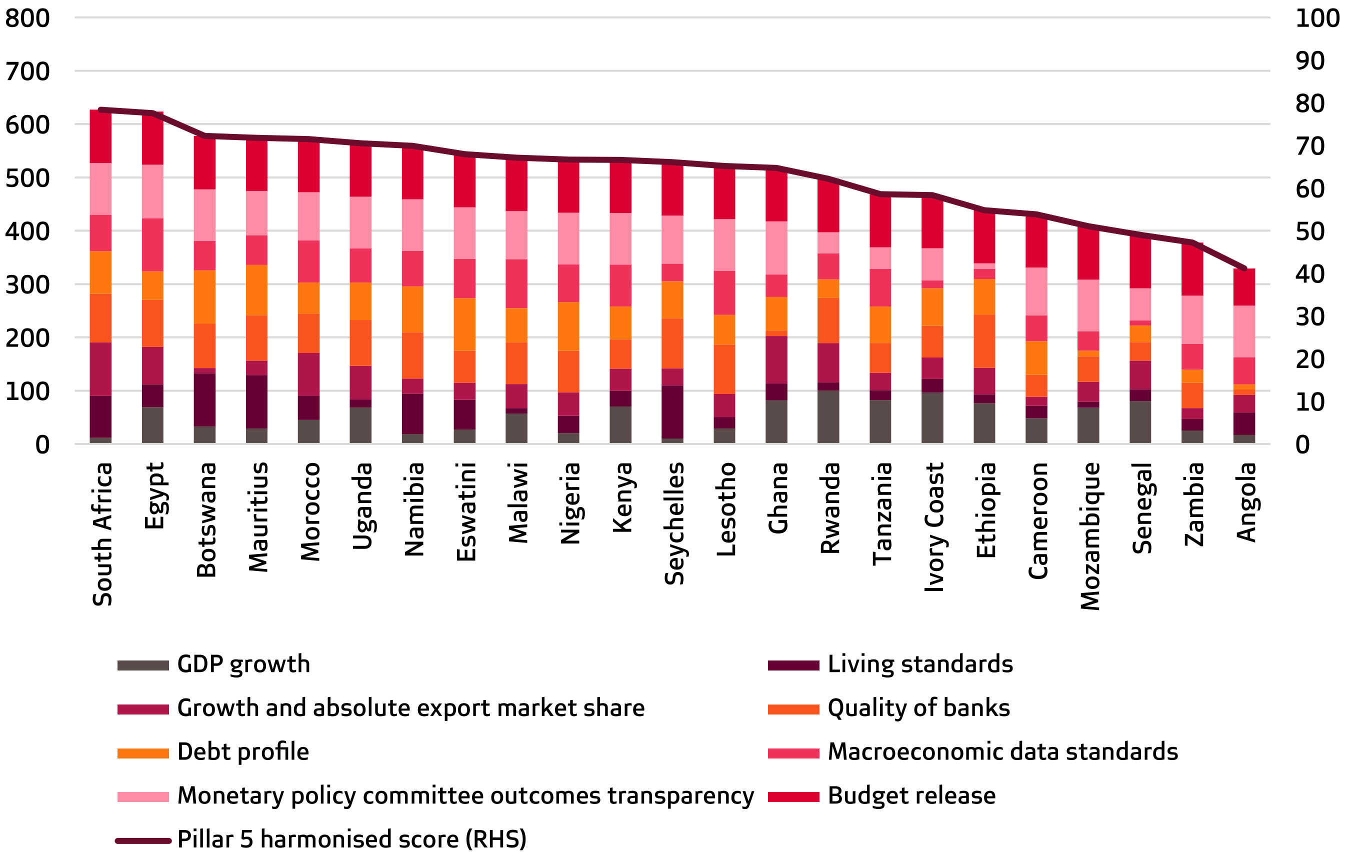
Macroeconomic opportunity

Bouncing back from crisis

In the light of the pandemic, most economies are likely to contract this year. However, some will recover more strongly than others, particularly those that are less dependent on oil and commodities exports or global tourism.

Figure 5.1: South Africa regains top spot despite economic struggles

Scores for Pillar 5 indicators, max=800; harmonised score, max=100 (RHS)



Source: International Monetary Fund, World Bank, national central banks, national finance ministries, African Development Bank, OMFIF analysis. Note: The harmonised score (RHS) represents the average of all Pillar 5 indicators and is used to compile the total scores for Pillars 1-6. More information on p.38-39.

Pillar 5 assesses countries' macroeconomic performance, export competitiveness and banking sector health. It evaluates the quality of governance based on external debt management and financial sector transparency. On average, country scores improved by 1.1, subdued partly by adjusted growth forecasts reflecting the impact of Covid-19.

South Africa regains the lead in Pillar 5 this year despite its poor economic performance. Its compound annual growth rate over the last five years is the lowest in the index at just under 1%. The International Monetary Fund expects South Africa to post the weakest recovery of the index countries over the next two years. High living standards, a low ratio of non-performing loans to gross loans, and large export market share push it to top the pillar.

Most economies are likely to contract this year, but some will recover more strongly than others. Ivory Coast ranks second for GDP growth. Over the last five years it achieved a CAGR of 7.4% and is forecast to be one of the least badly hit by Covid-19. This is due to the fact it is not heavily dependent on oil exports and tourism. Its healthcare system performs well on the Global Health Security Index, indicating that it may respond to the pandemic better than other countries.

The relatively robust growth outlook lifts Ivory Coast one place in Pillar 5. Tanzania, Ghana, Rwanda and Senegal all grew more than 5% over the last five years. These countries are expected to bounce back more strongly than others in 2021 because they are less dependent on oil and commodities exports.

Seychelles will probably be one of the worst-hit countries. While not a commodities or oil exporter, it is more exposed to disruptions in tourism and global trade, which will weigh heavily on its economic growth in 2020. This impacts its pillar ranking this year, but the IMF forecasts a strong economic rebound for 2021.

Managing external debt

External debt is a key factor in determining countries' vulnerability to crises that affect global financing and economic conditions. Eswatini, a new addition to the index, has low public sector external debt at 11.7% of GDP, the second lowest in the index for end-2019. This helps it achieve eighth place in the pillar. Botswana has the lowest external debt at 11% of GDP. There were decreases in external debt in Seychelles, Botswana, Ivory Coast and Namibia, raising their scores for this indicator.

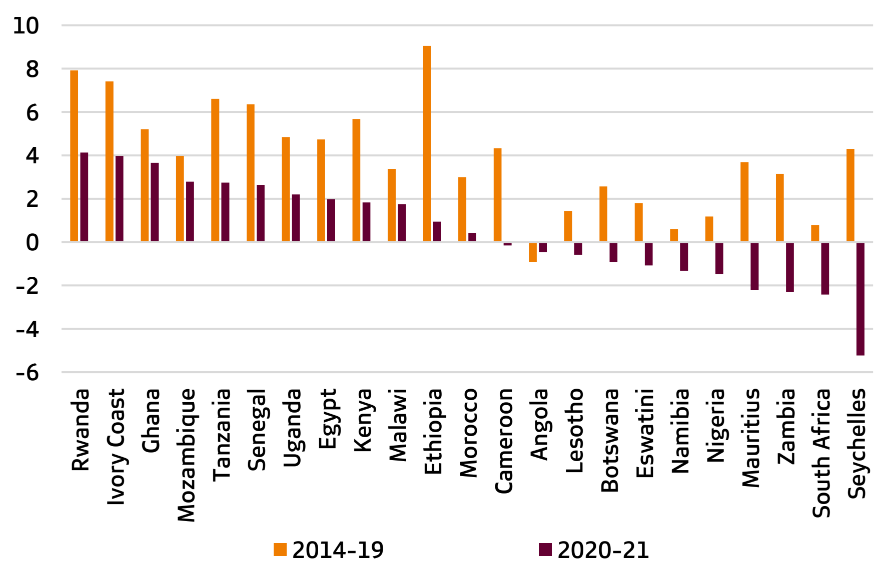
Three countries had external debt above 50% of GDP at the end of 2019. Mozambique had the highest external debt-to-GDP ratio and last year restructured $900m of Eurobonds. Ratings agencies believe a large liquefied natural gas project could revive Mozambique's financial health, even in the light of subdued prices. The other two countries with external debt above 50% of GDP are Angola, which had passed the second review of its $4bn IMF economic reform programme before the pandemic struck, and Zambia, which is aiming to renegotiate its debt with official creditors and has asked private creditors for a rescheduling of payments.

The G20 debt service suspension initiative, a debt relief programme organised by the Paris Club, IMF, World Bank and African Development Bank, aims to free up money for African countries to spend on healthcare. While many are eligible, only a small number have applied: Cameroon, Ivory Coast, Ethiopia and Senegal. There is a general reluctance to request relief owing to the negative impact this could have on credit ratings and future financing conditions. The IMF has granted short-term emergency funding to 19 of the 23 index countries to help sustain finances over the pandemic.

Secondary market Eurobond yields for many African countries have risen sharply since March, with most more than doubling. This will present difficulties for those trying to roll over debts. This shows the importance of developing local capital markets. Having access to both local and offshore markets is critical in times of stress,

Figure 5.2: Strong rebounds expected in Rwanda and Ivory Coast

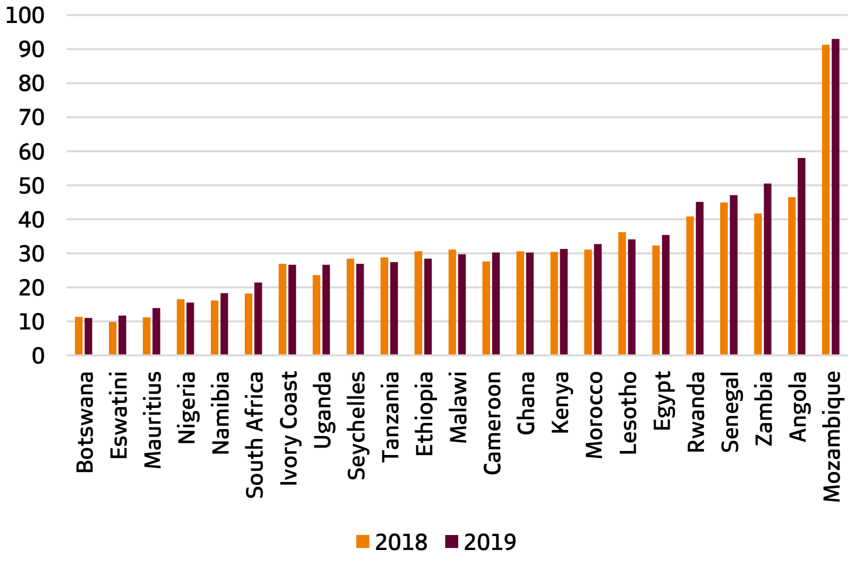
Compound annual growth rate, five-year average and forecast, %



Source: International Monetary Fund, OMFIF analysis

Figure 5.3: High external debt leaves certain countries vulnerable to crisis impact

External debt to GDP ratio, %



Source: International Monetary Fund, OMFIF analysis

> 'The IMF has granted short-term emergency funding to 19 of the 23 index countries to help sustain finances over the pandemic.'

allowing countries more flexibility in their financing sources and decisions.

Banking health

With a sharp downturn in growth, NPL ratios are expected to surge across the index this year.

Before the Covid-19 upheaval, many countries' banking systems were in strong positions. Egypt, Ethiopia, Mauritius, Namibia, Rwanda, Seychelles, South Africa and Lesotho had NPL ratios of less than 5% of total loans in 2019. A low NPL ratio can help banks keep credit open to the real economy during a crisis and provide finance for the recovery.

Nigeria has the largest decline in its NPL ratio in the year leading up to end-2019, down to 6% from 11.7%. Data from the Central Bank of Nigeria show banks have reduced their lending to the oil and gas sector and expanded their lending to agriculture, manufacturing, construction and financial services. Loans to the oil and gas sector account for 19.9% of gross loans, down from 23.5% in 2018. This diversification has helped banks reduce their NPL ratios. The central banks of Nigeria and Botswana both applied regulatory forbearance to NPLs as part of Covid-19 response measures.

Angola, the other major oil exporter in the index, has done less well in adjusting to low oil prices. The NPLs of its banks rose to 32.5% of gross loans at the end of 2019 from 28.3%. The country is undertaking policies to improve the health of its banking system. In June, 80% of non-performing loans of the Savings and Credit Bank, the largest state-owned bank, were moved to Recredit, an asset management firm set up by the state to take on NPLs from the banking system. This was part of a broader bank restructuring plan that includes partly privatising state-owned banks.

Economic diversification

The latest slump in oil prices has shown the value of diversification. The index countries collectively exported $424bn in 2019, 12% less than in 2014. This drop can be fully accounted for by Angola and Nigeria, the index's largest oil exporters. Nigeria's exports had been recovering since and continued to increase in 2019, which helps its pillar score. Large and growing exporters were Ghana, Morocco and Egypt. Ghana is likely to fall back as one of its expanding export markets is oil and gas, but this could be offset by flourishing export markets in gold and cocoa.

Rwanda and Uganda both have small export market shares but have been growing rapidly in recent years. Rwanda accounts for 0.5% of all exports from index countries. This share has doubled in the last five years, helped by strong exports in metals, gold and coffee. Uganda accounts for 1.6% of index exports, up from 1% five years ago. New entry Malawi has increased its export share by around one-third with mostly agricultural exports.

Pictured: Red and gold protea flower petals

Pillar 6:

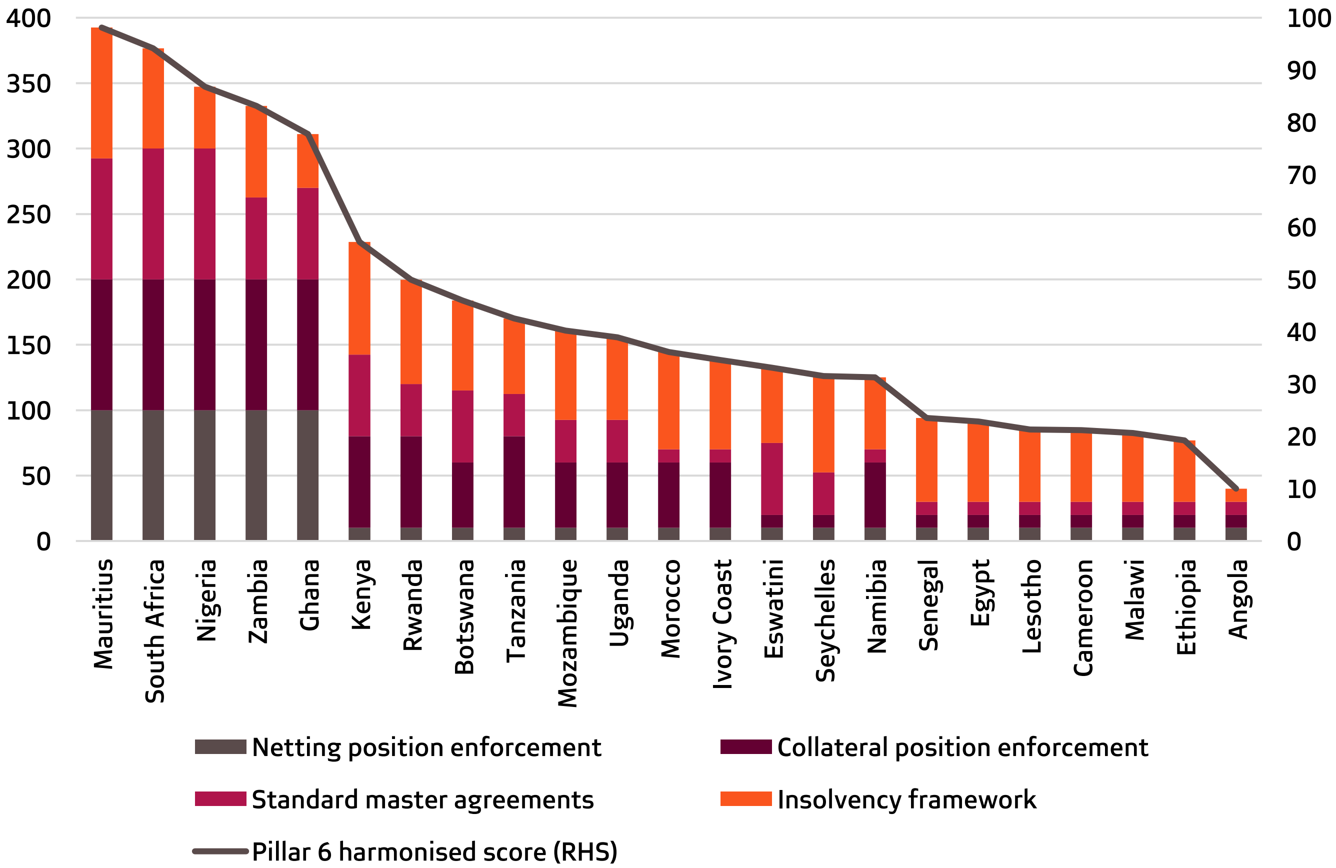
Legality and enforceability of standard financial markets master agreements

Inspiring investor confidence through legal certainty

Many countries are refining their legal frameworks to attract foreign investment, with several counties drafting netting legislation.

Figure 6.1: Greater adoption of close-out netting rules and GMRA documentation observed across countries

Scores for Pillar 6 indicators, max=400; harmonised score, max=100 (RHS)



Sources: National central banks, ISDA, Frontclear, World Bank, OMFIF analysis. Note: The harmonised score (RHS) represents the average of all Pillar 6 indicators and is used to compile the total scores for Pillars 1-6. More information on p.38-39.

Alignment with internationally recognised legal and contractual frameworks help mitigate risk and boost investor confidence. Pillar 6 scores countries based on the enforceability of close-out netting locally, adoption of standard master agreements and the strength of insolvency frameworks.

The adoption of the Global Master Repurchase Agreement and legal revisions to allow close-out netting helped Ghana climb five places in Pillar 6. Fidelity Bank Ghana and Société Générale concluded the first Ghanaian repo under GMRA in early 2020 with a $40m trade, using Ghanaian cedi government bond collateral. This followed the publishing of guidelines for the repo market and use of GMRA by the Bank of Ghana, which have been continuously updated.

The Bank of Ghana has announced that from October, all repo trading in the country will be governed by GMRA legal documentation. This has been developed alongside market infrastructure allowing real-time trading and mark-to-market pricing for repo securities on the Bloomberg platform. Adoption and enforceability of the GMRA will standardise Ghana's repo market by creating legal certainty and reducing risk, and encourage greater participation in the repo market by local and global financial institutions.

Few Ugandan banks have performed transactions using GMRA documentation, but wider adoption is expected after the legal framework is refined. Uganda's efforts are part of a broader move to GMRA adoption across the East African Community (other index EAC members are Rwanda, Kenya and Tanzania) to enhance cross-border activity. The EAC's horizontal repos – repos between commercial banks – have tended to use pledge-based collateral, with ownership of the collateral not formally changing. By using repos, where collateral ownership changes, countries can reduce the risk involved in money markets transactions, especially cross-border deals, and thereby reduce their cost. Frontclear, a firm that develops financial markets infrastructure, is in the final stages of setting up a guarantee fund to facilitate Ugandan interbank trading by insulating banks from credit risk exposure. Over the last few years, Ghana has taken a similar route involving Frontclear.

Mauritius and South Africa lead Pillar 6 because of their adoption of the three global master agreements regarding derivatives, repos and securities lending. The agreements are fully enforceable and widely used by banks and firms in both countries.

Figure 6.2: More countries making close-out netting enforceable

	Close out netting enforceability	ISDA netting opinion
Mauritius	Yes	Yes
South Africa	Yes	Yes
Ghana	Yes	ISDA in pre-commissioning process
Nigeria	Yes	ISDA in pre-commissioning process
Zambia	Yes	ISDA in pre-commissioning process
Egypt	Under consideration	No
Morocco	Under consideration	No
Seychelles	Under consideration	No
Uganda	Under consideration	No
Botswana	No	No
Kenya	No	No
Tanzania	No	No
Angola	No	No
Cameroon	No	No
Eswatini	No	No
Ethiopia	No	No
Ivory Coast	No	No
Lesotho	No	No
Malawi	No	No
Mozambique	No	No
Namibia	No	No
Rwanda	No	No
Senegal	No	No

Source: ISDA, OMFIF analysis

Close-out netting

The enforceability of close-out netting is an important legal underpinning of derivative and repo markets. Scoring on this indicator for this year's edition is based on data and legal opinions from the International Securities and Derivatives Association, which led to significant changes in the scores of some countries, including Kenya, Tanzania, Namibia, Angola and Botswana.

To make the GMRA legally enforceable and consistent with its domestic laws, Ghana had to pass legislation that allowed for close-out netting. In the event of a counterparty default, close-out netting allows the solvent party to settle their remaining transactions on a net basis, rather than having to make gross payments to the counterparty and being grouped with other creditors while awaiting gross payments from the counterparty. Close-out netting reduces systemic risk and Basel rules allow banks to apply lower risk weightings to assets with netting provisions on their balance sheets, freeing up capital for other uses.

Nigeria enacted netting legislation earlier this year, lifting it three places in Pillar 6 to third. Its companies and allied matters act includes provisions for netting. FMDQ, a fixed income and derivatives exchange in Nigeria, said: 'These game-changing provisions will cure critical legal deficiencies that hitherto affected financial market development, with the netting provisions addressing the credit risk challenges, operational and legal bottlenecks of gross settlement for spot and derivatives transactions.'

Namibia, Kenya, Egypt, Seychelles and Morocco are in the early stages of drafting netting legislation. Enacting netting laws is usually a prolonged process, as it may require changes to insolvency laws. Uganda is introducing legislation to allow close-out netting as part of its drive for greater use of repos under GMRA.

Nigeria and Ghana are two of five index countries with full netting enforceability aimed at the netting provisions of master agreements. The others are South Africa, Mauritius and Zambia, which receive full scores for this indicator.

Zambia has already made provisions for close-out netting and regulators are working with ISDA to mitigate uncertainty in their netting legislation, after which ISDA will begin commissioning a legal opinion. ISDA's legal opinions satisfy the requirements for financial institutions to obtain regulatory capital relief for netting and can be the green light for international investors waiting to enter a new market. Currently, the only index countries covered by ISDA's legal opinions are South Africa and Mauritius. ISDA is close to commissioning legal opinions in Ghana and Nigeria.

Insolvency

Adequate insolvency procedures improve investor confidence, helping to attract foreign investment and encourage business growth. Scores from the World Bank's 'Doing Business' report consider the quality of insolvency laws, the efficiency of bankruptcy and reorganisation processes, the time and cost of resolution, and the recovery rate for claimants.

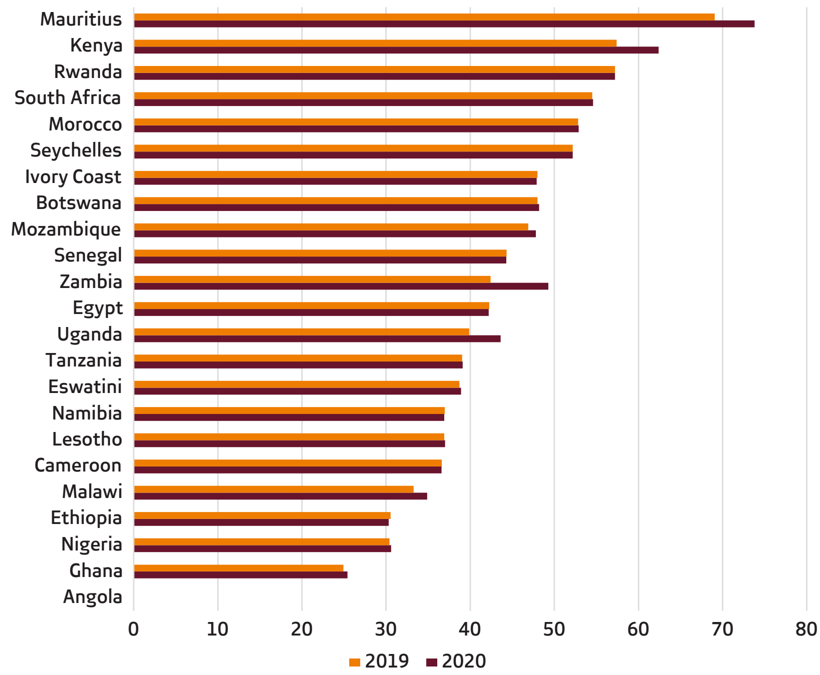
Zambia climbs three places in the pillar, thanks to an increase in its insolvency score. The World Bank said it had made business rescues easier by introducing a reorganisation procedure and granting debtors the possibility of obtaining post-commencement finance, credit or finance granted to a company in Zambia's business rescue process. According to one Zambian consultancy, a lack of post-commencement finance can block an otherwise successful business rescue. The consultancy added that there was a lack of finance available because prospective investors were unaware of the associated risks. Zambia now has the seventh highest insolvency score.

Mauritius and Kenya earn points for improved resolving insolvency scores. The World Bank said both had made resolving insolvency easier by improving the continuation of the debtor's business during insolvency proceedings. Mauritius and Kenya have the highest resolving insolvency scores in the index.

'Mauritius and South Africa lead Pillar 6 because of their adoption of the three global master agreements regarding derivatives, repos and securities lending.'

Figure 6.3: Responsive insolvency regimes needed across the region

Strength of insolvency framework score, max=100



Sources: World Bank, OMFIF analysis

The Africa Financial Markets Index in focus

Using a variety of parameters, both qualitative and quantitative, the Absa Africa Financial Markets Index records the openness and attractiveness of countries across the continent to foreign investment. The index countries are scored on a scale of 10-100 based on six fundamental pillars comprised of over 40 indicators, covering market depth, openness, transparency, legal environment and macro opportunity.

Pillar 1: Market depth

Product diversity
- Type of assets available
- Currency availability of stock exchange products
- Number of hedging products available

Size of market
- Total sovereign and corporate bonds, market capitalisation, ratio to GDP

Liquidity
- Total turnover of equities and bonds ratio to market capitalisation and bonds outstanding, respectively

Depth
- Ability to clear government instruments denominated in local currency in international markets
- Existence of secondary market makers (bond market)
- Closing auction for fair tradeable market prices

Primary dealer system
- Existence of system
- Size of repo market

Pillar 2: Access to foreign exchange

Net portfolio flows, ratio to reserves
- Total net portfolio flows, ratio to foreign exchange reserves

Foreign exchange liquidity
- Interbank market foreign exchange turnover

Capital restrictions
- Foreign exchange capital controls

Official exchange rate reporting
- Quality of data and frequency of publication
- Existence of multiple or unified exchange rate

Pillar 3: Market transparency, tax and regulatory environment

Financial stability regulation
- Basel accords implementation stage

Quality of financial reporting
- Commitment to international accounting and reporting standards (GAAP, IFRS)

Tax environment
- Level of withholding taxes on interest and dividends, including discounts for dividends from listed firms
- Number of tax treaties

Financial information availability
- Existence of fixed dates and times for market reporting
- Publishing of data on sector and domestic vs non-resident ownership of domestic assets

Market development
- Existence and effectiveness of capital markets association
- Existence and strength of rules protecting minority shareholders
- Existence of sovereign rating (Fitch, Moody's, S&P)
- Number of corporate ratings issued (Fitch, Moody's, S&P) and coverage by local ratings agency

Pillar 4: Capacity of local investors

Local investor asset concentration
- Value of pension assets per capita
- Pension fund assets, ratio to total market capitalisation of equities and bonds listed on exchanges

Pillar 5: Macroeconomic opportunity

GDP growth
- Composite five-year historical GDP growth average (2014-2019) and two-year forecast (2020-21)

Living standards
- GDP per capita

Competitiveness
- Absolute export market share and growth in export market share over past five years

Macroeconomic data standards
- Publication and frequency of GDP, inflation and interest rate data

Budget release

- Regular release of budget

Monetary policy committee outcomes transparency

- Frequency and regular publishing of MPC decisions and meeting schedules

Debt profile

- External debt-to-GDP

Quality of banking sector assets

- Non-performing loans ratio

Pillar 6: Legality and enforceability of standard financial markets master agreements

Netting and collateral positions

- Enforced netting and collateral positions

Use of financial market master agreements

- Use of ISDA master agreements, GMRA, GMSLA or own non-standard agreements

Insolvency framework

- Strength of insolvency framework

Methodology

Pillars and indicators

The index scores each country based on six pillars: market depth; access to foreign exchange; market transparency, tax and regulatory environment; capacity of local investors; underlying macro opportunity; and the legality and enforceability of standard financial markets master agreements. Pillars are built from a set of key indicators listed on p.38-39.

Each individual indicator is weighted equally in each pillar, and each pillar is weighted equally in the overall index score.

Data and survey

The data informing the scores for each pillar and their indicators stem from a mixture of quantitative and qualitative analysis. The quantitative data collected are of the latest year available. For full year statistics (i.e. GDP) this is 2019 data. For statistics covering the previous 12 months (i.e. securities market turnover) this is July 2019-July 2020. In cases where the data refer to current conditions, such as for the Basel implementation stages, international accounting standards, and credit ratings, the data are as of mid-August 2020.

The survey element provides both quantitative and qualitative data relating to legal, regulatory and market conditions in each of the countries, such as information on tax environment, as well as responses based on country experiences.

The survey was conducted from June-August 2020, covering more than 30 individuals from institutions operating throughout Africa. Participants include chief executives, managing directors, managing partners or country experts across a range of global, regional and local institutions, including banks, securities exchanges, regulators, asset managers and investors.

Harmonisation and scoring

Raw data are harmonised on a scale of 10-100 to allow comparability between indicators.

Outliers in the raw data falling above or below two standard deviations of the mean are accounted for during the scoring. In the case of an outlier greater than the upper bound, its value is replaced by the next-highest data point in the sample. This means indicators can have more than one country scoring maximum points.

The scoring of each indicator and pillar works under the same process. Once indicators have a harmonised score, the average is taken across each indicator in a pillar to create the overall pillar score. Similarly pillar scores are averaged to create the country's composite score.

How to get full marks

As the index is a comparison of a country's financial market against the selected sample, a country can reach the maximum score of 100. In such a scenario, the country must achieve the maximum score of 100 in all six pillars.

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