



# Absa Africa Financial Markets Index 2022

Harnessing the power of African opportunity



Pictured: Fishermen, Namibia



# Acknowledgements

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Contains country comparisons and highlights opportunities and challenges for the region's financial markets.

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**Pillar 1:  
Market depth**

Evaluates the size and liquidity of domestic capital markets, along with the diversity of listed asset classes and the existence of standard features that enhance market depth.

14-19



**Pillar 2:  
Access to foreign exchange**

Assesses the openness of markets to foreign investment and the ability of central banks to manage volatility from foreign capital flows.

20-23



**Pillar 3:  
Market transparency, tax  
and regulatory environment**

Examines the transparency of financial markets alongside the tax and regulatory environments and ESG indicators.

24-27



**Pillar 4:  
Capacity of local investors**

Evaluates the potential for institutional investors to drive capital market growth based on the size of pension fund markets.

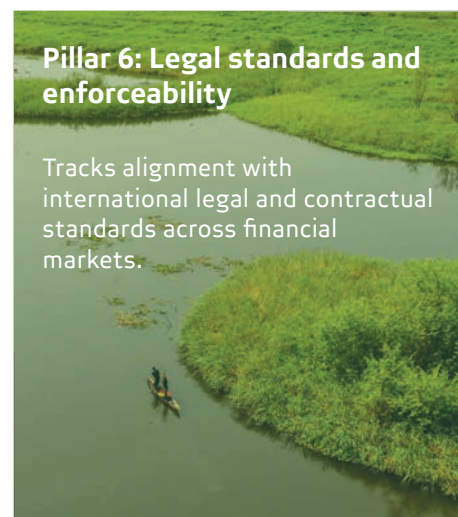
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Assesses countries' macroeconomic environments and the transparency of economic data, which underpin the development of their financial markets.

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# Forewords



## Aim of index

Now in its sixth year, the Absa Africa Financial Markets Index evaluates countries' financial development based on measures of market accessibility, openness and transparency. The aim is to show how economies can reduce the barriers to investment which can, in turn, boost sustainable growth. The index has become a benchmark for the investment community to gauge African countries' market infrastructure and is used by policy-makers to learn from developments across the continent.



**Arrie Rautenbach**  
Chief Executive Officer, Absa Group

## This year's AFMI richest yet

After the strain of the pandemic, it feels as if Africa's economy barely had time to catch its breath before facing a much more difficult global environment.

It may feel an odd time, then, to discuss the importance of financial market development for Africa's long-term success. But it remains Absa's belief that open, transparent and accessible financial markets remain the best way to ensure that the continent is best placed to use its domestic capital and in the strongest position to access global capital.

African policy-makers, regulators, securities exchanges, and the providers and users of capital agree. One sign of the success of fostering financial market innovation is the scoring itself. The number of countries scoring above 50 in the index has doubled since our first edition in 2017 and the gap between the leading trio and the mid-pack has shrunk considerably. Impressively, 19 countries lifted their performance in 2022, even in a difficult environment.

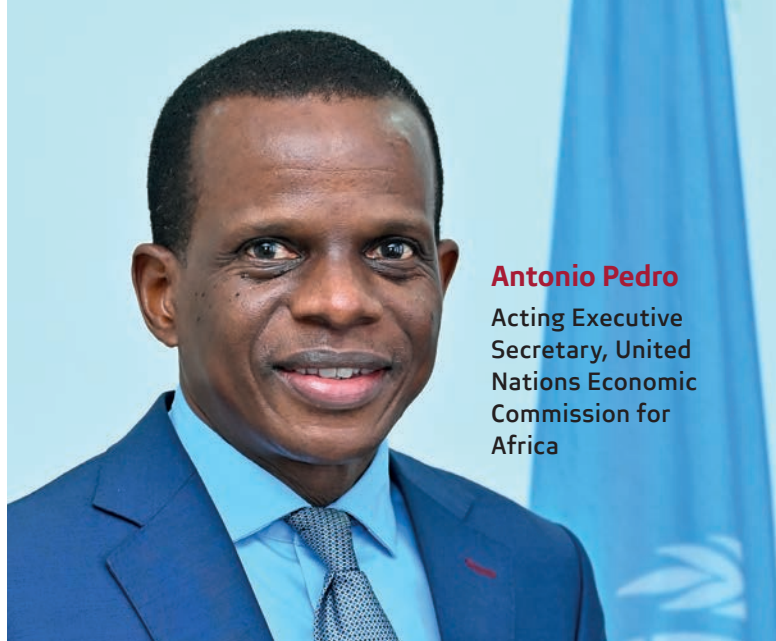
Those improvements are not by chance, but rather reflect a continued focus by countries to foster a financial market ecosystem that is better placed to meet Africa's financing needs.

To see the proof of this, look at the growing commitment across the continent to environmental, social and governance related financing. Introduced in last year's index, nine countries now offer sustainable financial products, while 17 have sustainability-focused policies in place. Countries are working hard to ensure that they are well placed to attract the sort of global capital that is focused on long-term sustainability.

It is a privilege to welcome the Democratic Republic of Congo, Madagascar and Zimbabwe into the fold. At 26 countries, the Absa Africa Financial Markets Index now represents 78% of the continent's population and 82% of its gross domestic product. The strength of AFMI has always been the discussion, learning and development that it fosters across Africa. I have no doubt that this year's contribution will be the richest yet.



**David Marsh**  
Chairman, OMFIF



**Antonio Pedro**  
Acting Executive  
Secretary, United  
Nations Economic  
Commission for  
Africa

## Taking pride in progress

When Absa and OMFIF decided in 2016 to produce a joint scorecard of capital market development across Africa, the inspiration came from many angles, but we had one principal aim. We wished to improve the means for African countries to learn from best practice across the continent. With the index now in its sixth year and extended to 26 countries (up from 17 in the 2017 index), we have succeeded in creating a series of widely recognised benchmarks to measure and extol substantial capital markets progress.

The background has been challenging. The continent has weathered the continuing fallout of the 2008-09 financial crisis and the rise and decline of China as a force for lending and investment. On top has come Covid-19 and global upheavals – including in commodities supply and demand – following the Russian invasion of Ukraine.

Among the drawbacks, these upsets have produced one large benefit for Africa. Global investors have sharpened their appraisal of risk, and whether or not this is fairly represented in market pricing. In view of all-too-evident problems in developed markets, Africa looks an attractive investment destination based on capital market structures that actively guide adequate risk pricing.

Despite macroeconomic headwinds, advances in sophistication, depth and transparency of African capital markets represent a considerable plus. A range of African countries now leads the field in key spheres. In one prime example, Africa has forged ahead in meeting requirements from investors targeting economic sustainability. There are many areas on which to build.

Unstinting efforts by the private sector – together with the International Monetary Fund, multilateral development institutions and our network of partner institutions around Africa – are required to extend these positive changes. We do not wish to minimise future tasks. The index records work in progress. And it is work in which Africa can take substantial pride.

## Inclusive and sustainable development

Strong and resilient financial markets contribute to socio-economic stability as well as the development of inclusive and sustainable economies through the efficient allocation of both internal and external resources. Due to the contraction of the global economy and unfavourable market conditions, it has become increasingly difficult for African countries to tap into international markets to finance their budgets and programmes. These challenges emphasise the need for and importance of vibrant domestic financial markets to enhance resilience to external shocks and generate alternative sources of funding.

As Africa strives to achieve the 2030 Agenda for Sustainable Development and Agenda 2063 of the African Union, while combatting the consequences of climate change, it requires more and innovative sources of funding as well as more inclusive financial systems. Advances in technology contribute to achieving the latter, offering equitable and universal access to affordable finance for all, and ensuring that no one is left behind.

Financial markets can provide innovative and streamlined solutions at scale that address the unique features of African economies and support the development of local businesses. By deepening and expanding domestic capital markets, liquidity can be increased, costs of capital reduced and green and innovative instruments developed. This requires stronger institutional and regulatory frameworks that promote transparent and efficient markets and increase investor confidence.

To this end, the 2022 Absa Africa Financial Markets Index, with strengthened geographic coverage and thematic scope, serves as an important tool for policy-makers and regulators in the development of financial markets on the African continent. It provides in-depth comparative analysis to support the formulation of policies for long-term financial market development.

On our part, we remain committed to supporting the development of Africa's financial markets and will continue to work closely with member states, think tanks and development partners.



Pictured: Tea plantation, Rwanda

# Introduction

## Signs of progress amid external shocks

The last two years have reinforced the need to develop domestic financial markets to protect economies from external shocks. While disruption from the pandemic has faded, fresh challenges have emerged from the spillovers of the Russia-Ukraine war and tighter global financial conditions. Despite these difficulties, capital market infrastructure has continued to improve across Africa. This will help to build resilience and allow the continent to maximise its potential.

The Absa Africa Financial Markets Index, now in its sixth year, presents a broad view of financial market progress. The index continues to evolve this year. Coverage has expanded to 26 countries with the addition of the Democratic Republic of Congo, Madagascar and Zimbabwe. More robust measures of reserves adequacy and macroeconomic stability have been introduced to better reflect countries' developments. Scores for 2021 have been made consistent with this new methodology, and updated to include any relevant new data, to allow for accurate year-on-year comparisons (see p.43 for more details).

While challenging market conditions weighed on performance in the index, 19 countries improved their

scores relative to last year. This was largely due to broad-based progress in developing sustainable financial markets, which is becoming increasingly important to global investors. Namibia, Uganda and Kenya are among the countries with the greatest increase in scores. They have bolstered their environmental, social and governance market frameworks and, in Kenya, climate risks have been incorporated into financial stability regulation. Greater product diversity has lifted scores for most countries too, including Angola and Lesotho which both issued their first initial public offerings over the past year.

The index also recognises the contribution of digital initiatives and innovations to African financial market development. While not directly impacting scores, the report highlights countries' progress in upgrading market infrastructure, transparency and regulation using new technologies. It also sheds a light on various financial inclusion initiatives which help to build a broader domestic investor base.

Continued progress on sustainability, digitalisation and financial inclusion will be crucial to improve Africa's appeal and access to investors, enabling the continent to develop its resilience to any future external shocks.

Rank		Country	Score		Comments
2022	2021		2022	2021	

1	1	 South Africa	88	90	Strong performance but market sell-off and weak growth weigh on score
2	2	 Mauritius	76	76	Robust financial market but lower reported pension assets
3	3	 Nigeria	69	67	Better adoption of standard master agreements
4	6	 Uganda	66	60	Improved ESG incentives and standards
5	5	 Botswana	66	62	Strong macroeconomic fundamentals and transparency
6	7	 Namibia	65	58	Large pension market and new ESG market standards
7	4	 Ghana	65	64	Weakening macroeconomic environment and reserves
8	10	 Kenya	61	55	Further progress in sustainable finance
9	8	 Morocco	60	56	Wide sustainable asset availability and favourable tax system
10	9	 Egypt	57	56	High market liquidity but economy vulnerable to external shocks
11	11	 Tanzania	55	54	First social bond issuance and efforts to liberalise capital controls
12	12	 Zambia	54	52	Significant decrease in inflation and improved growth outlook
13	13	 Malawi	48	49	Dwindling reserves overshadow better market transparency
14	15	 Eswatini	46	42	Improving liquidity and new ESG guidelines
15	16	 Seychelles	46	40	Stronger macroeconomic performance and high transparency
16	-	 Zimbabwe	44	-	Better product diversity but weak macroeconomic backdrop
17	14	 Rwanda	43	43	High inflation weighs on score
18	17	 Côte d'Ivoire	42	40	Improvement in equity market turnover
19	20	 Angola	40	37	Shares now listed and macroeconomic environment stabilising
20	19	 Senegal	40	38	Promising growth outlook, aided by IMF support
21	18	 Mozambique	39	39	Falling external debt offset but weaker reserves coverage
22	21	 Cameroon	36	35	Decent market transparency but limited market
23	-	 DRC	35	-	Working to build nascent market infrastructure
24	-	 Madagascar	34	-	Shallow market but economic data standards improving
25	22	 Lesotho	34	31	Equities now available but still small and illiquid market depth
26	23	 Ethiopia	27	27	Moving towards a securities exchange and more robust legal framework

Score across all pillars, max = 100.



Pictured: Pyramids of Giza, Egypt

# Executive summary

## Building market infrastructure during testing times

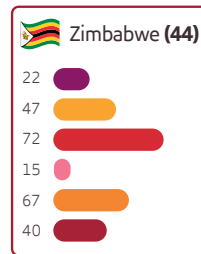
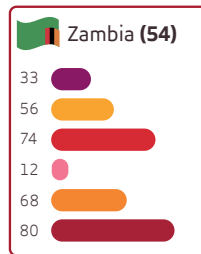
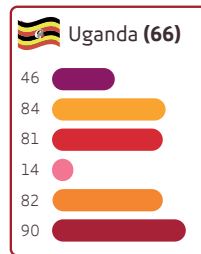
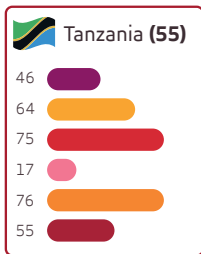
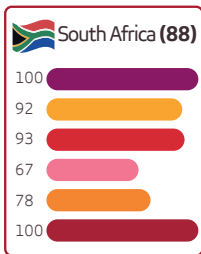
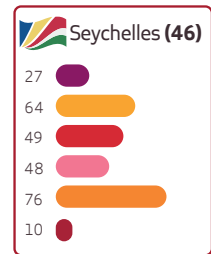
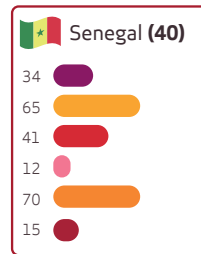
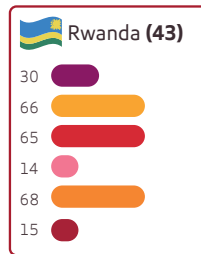
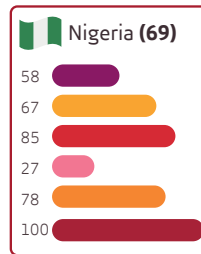
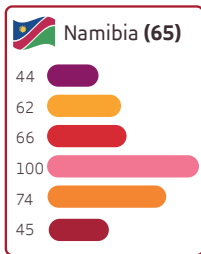
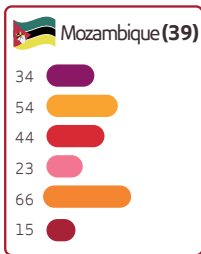
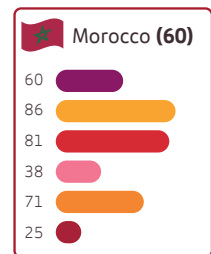
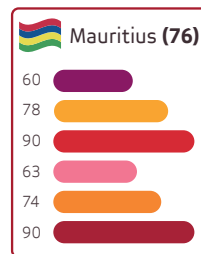
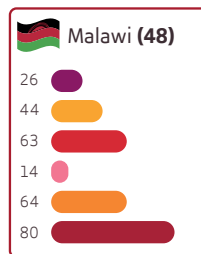
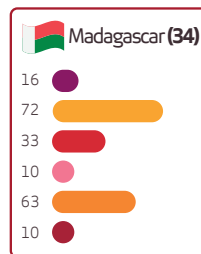
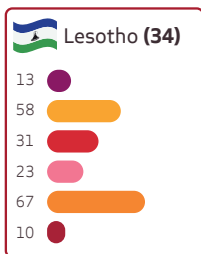
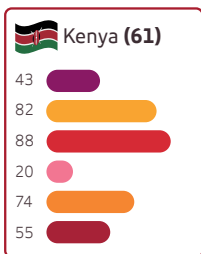
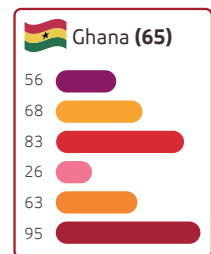
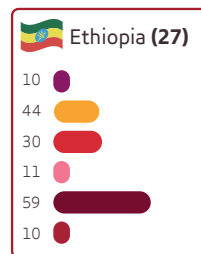
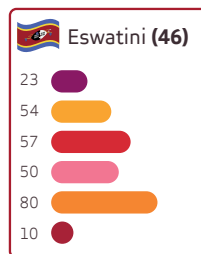
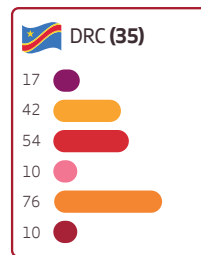
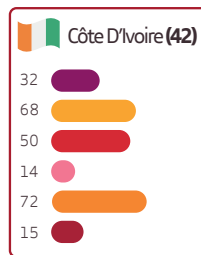
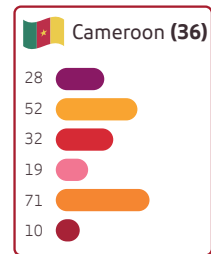
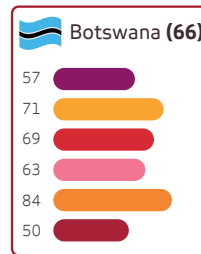
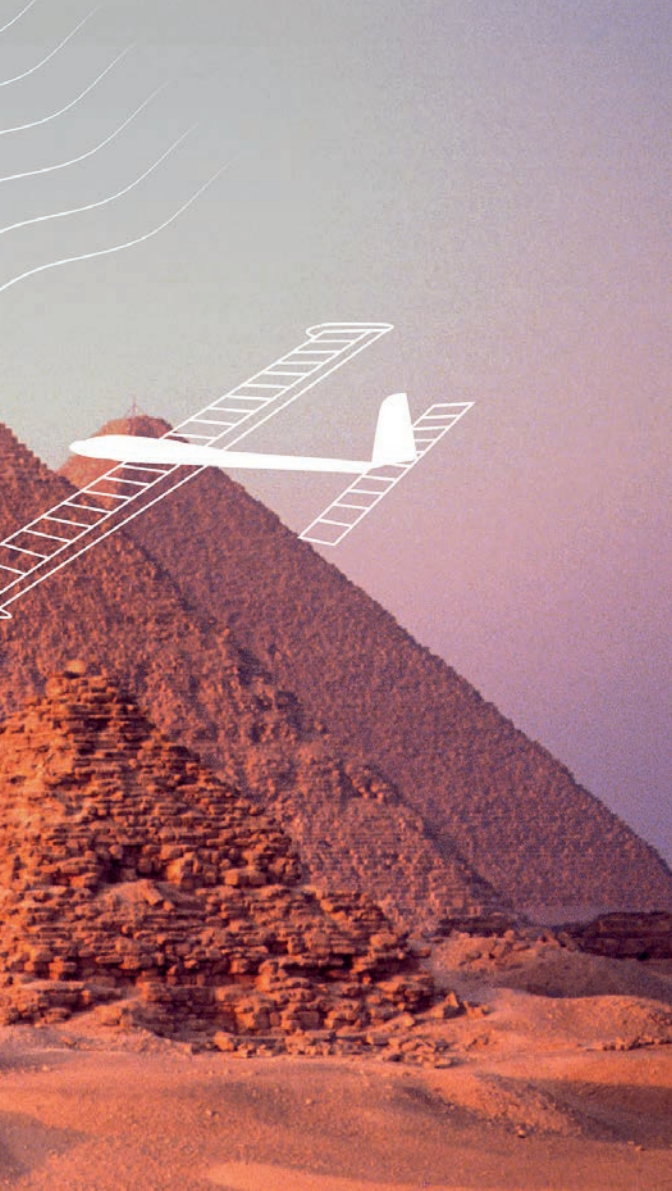
The Absa Africa Financial Markets Index evaluates the financial development of 26 countries, primarily based on measures of market accessibility, openness and transparency. Scores are determined by the relative, rather than absolute, performance of each country across six key pillars: market depth; access to foreign exchange; market transparency, tax and regulatory environment; capacity of local

investors; macroeconomic environment and transparency; and legal standards and enforceability.

In addition to quantitative data analysis, OMFIF conducted surveys of over 50 organisations across Africa to produce the index. This includes responses from central banks, securities exchanges, regulators, market participants, accounting firms and international development organisations.

*Continued on p.10 >>*





- KEY**
- Market depth
  - Access to foreign exchange
  - Market transparency, tax and regulatory environment
  - Capacity of local investors
  - Macroeconomic environment and transparency
  - Legal standards and enforceability
  - (xx) = overall score

## The report finds that:

- South Africa, Mauritius and Nigeria maintain their positions in the top three this year, as they continue to score highly on measures of market depth, transparency and enforceability of legal agreements.
- Uganda rises two places to fourth, while Namibia and Kenya improve their ranking within the top 10. Scores for these three countries rose due to progress on adopting ESG policies and frameworks.
- Survey respondents from 11 countries expressed concern over capital flight, rising prices and/or monetary tightening as a result of the Russia-Ukraine war. Ghana has been hit harder than most by these factors, and the country falls three places in the index to seventh.

### Pillar 1: Market depth

- While unfavourable global conditions have decreased the value of market securities across Africa, scores held up well in this pillar. Liquidity has generally improved in the 12 months to June suggesting that, despite higher volatility, markets have been operating fairly smoothly.
- South Africa continues to lead Pillar 1 given its large market size. Morocco enters the top five, boosted by its leadership in sustainable asset availability. More generally, financial product diversity has improved across Africa, including in Angola and Lesotho which now offer equities on their exchanges.
- Several countries are using digital technologies to improve market access and information, while initiatives to integrate financial markets across Africa are gathering momentum. This includes the African Exchanges Linkage Project, which nine bourses have joined with the aim of boosting cross-border securities trading.

### Pillar 2: Access to foreign exchange

- Scores for Nigeria, Morocco and Uganda improve the most due to their relatively high reported interbank foreign exchange liquidity.
- FX reserves adequacy, now measured in months of import coverage rather than relative to total portfolio investment flows, has weakened.
- In recent months, the IMF has provided financing to numerous countries to cushion the blow from external shocks.

### Pillar 3: Market transparency, tax and regulatory environment

- Seventeen countries in the index now have sustainability-focused policies – five more than last year – leading to a broad-based improvement

in scores. South Africa, Egypt, Kenya and Mauritius score the maximum on sustainability measures, with climate risk incorporated in their financial stability frameworks.

- Survey respondents in many countries flagged issues around the timeliness of financial market reporting alongside shortfalls in audit capacity.
- Another concern is that tax systems are becoming less conducive to investment in some jurisdictions. Capital gains tax rates have risen in Ghana, Zimbabwe and Egypt and are due to increase in Kenya.

### Pillar 4: Capacity of local investors

- Namibia tops Pillar 4 for the third consecutive year. It continues to have the largest pension holdings per capita in the index, and pension funds are increasingly moving into local assets which helps to foster Namibia's domestic market development.
- Outside of a handful of southern African economies, most countries have limited pension assets. They are often constrained to investing in government securities, reducing the possible gains from diversification.
- Meanwhile, several countries are pursuing financial inclusion initiatives, including financial education programmes, mentorship and mobile apps for facilitating online trading. Continued progress on this front will lead to increased access and participation in local markets.

### Pillar 5: Macroeconomic environment and transparency

- Botswana rises to the top of Pillar 5, ahead of Egypt, owing to its low external debt, small share of non-performing loans and transparent data releases.
- Elsewhere, scores generally fell as inflation, which is now included in Pillar 5, has risen.
- Debt issues have become more acute in parts of Africa, with eight index countries at high risk of, or in, debt distress according to the IMF.

### Pillar 6: Legal standards and enforceability

- Alongside South Africa, Nigeria scores highest in Pillar 6 due to wider use of standard master agreements following legislative reforms in 2020.
- Improvements in enforceability have prompted higher use of some master agreements in Ghana.
- Other countries including Uganda, Ethiopia and Rwanda are undertaking projects to improve the adoption of international standards and the enforceability of close-out netting provisions.

# Overall pillar scores max = 100

## Pillar 1: Market depth

South Africa	100
Morocco	60
Mauritius	60
Nigeria	58
Botswana	57
Ghana	56
Uganda	46
Tanzania	46
Egypt	44
Namibia	44
Kenya	43
Angola	37
Mozambique	34
Senegal	34
Zambia	33
Côte d'Ivoire-	32
Rwanda	30
Cameroon	28
Seychelles	27
Malawi	26
Eswatini	23
Zimbabwe	22
DRC	17
Madagascar	16
Lesotho	13
Ethiopia	10

## Pillar 2: Access to foreign exchange

Egypt	93
South Africa	92
Morocco	86
Uganda	84
Kenya	82
Mauritius	78
Madagascar	72
Botswana	71
Côte d'Ivoire	68
Ghana	68
Nigeria	67
Rwanda	66
Senegal	65
Tanzania	64
Seychelles	64
Namibia	62
Angola	62
Lesotho	58
Zambia	56
Mozambique	54
Eswatini	54
Cameroon	52
Zimbabwe	47
Ethiopia	44
Malawi	44
DRC	42

## Pillar 3: Market transparency, tax and regulatory environment

South Africa	93
Mauritius	90
Kenya	88
Nigeria	85
Ghana	83
Uganda	81
Morocco	81
Egypt	79
Tanzania	75
Zambia	74
Zimbabwe	72
Botswana	69
Namibia	66
Rwanda	65
Malawi	63
Angola	63
Eswatini	57
DRC	54
Côte d'Ivoire	50
Seychelles	49
Mozambique	44
Senegal	41
Madagascar	33
Cameroon	32
Lesotho	31
Ethiopia	30

## Pillar 4: Capacity of local investors

Namibia	100
South Africa	67
Mauritius	63
Botswana	63
Eswatini	50
Seychelles	48
Morocco	38
Nigeria	27
Ghana	26
Lesotho	23
Mozambique	23
Kenya	20
Cameroon	19
Tanzania	17
Egypt	16
Zimbabwe	15
Uganda	14
Rwanda	14
Côte d'Ivoire	14
Malawi	14
Angola	13
Senegal	12
Zambia	12
Ethiopia	11
Madagascar	10
DRC	10

## Pillar 5: Macroeconomic environment and transparency

Botswana	84
Egypt	83
Uganda	82
Eswatini	80
Nigeria	78
South Africa	78
Tanzania	76
DRC	76
Seychelles	76
Mauritius	74
Kenya	74
Namibia	74
Côte d'Ivoire	72
Cameroon	71
Morocco	71
Senegal	70
Rwanda	68
Zambia	68
Zimbabwe	67
Lesotho	67
Mozambique	66
Malawi	64
Madagascar	63
Ghana	63
Ethiopia	59
Angola	53

## Pillar 6: Legal standards and enforceability

Nigeria	100
South Africa	100
Ghana	95
Mauritius	90
Uganda	90
Malawi	80
Zambia	80
Kenya	55
Tanzania	55
Botswana	50
Namibia	45
Zimbabwe	40
Egypt	25
Morocco	25
Angola	15
Côte d'Ivoire	15
Mozambique	15
Rwanda	15
Senegal	15
Cameroon	10
DRC	10
Eswatini	10
Ethiopia	10
Lesotho	10
Madagascar	10
Seychelles	10

# Highlights 2021-22

The Eswatini Stock Exchange issued an environmental, social and governance reporting guide for listed companies.

**Banco Angolano de Investimentos issued the first initial public offering on Angola's stock exchange.**

The Central Bank of Congo is partnering with the African Development Bank to improve market information systems and issue commercial papers.

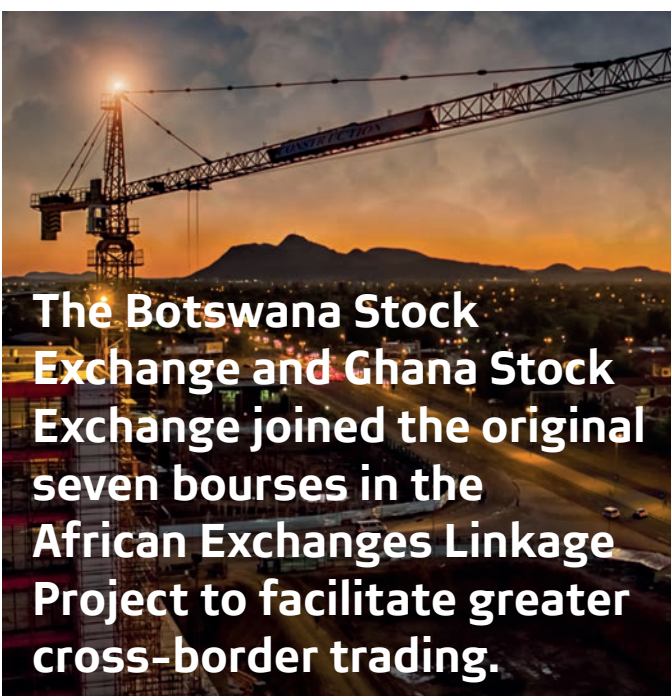
**Bourse Régionale des Valeurs Mobilières signed a memorandum of understanding with the Luxembourg Stock Exchange to explore a market for GSS-linked bonds.**

Mauritius launched the pan-African securities exchange, Afrinex.

**Egypt joined JP Morgan indices for emerging market government bonds.**

The Lusaka Securities Exchange unveiled the LuSE Gem Portal, a digital platform designed to provide financing to Zambian small- and medium-sized enterprises.

**NMB Bank Tanzania listed the Jasiri bond on the Dar es Salaam Stock Exchange, the first gender bond in sub-Saharan Africa.**



**The Botswana Stock Exchange and Ghana Stock Exchange joined the original seven bourses in the African Exchanges Linkage Project to facilitate greater cross-border trading.**

**The \$150m listing of MTC was the largest capital raising on Namibia's stock exchange, and the first by a state-owned enterprise.**

Cameroon's government implemented the National Digital Payment Switch Infrastructure which will connect digital financial service providers.

**Ethiopia's Ministry of Finance signed a co-operation agreement to establish the Ethiopian Securities Exchange.**

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



**The Bank of Uganda launched a strategic plan for 2022-27 which considers CBDCs, financial sustainability and big data.**

**GhanaPay, a mobile money service, was launched as part of Ghana's National Financial Inclusion Agenda.**

RNB Properties Limited became the first listed company on the Maseru Securities Market in Lesotho.

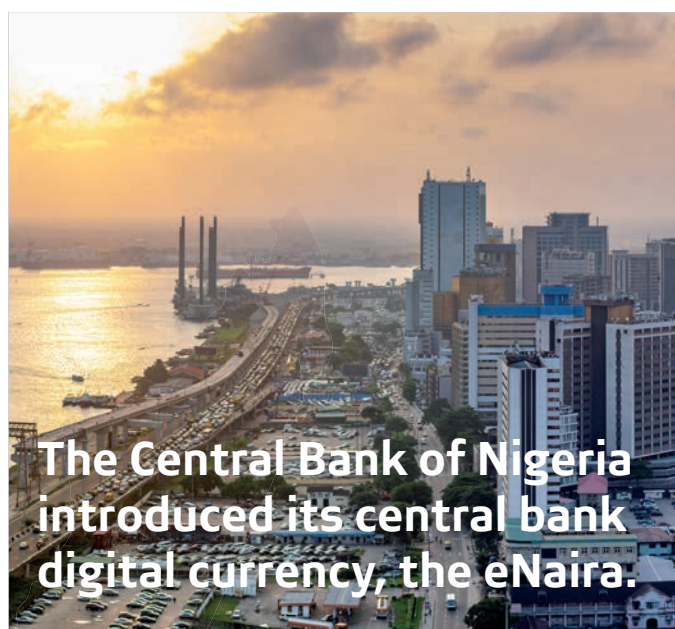
**Rwanda is working with the International Finance Corporation and Frontclear to introduce GMRA, GMSLA and market makers to their financial system.**

Zimbabwe's Stock Exchange introduced four new exchange-traded funds in 2022.

Bank Al-Maghrib in Morocco is working to establish an overnight indexed swap curve to help investors hedge against interest rate risks.

**The Malawi Stock Exchange is in the process of enabling trading using a mobile phone.**

Bolsa de Valores de Moçambique now has an online platform and a mobile application facilitating access to market data.



**The Central Bank of Nigeria introduced its central bank digital currency, the eNaira.**

**The Central Bank of Kenya issued guidance for banks to incorporate climate-related factors into their risk management frameworks.**

The IMF is providing technical assistance to Seychelles to develop a secondary market for government securities.

**The Cape Town Stock Exchange became the second bourse in South Africa to offer equity and debt trading.**

# Pillar 1: Market depth



Pictured: Copper mine, Zambia

Pillar 1 evaluates the size and liquidity of domestic capital markets, along with the diversity of listed asset classes and the existence of standard features that enhance market depth.

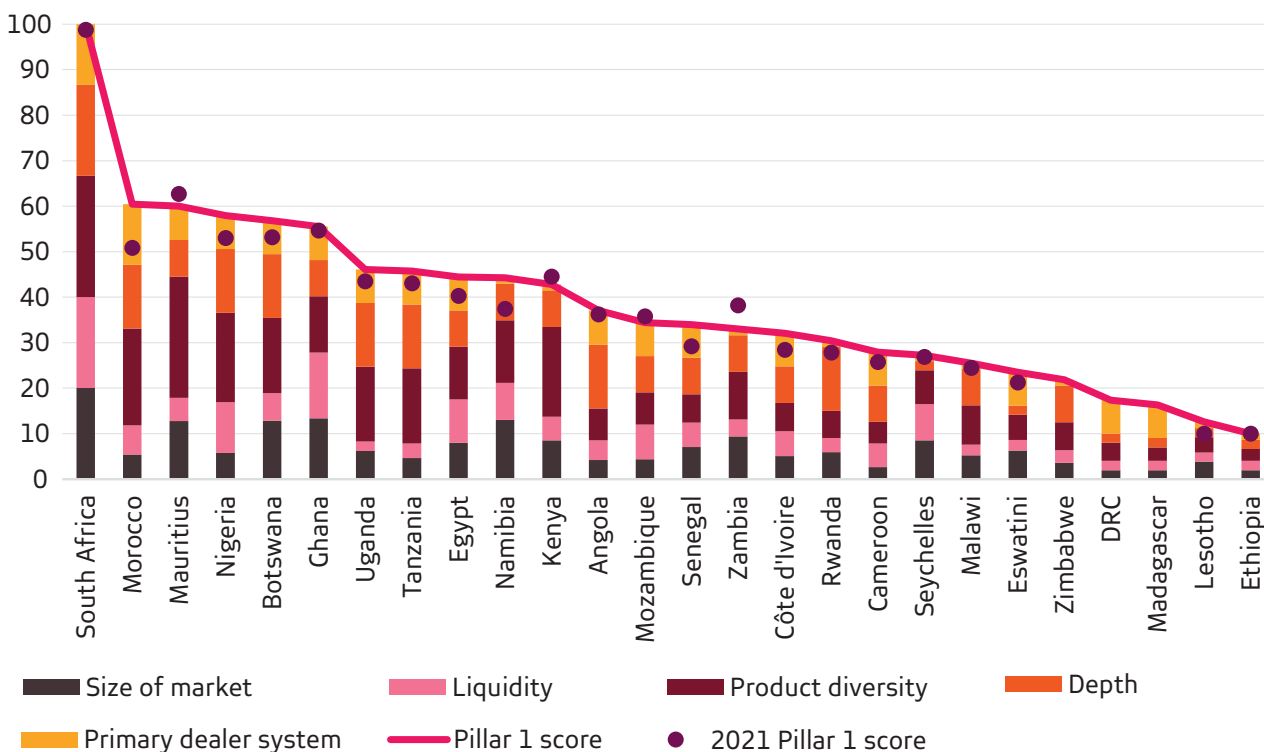
Unfavourable global conditions have weighed on the size of most financial markets, but liquidity has generally improved in the 12 months to June.

Improving financial product diversity lifts Morocco into the top five, while Ghana drops out owing to a sell-off in listed government bonds.

Most countries continue to develop their market infrastructure and depth, often using digital technologies.

**Figure 1.1: South African markets hit hard by global pressures but still ahead of regional peers**

Contributing indicators and overall harmonised scores for Pillar 1, max = 100



Source: AFMI survey 2022, national central banks, national stock exchanges, national capital market authorities, IMF, World Federation of Exchanges, OMFIF analysis

Note: The overall Pillar 1 score represents the average harmonised score across all Pillar 1 indicators. Scores from 2021 are updated to incorporate any revisions, newly available data and/or improved data collection methods and may not reflect the Pillar 1 scores published in AFMI 2021. More information on pp.42.3.

### Stock markets under pressure while liquidity improves

Africa has not been immune to the instability seen in global financial markets this year. Numerous survey respondents mentioned concerns over investor flight owing to external factors, including the Russia-Ukraine war, the global monetary tightening cycle and stagflation fears. These factors have increased the volatility, and decreased the value, of market securities in Africa. The depreciation of most African currencies this year has exacerbated the sell-off in dollar terms.

Equities have been hit particularly hard. In the 12 months to June, \$210bn was wiped from the market capitalisation of the 26 countries in our index. That equates to a 13% year-on-year fall. Declines were broad-based across the region. In dollar terms, the sharpest drops came in Zimbabwe (63%), Kenya (34%) and Seychelles (25%). South Africa's equity market also fell but it remains the largest on the continent, and the country continues to score highest in Pillar 1 overall (Figure 1.2).

Not all were swept up in the global stock market turmoil. In dollar terms, market capitalisation rose in seven countries, including Nigeria, Zambia and Namibia. In the latter, this was helped by the listing of Mobile Telecommunications Limited in November 2021 which raised over \$150m. This is the largest capital raising on Namibia's stock exchange to date and was the first local listing of a state-owned enterprise.

Encouragingly, Angola and Lesotho saw the first initial public offerings on their exchanges in the past year. In June 2022, the Banco Angolano de Investimentos floated 10% of its shares on Angola's Debt and Stock Exchange (Bodiva). Six months prior to this, RNB Properties Limited listed shares on the Masuru Securities Market. In both cases, market capitalisation is still small at less than 2% of GDP, compared to an average of 35% of GDP across all AFMI countries. One survey respondent in Lesotho hopes that some state-owned enterprises will list shares to drive a

further expansion of the stock market there.

Despite the unfavourable global conditions, stock market liquidity has not dried up. In fact, in the 12 months to June, the turnover of equity markets improved in 14 countries in the index compared to a year earlier. This partly reflects the normalisation of trading after it had been adversely impacted by the outbreak and various waves of Covid-19. As a share of market capitalisation, equity turnover returned to its pre-pandemic level in South Africa, Morocco and Kenya. (Figure 1.3.) Overall, despite greater selling activity and volatility, equity markets have been operating fairly smoothly across the region.

### Mixed picture in fixed-income markets

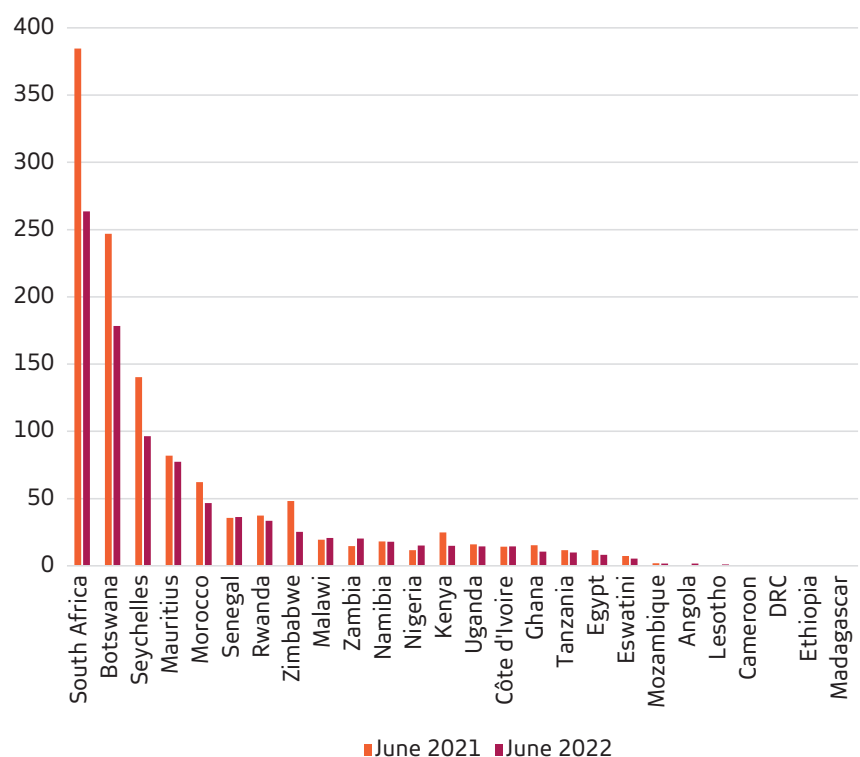
Similar to equities, corporate bonds have been caught in the crossfire of global market pressures. In dollar terms, the total size of domestic

**'In the 12 months to June, \$210bn was wiped from the market capitalisation of the 26 countries in our index. That equates to a 13% year-on-year fall.'**

corporate bond markets across AFMI countries fell by roughly 25% year-on-year. The drop was especially pronounced in Seychelles, where the value of listed corporate bonds fell to just \$5m in June 2022, from \$246m a year earlier. One local participant explained that the 'sharp decline is due to the delisting of two corporate bonds in March of this year.' There were also large falls in the value of corporate bonds in South Africa (33%),

**Figure 1.2: Declines in market capitalisation**

Market capitalisation, % of GDP



Sources: AFMI survey 2022, national stock exchanges, IMF, WFE, OMFIF analysis



Malawi (23%) and Botswana (22%).

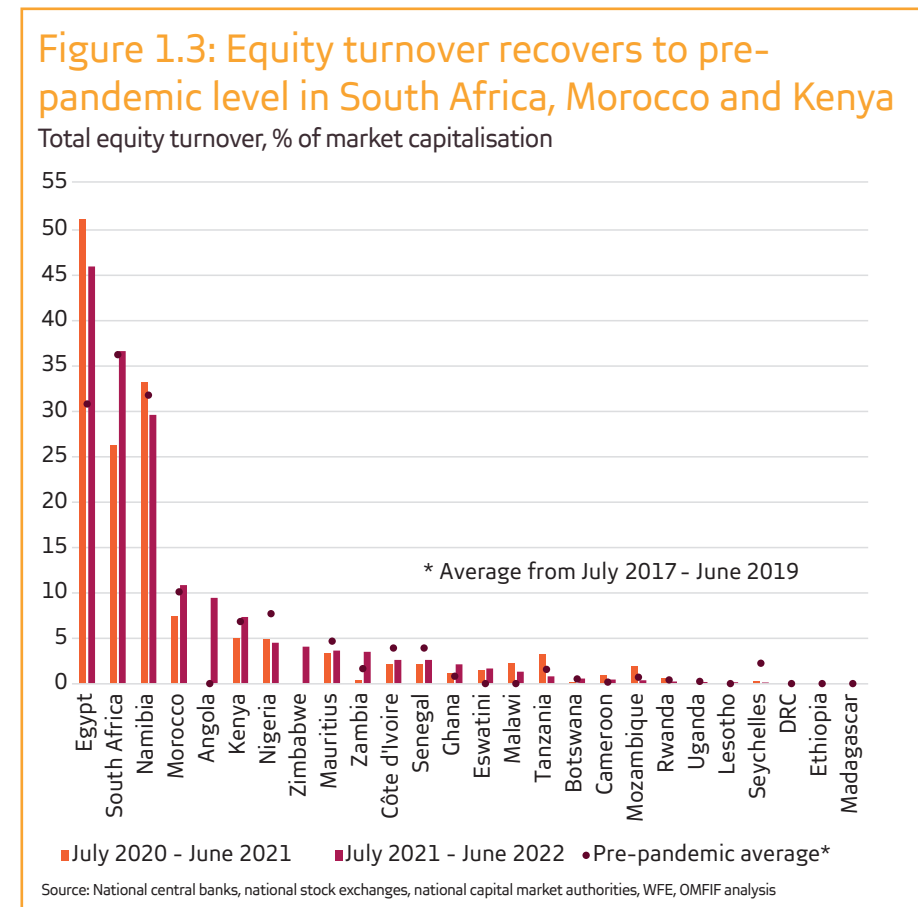
By contrast, in dollar terms, the total size of listed sovereign bonds for index countries has risen by 5% year-on-year. In the face of tighter global financial conditions, which has dissuaded issuance on international markets, many governments have been increasingly reliant on raising debt on domestic markets. Note that while larger bond markets are given higher scores in Pillar 1, the adverse impact of rising public debt is considered in Pillar 5.

Ghana was an exception to this general trend. Continued domestic government bond issuance was more than offset by adverse valuation effects. Investor concerns over the fiscal position, high inflation and tighter monetary policy caused the value of its listed government bonds to fall over the past year to 25.3% of GDP, from 35.8%. This is a key reason why Ghana slips three places to sixth in Pillar 1. On the plus side, the turnover of Ghana's listed sovereign bonds has picked up by 12% year-on-year. One local survey respondent noted that this was due to an increase in 'pension funds participation and... [the] capital adequacy ratio requirement of banks.'

There was also a notable rise in Egypt's sovereign bond turnover, which almost doubled to \$46bn in the 12 months to June. Inflows to the local debt market have risen after the country was added to the JP Morgan index for emerging market bonds in January. Egypt climbs one place to ninth in Pillar 1. Its overall score remains constrained by the limited size and activity in the corporate bond market.

### Enhancing market diversity

Policy-makers have taken steps to develop their capital markets over the past year. Improving financial product diversity has been a key focus. Regulators in Nigeria granted the approval of the first derivatives contracts in the country, paving the way for the Nigerian Exchange Limited to launch the first exchange-traded derivatives market in West Africa earlier this year. Elsewhere,



Zimbabwe's Stock Exchange introduced four new exchange-traded funds in 2022. This included The Morgan & Co Multi-Sector ETF, the first actively managed ETF in the country.

In general, ETFs enable diversification, often at low cost, which can be useful to investors during periods of high market volatility. One survey respondent in Kenya noted that the 'challenges presented by the effects of Covid-19 and the conflict between Russia and Ukraine have facilitated a shift of investor preferences towards securities like ETFs.' Almost half of AFMI countries offer ETFs on their exchanges, which suggests there is further scope to improve market diversity and resilience in Africa.

Since last year, we have also considered the availability of sustainable products in Pillar 1 given its growing importance in global financial markets. ESG-linked assets are still relatively scarce across the

continent but they are becoming more widespread. Nine countries in the index now offer sustainable products, with Tanzania joining the list this year. NMB Bank Tanzania listed the Jasiri bond, the first gender bond in sub-Saharan Africa, on the Dar es Salaam Stock Exchange in April. Morocco scores highest on this indicator as it continues to deepen its sustainable financial product offerings. There were already green or sustainable bonds, equities and mutual funds available in Morocco last year. Since then, one local survey respondent noted the 'successful issuance of a gender bond in December 2021 and a green bond in July 2022, with a total approximate amount of \$120m.' Morocco's leadership in sustainable finance helps the country to enter the top five in Pillar 1 this year.

While offering sustainable financial products is an important first step, there are reasons for caution. One survey participant in Kenya

# Digital developments in finance

Continued progress on digitalisation is making financial markets more accessible, which should help to boost competition and efficiency.

## Digital trading initiatives

Digital technologies are being used to improve market information and accessibility, making capital markets more attractive to investors and issuers.

- Mozambique's stock exchange (Bolsa de Valores de Moçambique) introduced the Dashboard, a statistical panel that assists with interpreting market data.
- The Johannesburg Stock Exchange introduced an equity market data analytics platform as well as ShareHub, an interface that enables issuers to communicate to their shareholders.
- The Uganda Securities Exchange now has a digital platform for opening securities accounts.
- The Nairobi Securities Exchange has installed an electronic trading system for securities transactions and an exchange-traded products system.
- The Stock Exchange of Mauritius has a new automated trading system, Avento. This provides investors with real-time market monitoring and will assist the Financial Services Commission in monitoring irregular trading activities.
- A few banks in Morocco have implemented artificial intelligence robo-advisers to provide algorithm-based financial planning services.
- The Nigerian Securities and Exchange Commission has introduced a regulatory framework for robo-advisory services.
- Ugandan sovereign bonds are now priced on Bloomberg's evaluated pricing service, BVAL.
- Botswana is rolling out the Bloomberg e-bond platform for secondary trading, aiming for full inclusion of key market players, greater pricing transparency and higher liquidity.

## Digital finance regulation

Legislation regulating digital assets provides

further steps to develop capital markets.

- Kenya's Capital Markets Authority developed a policy framework on cryptoassets and tokenised securities.
- Nigeria's Securities and Exchange Commission issued rules on the regulation of digital assets such as cryptocurrencies and initial coin offerings.
- Financial Services Mauritius has released a framework regulating virtual assets service providers and initial token offerings, and rules on robotic and AI advisory services.

## Central bank digital currencies

More central banks have begun to explore the possibility of issuing CBDCs, which could promote access to the digital economy, and improve the resilience of payments systems with new infrastructure.

- The Central Bank of Nigeria launched the eNaira in October 2021 which has since been used to carry out transactions worth almost \$10m. In its next phase, CBN seeks to have more citizens open an eNaira wallet using their mobile phones.
- The Bank of Ghana is working on developing offline usability for its CBDC, e-Cedi, to ensure access to all segments of society.
- The Central Bank of Kenya issued a discussion paper for public comment to examine the applicability of a CBDC.
- The South African Reserve Bank is now in the second phase of its CBDC project, Project Khokha, which will inform policy and regulatory responses to CBDCs.
- Central banks in Morocco, Uganda, Rwanda, Tanzania, Zambia, Madagascar and Namibia have announced that they are exploring the viability of a CBDC.

**‘Nine countries in the index now offer sustainable products, with Tanzania joining the list this year.’**

shared concerns over a ‘shortage of opportunities within the green investment space locally’ so ‘investing in green assets could involve taking a discount, reducing its appeal.’ As a result, to further develop financial markets, it is important to incentivise sustainable product issuance and provide a framework to make these assets attractive to investors. These factors are considered in more detail in Pillar 3.

#### Integration and partnerships

Initiatives to integrate financial markets across Africa are gathering

momentum. In general, they aim to widen the available investor base, support diversification and boost liquidity of markets. One key milestone came in Mauritius. It launched the new pan-African securities exchange, Afrinex, in October 2021. One survey respondent noted that Afrinex ‘provides the opportunity to operate equity, fixed income and derivatives across asset classes... and serves as the first pan-African exchange in Mauritius with a global reach.’

Otherwise, central banks in the East African Community are continuing to work towards harmonising their financial markets. One survey respondent from the bloc mentioned plans such as linking central security depositories as well as enabling cross-border trading of government securities. Another important initiative which is making progress is the African Exchanges Linkage Project. This is organised by the African Securities Exchanges Association and the African Development Bank with the aim of facilitating intra-regional securities trading. Four of the original seven bourses in the project (Bourse Régionale des Valeurs Mobilières, the Casablanca Stock Exchange, the Egyptian Exchange and the Nigerian Exchange) have now connected to the common order routing system, and numerous stockbrokers have confirmed their participation in a pilot phase. More recently, the Botswana Stock Exchange and Ghana Stock Exchange joined the project.

Finally, policy-makers in countries with nascent financial markets are liaising with other organisations to build their market infrastructure. A survey respondent in the Democratic Republic of the Congo mentioned that the authorities are working with the African Development Bank to broaden the financial system, strengthen information sharing systems, and help with the first issuance of commercial papers. In May 2022, Ethiopia’s ministry of finance signed an agreement with the Ethiopian Investment Holdings (the country’s sovereign fund) and FSD Africa to establish the Ethiopian Securities Exchange. Once formed, this will be the 30th exchange in Africa.

**Figure 1.4: Fewer than half of countries offer ETFs or sustainable financial products**

Availability of selected financial market products on exchanges or OTC

Country	Equities	Government bonds	Corporate bonds	ETFs	Green bonds	Other sustainable bonds
Mauritius	✓	✓	✓	✓	✓	✓
South Africa	✓	✓	✓	✓	✓	✓
Ghana	✓	✓	✓	✓	✓	✓
Kenya	✓	✓	✓	✓	✓	✓
Namibia	✓	✓	✓	✓	✓	✓
Nigeria	✓	✓	✓	✓	✓	
Egypt	✓	✓	✓	✓	✓	
Tanzania	✓	✓	✓	✓		✓
Uganda	✓	✓	✓	✓		
Botswana	✓	✓	✓	✓		
Zimbabwe	✓	✓	✓	✓		
Angola	✓	✓	✓	✓		
Morocco	✓	✓	✓		✓	✓
Côte d'Ivoire	✓	✓	✓			
Senegal	✓	✓	✓			
Eswatini	✓	✓	✓			
Rwanda	✓	✓	✓			
Cameroon	✓	✓	✓			
Mozambique	✓	✓	✓			
Zambia	✓	✓	✓			
Malawi	✓	✓	✓			
Lesotho	✓	✓				
Seychelles	✓		✓			
DRC		✓				
Madagascar		✓				

Source: AFMI survey 2022

# Pillar 2: Access to foreign exchange



**Pictured: Namib-Naukluft National Park, Namibia**

Pillar 2 considers the openness of markets to foreign investment. It looks at the severity of capital controls, interbank foreign exchange liquidity and reporting standards of exchange rate data. It also assesses the ability of central banks to manage volatility from foreign capital flows by considering the adequacy of FX reserves.

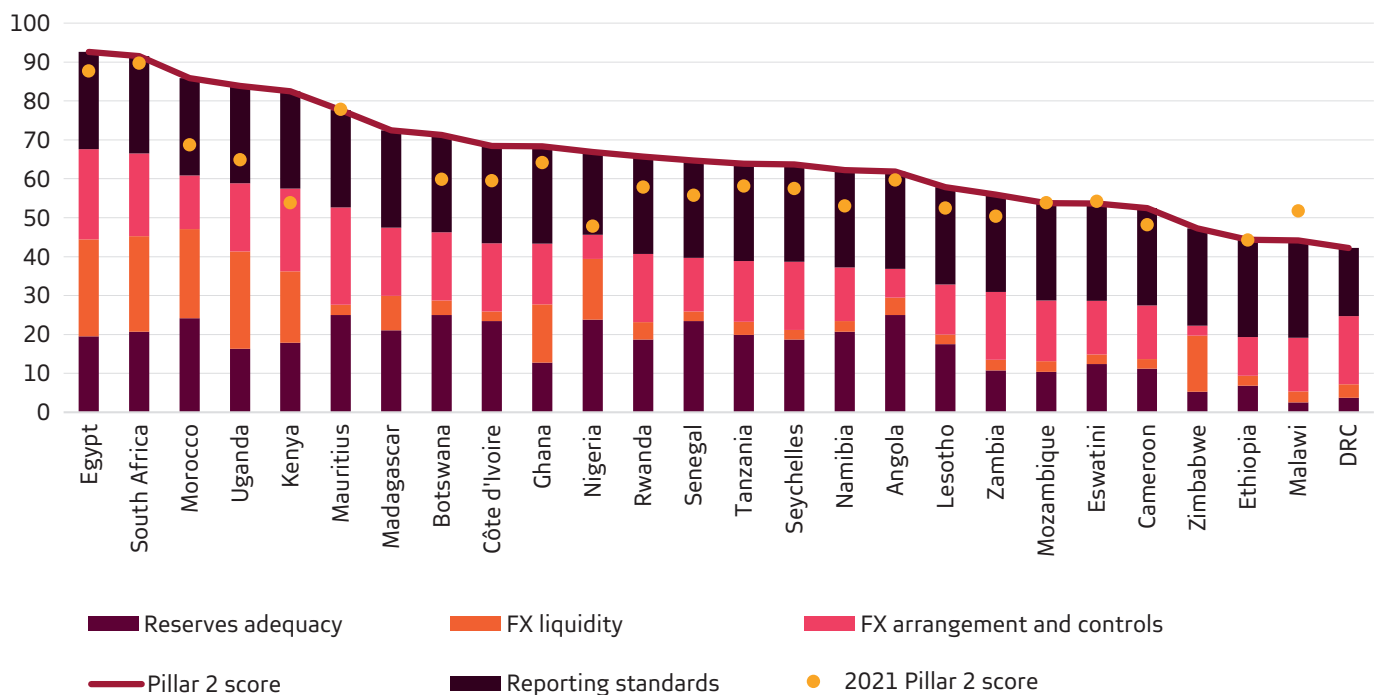
**Relatively high interbank FX liquidity boosts scores for Morocco, Nigeria and Uganda.**

**FX reserves adequacy has weakened relative to the previous year, particularly in Malawi.**

**The International Monetary Fund has provided financing to 10 index countries so far in 2022 to cushion the blow from external shocks.**

**Figure 2.1: Lower reserves coverage weighs on scores, particularly for Malawi**

Contributing indicators and overall harmonised scores for Pillar 2, max = 100



Source: AFMI survey 2022, IMF, national central banks, OMFIF analysis

Note: The overall Pillar 2 score represents the average harmonised score across all Pillar 2 indicators. Scores from 2021 are updated to incorporate any revisions, newly available data and/or improved data collection methods. They are adjusted to be consistent with the current methodology, with the measure of reserves adequacy changed to months of import coverage, rather than relative to net portfolio flows. More information on pp.42-3.

Providing a greater flow of foreign exchange through interbank markets provides many benefits. It ensures easy access to foreign currencies and allows for more accurate pass-through of official exchange rates to the domestic economy.

South Africa and Egypt continue to score highest on this metric and remain in the top two for Pillar 2. Meanwhile, the score for interbank FX liquidity rose significantly in Uganda, Morocco and Nigeria this year. In Uganda, annual turnover rose to \$28.4bn, from \$21.5bn the year before. At \$25.7bn and \$16.5bn, respectively, these values for Morocco and Nigeria were significantly higher than they were before the pandemic. Kenya also reported higher interbank FX turnover this year, which boosts its Pillar 2 score. Liquidity is much weaker, or negligible, in most other countries in the index.

In contrast, all countries score highly on reporting standards for FX markets. Daily exchange rate data are published on central bank and/or securities exchange websites across the continent, albeit with a few days lag in some instances.

Transparency could be improved through greater compliance with the FX Global Code – a set of best practice principles for the FX market. According to survey responses, there is only widespread adoption of the FX Global Code in Egypt, South Africa and Mauritius. Tanzania is planning to adopt the code later this fiscal year, while a survey respondent in Uganda mentioned that they would be open

**‘The IMF has provided financial assistance worth over \$1.6bn across 10 index countries this year.’**

to following this path.

Last year, Mauritius took a further step towards improving its transparency. The Mauritius Bankers Association Limited became the first organisation in Africa to be added to the Global Foreign Exchange Committee’s list of participating public registers. This provides a centralised location for Mauritian banks to publicise their commitment to the FX Global Code. One survey respondent from the country stated that ‘this will help in promoting the integrity and effective functioning of the Mauritian wholesale FX market on the international front.’

### **Varying stringency of capital controls**

Meanwhile, Mauritius continues to score the maximum on its FX arrangement and controls owing to its relaxed capital restrictions. Authorities in Morocco have eased some capital controls, helping the country to enter the top three on Pillar 2. Morocco’s Foreign Exchange Office issued a general instruction on FX operations at the start of the year which continues ‘the process of liberalising FX regulation and consolidating the exchange regime convertibility,’ as stated by a local survey participant. This included an increase in the authorised ceiling on Moroccans investing abroad, as well as a higher limit on domestic firms accessing FX to pay for imports.

Tanzania has also moved to liberalise its capital account. The Foreign Exchange Regulation Act 2022 opened up access to foreign investors in the domestic debt market. This included allowing investors from Southern African Development Community member states ‘to participate in the government bonds market at the primary market level,’ as explained by one Tanzanian survey respondent. The new regulations also give domestic residents easier access to regional financial markets to diversify their investment portfolios.

On the other end of the spectrum, Zimbabwe scores poorly on its FX arrangement and controls. While reforms in 2019 made the Zimbabwe dollar the only official currency for

**‘In recent months, Malawi, Ghana and Egypt have all approached the IMF for financing to rebuild their reserves and stabilise their economies.’**

transactions, one survey participant noted ‘this has now been rescinded with the government announcing that the use of multiple currencies will continue for the next five years.’ The central bank has imposed stringent capital controls too, as it plays a key role in allocating FX to finance certain imports over others. These restrictions and runaway inflation have caused a large premium to emerge in informal exchange rate markets, accentuating the difficulties for local business and households to access FX. There are similar trends in Nigeria given its relatively strict capital controls and multiple exchange rate system, contributing to its low score on this measure in Pillar 2.

### **Reserves running low as IMF steps up support**

Being open to foreign capital can unlock greater investment opportunities, but it also comes with risks. As evidenced this year, it can leave economies vulnerable to sudden capital outflows. Having a sizeable pool of FX reserves is necessary to protect against external shocks and can be used to stem volatility in FX markets. For the 2022 AFMI, the way we measure FX reserves adequacy has been changed, with the index now using months of import coverage, using annual data from the IMF, rather than reserves relative to net portfolio flows. This is a more standardised and robust measure which considers how long an economy can sustain itself if all other capital flows cease.

Aggregate FX reserves in index countries rose by 9% in 2021 relative

to 2020, boosted by a general IMF special drawing rights allocation in August 2021. This disbursement was set relative to each country's IMF quota and added a total of \$23.7bn across all index countries. Despite a rise in FX reserves in almost all index countries, coverage relative to imports generally deteriorated in 2021. This was due to a proportionally larger increase in imports from the pandemic-induced lows.

South Africa's reserves coverage fell to 5.1 months of imports in 2021, from 6.4 in 2020, which contributed to the country slipping to second place in Pillar 2 behind Egypt, which experienced a shallower fall in reserves coverage last year. Worse still, Malawi's reserves coverage dropped to just 0.5 months of imports, from 2.0 in 2022, which was the lowest ratio among index countries. This weighed significantly on the country's score, causing Malawi to slip to the penultimate place in Pillar 2.

As a result, heading into this year, Malawi was more vulnerable than most to the external shocks of

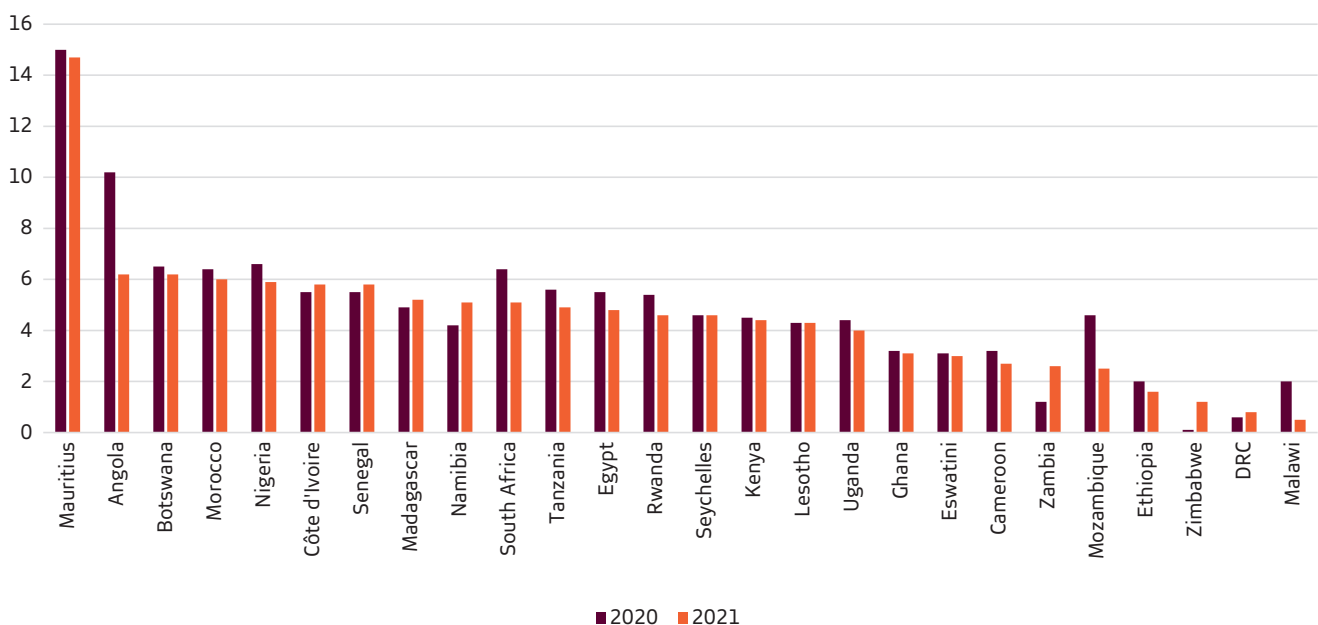
**'All countries score highly on reporting standards for FX markets. Daily exchange rate data are published on central bank and/or securities exchange websites across the continent, albeit with a few days lag in some instances.'**

high commodity prices and tighter financial conditions. Faced with these pressures, and with few buffers to defend the currency, the Malawian kwacha was devalued by 25% in May 2022. Ghana and Egypt have also seen their currencies hit hard from the spillovers of the Russia-Ukraine war and their FX reserves dropped by more than 20% in the first half of this year. In recent months, Malawi, Ghana and Egypt have all approached the IMF for financing to rebuild their reserves and stabilise their economies.

Mozambique, Tanzania and Zambia have already agreed new credit facilities with the Fund this year. Seven other countries have received IMF financing in 2022, which came as part of existing deals negotiated during the pandemic. Overall, the IMF has provided financial assistance worth over \$1.6bn across 10 index countries this year. This will help vulnerable economies to meet their external financing needs in the near term. But domestic reforms will be required to ease balance of payments and/or debt vulnerabilities to ensure greater access to foreign capital further down the line.

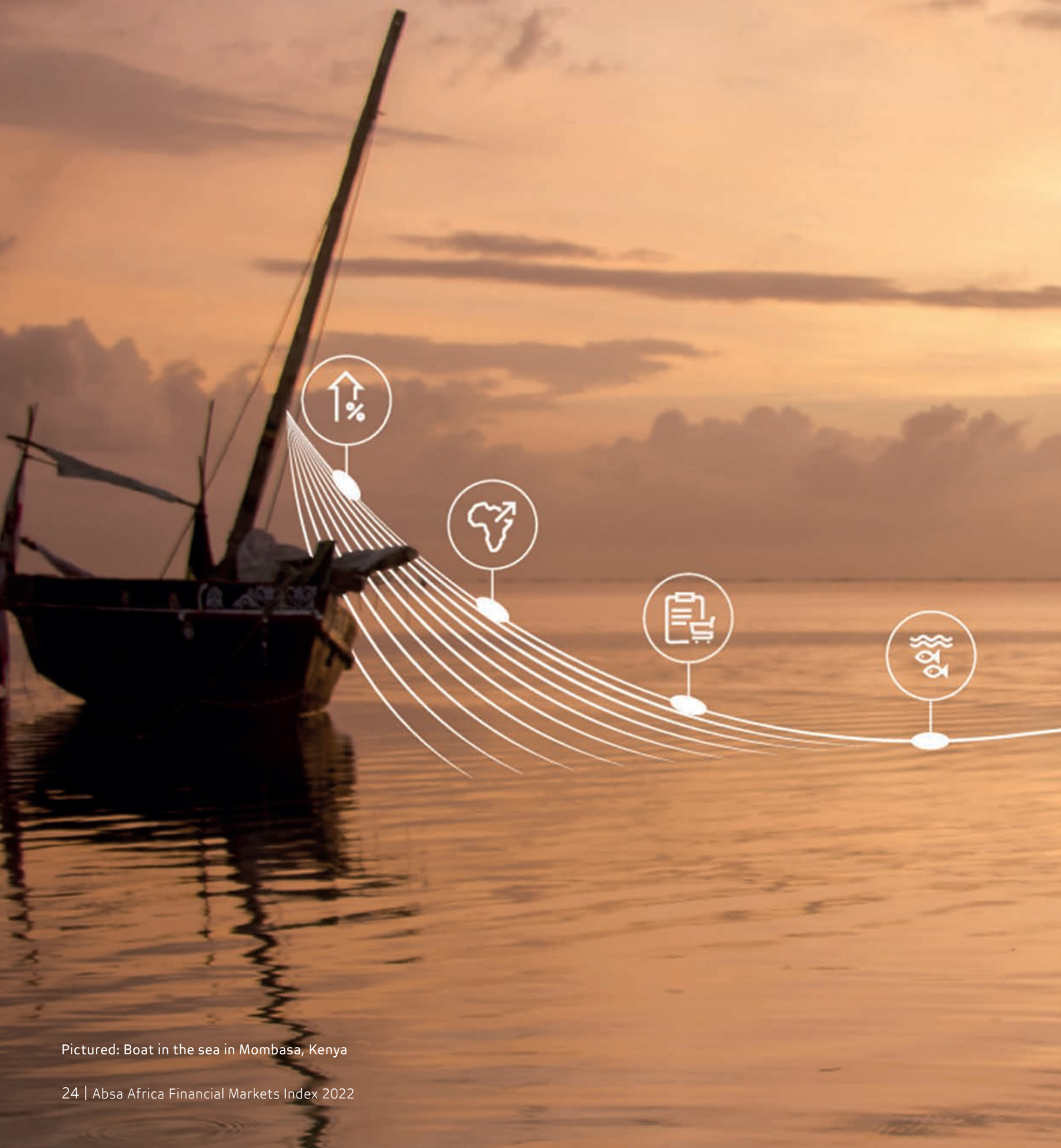
**Figure 2.2: Reserves coverage has generally deteriorated**

Total FX reserves in months of imports



Source: IMF, OMFIF analysis

# Pillar 3: Market transparency, tax and regulatory environment



Pictured: Boat in the sea in Mombasa, Kenya



Pillar 3 examines the transparency of financial markets alongside the tax and regulatory environments, each of which fosters local and foreign investor confidence. Environmental, social and governance indicators are also considered to assess sustainable market development.

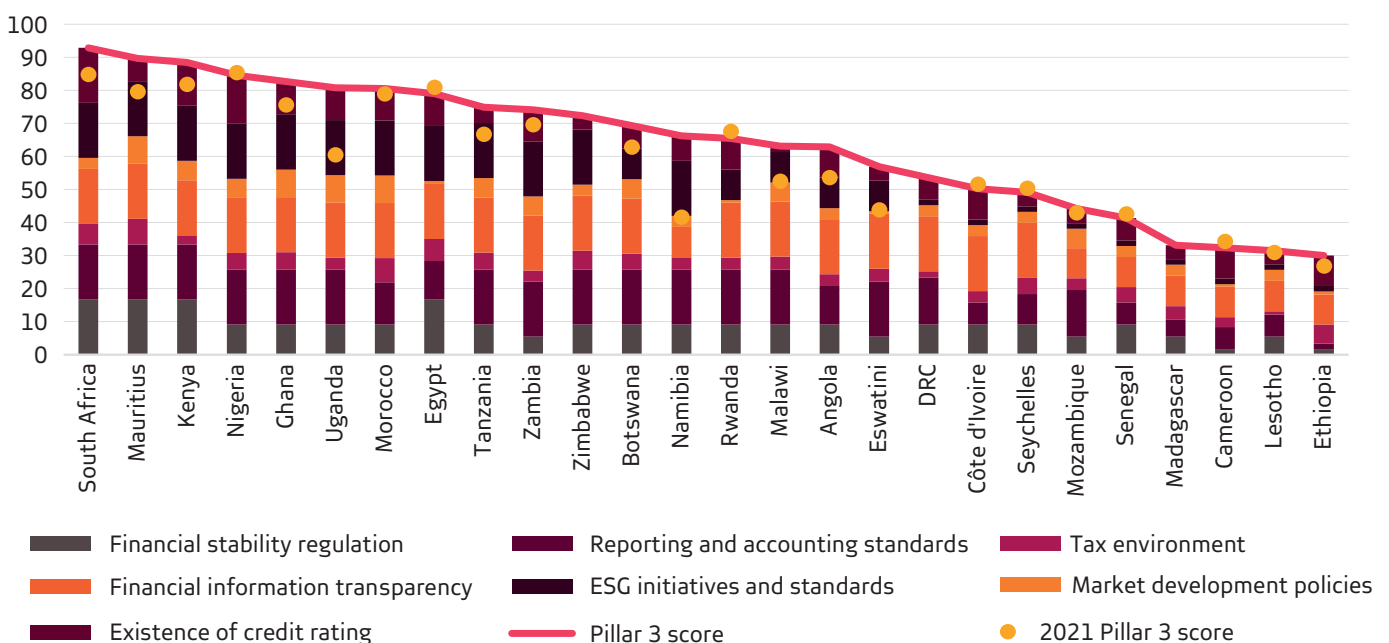
**Broad-based progress on ESG policies and frameworks lifts scores for most countries.**

**In many jurisdictions, transparent financial reporting is limited by local accounting and audit capacity.**

**Tax environments are becoming less conducive to investment in some countries.**

**Figure 3.1: Progress on ESG incentives takes South Africa, Kenya and Mauritius above Nigeria**

Contributing indicators and overall harmonised scores for Pillar 3, max = 100



Sources: AFMI 2022 survey, BIS, IFRS, Deloitte International Accounting Standards Plus, Refinitiv, GCR Ratings, OMFIF analysis

Note: The overall Pillar 3 score represents the average harmonised score across all Pillar 3 indicators. Scores from 2021 are updated to incorporate any revisions, newly available data and/or improved data collection methods and may not reflect those published in AFMI 2021. More information on pp.42-3.

### ESG policies becoming more widespread

ESG assets are gaining in importance for global investors, making it important for African countries to provide a conducive environment for these products. To that end, last year we introduced indicators on ESG policies that incentivise the development and transparency of sustainable financial markets to Pillar 3. We also incorporated climate stress testing as part of the financial stability indicators. Encouragingly, 17 countries in the index now have sustainability-focused financial policies, compared to 12 last year.

Uganda and Namibia were among the strongest risers on these ESG indicators, climbing by six and seven places in Pillar 3, respectively. In Uganda, the central bank launched a strategic plan for 2022-27 which includes 'new goals such as the promotion of a sustainable financial system,' whereby financial institutions are encouraged to meet ESG standards. Earlier this year, the Namibian Stock Exchange issued a directive for subscribers to the NamCode (a guide of best practice principles that primary-listed companies must follow) to appoint a social, ethics and sustainability committee.

South Africa is one of the four countries to score the maximum on these ESG criteria in Pillar 3. In June 2022, the Johannesburg Stock Exchange issued its Sustainability Disclosure Guidance. One local respondent explained that this best practice guide 'makes it easy to understand how the various global frameworks stack together and how issuers could consider these.' The JSE also issued the Climate Change Disclosure Guidance which includes Task Force on Climate-related Financial Disclosures recommendations. South Africa's Treasury introduced a green finance taxonomy to define 'green' assets in line with international best practice. These developments helped to push South Africa to the top of Pillar 3 this year.

Mauritius and Kenya also score the

### 'Encouragingly, 17 countries in the index now have sustainability-focused financial policies, compared to 12 last year.'

maximum on sustainability indicators, and they move ahead of Nigeria into the top three in Pillar 3. Central banks in both countries issued requirements for financial institutions to incorporate climate-related factors into their risk management frameworks, and banks must report their progress on implementing these guidelines over the coming quarters. Egypt is the fourth country to score the most on its ESG policies. As of mid-2021, listed companies were obligated to fulfil the disclosures related to ESG practices and climate change under the TCFD. One survey respondent mentioned that the authorities are also working to amend

**Figure 3.2: Most AFMI countries now implement ESG-related financial policies**

Existence of sustainability-focused policies

	Climate stress testing	Incentives for issuing ESG assets	Incentives for ESG market standards
Egypt	✓	✓	✓
Kenya	✓	✓	✓
Mauritius	✓	✓	✓
South Africa	✓	✓	✓
Ghana		✓	✓
Morocco		✓	✓
Namibia		✓	✓
Nigeria		✓	✓
Tanzania		✓	✓
Uganda		✓	✓
Zambia		✓	✓
Zimbabwe		✓	✓
Rwanda		✓	
Angola			✓
Botswana			✓
Eswatini			✓
Malawi			✓

Source: AFMI survey 2022

Note: Countries not included are Cameroon, Côte d'Ivoire, DRC, Ethiopia, Lesotho, Madagascar, Mozambique, Senegal and Seychelles

the Egyptian Capital Market Law to create new types of bonds, including sustainability-linked and social bonds.

### Tax systems incentivising investment

While ESG factors are gaining importance, there are other major factors which incentivise investment. Tax systems are a crucial element. Mauritius scores highest on the favourability of its tax regime, closely followed by Morocco. These two countries have low withholding tax rates on interest and dividends (the latter is zero in Mauritius). They each have over 40 double taxation treaties too, which offer exemptions to foreign investors and therefore incentivise greater portfolio inflows.

Elsewhere, the authorities in Ghana signed a tax treaty with Luxembourg in late 2021 which has yet to come into force. One survey participant stated that Ghana is also negotiating tax deals with Iran and Turkey. Despite the progress on this front, Ghana's tax regime is becoming less favourable to investors. The government introduced an 'E-levy' which adds a 1.5% tax on all electronic transactions above 100 Ghanaian cedi. Moreover, tax exemption on capital gains for securities listed on the Ghana Stock Exchange ended in 2021.

It is a similar story elsewhere. A 10% capital gains tax on Egyptian Stock Exchange transactions was introduced at the start of this year, and CGT rates were increased in Zimbabwe in late 2021 and again in May 2022. In Kenya, the Finance Act of 2022 increases the rate of CGT from 5% to 15%, which will take effect from 1 January 2023. These policies may help governments to address their fiscal positions, but it could come at the cost of stunting the development of their capital markets.

### Challenges for financial reporting

Transparency and the availability of financial information is useful to underpin investor confidence in a jurisdiction. Countries in the index generally score highly on this measure. The vast majority offer data on the domestic and foreign ownership of financial assets and all AFMI countries have fixed times for financial reporting.

**Figure 3.3: Corporate ratings rise, particularly from GCR**

Number of corporates rated by ratings agencies

Country	International ratings		Regional (GCR) ratings	
	2021	2022	2021	2022
South Africa	66	88	219	245
Nigeria	33	40	141	180
Mauritius	28	21	4	25
Morocco	13	11	0	0
Egypt	7	10	2	2
Kenya	8	6	37	52
Angola	5	6	0	0
Namibia	5	5	9	9
Ghana	3	4	10	9
Uganda	3	3	7	6
Botswana	3	1	5	5
Rwanda	1	1	5	4
Zambia	0	1	2	4
Cameroon	1	1	1	1
Côte d'Ivoire	0	1	2	1
Senegal	1	1	0	1
Zimbabwe	0	0	28	35
Tanzania	2	0	10	9
Mozambique	0	0	2	4
Malawi	0	0	1	2
Eswatini	0	0	1	1
Ethiopia	0	0	0	1
Madagascar	0	0	1	1
<b>Total</b>	<b>179</b>	<b>200</b>	<b>487</b>	<b>597</b>

Source: Refinitiv, GCR, OMFIF analysis

Note: International ratings are from Fitch, Moody's and S&P. Values taken in June of each year. DRC, Lesotho and Seychelles have no ratings.

International Financial Reporting Standards have been widely adopted too, albeit there are exceptions in Egypt, Ethiopia and Seychelles. However, small- and medium-sized enterprises can fall through the cracks in adopting IFRS. For instance, a survey respondent in Uganda noted that SMEs may fail to adhere to accounting standards as 'the cost of financial reporting and compliance... can prove prohibitive,' while another in Madagascar mentioned that small

companies are not audited.

Broader concerns over audit capacity were raised elsewhere. A respondent in Seychelles noted the 'lack of experience and expertise of auditors' as a limitation, while another in Ghana stated that a 'lack of strong oversight on the work of auditors' can hinder reporting. These concerns were echoed by a major accountancy firm in Nigeria, which mentioned that 'the quality of audit is still below par and impacts on the confidence that can be placed on financial statements.' Separately, challenges surrounding timeliness and consistency of reporting were mentioned by survey participants in Botswana, Democratic Republic of the Congo, Eswatini, Zambia and Zimbabwe.

### Credit ratings picking up

Another key element of market transparency is credit ratings. They can give useful insights to investors on the risks associated with sovereign or corporate debt issuers. Malawi and Zimbabwe score poorly on this measure, as neither country has a sovereign credit rating by any of the three major ratings agencies (S&P, Moody's and Fitch). For corporates, the availability of ratings by these agencies is generally scarce across AFMI countries. The main exceptions are South Africa (88) and Nigeria (40), where ratings rose by 22 and seven respectively relative to last year. International corporate ratings fell to 21 in Mauritius, down by seven, and there are fewer than 12 ratings in all other AFMI countries.

Local and regional agencies help to provide coverage on corporate credit ratings. The total number of ratings by GCR, a Johannesburg-based agency, for AFMI countries rose significantly to 597, from 487 a year before. At country level, there were double-digit increases in South Africa, Nigeria, Mauritius and Kenya. Moreover, the first GCR rating for an Ethiopian firm came in December 2021, for the insurance company Ethio Re. However, there is a lot of room for improvement. Ten AFMI countries received two or fewer corporate ratings from GCR, with none at all in the DRC, Lesotho and Seychelles.

# Pillar 4: Capacity of local investors



Pictured: Arusha Region, Tanzania

Pillar 4 evaluates the potential for institutional investors to drive capital market growth based on the size of pension fund markets, both in per capita terms and relative to local listed securities. Financial inclusion strategies are also examined.

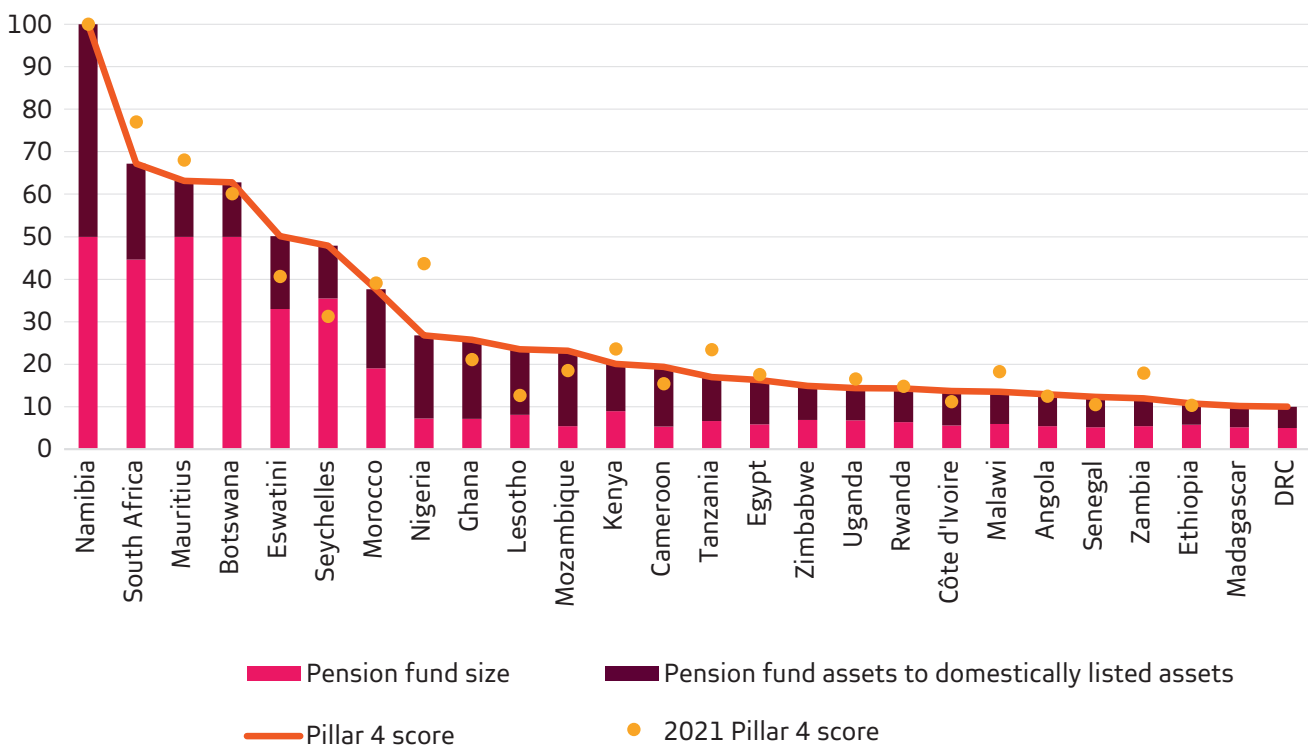
**Aggregate pension fund assets declined by 11.2% in 2021 in dollar terms, with 11 AFMI countries reporting lower figures than the previous year.**

**Despite its pension fund assets per capita falling, Namibia maintains its top spot, while South Africa and Mauritius retain their place in the top three.**

**Several countries are pursuing financial inclusion initiatives, such as financial education programmes and mentorship.**

**Figure 4.1: Southern African pension funds continue to lead the way**

Contributing indicators and overall harmonised scores for Pillar 4, max = 100



Sources: AFMI survey 2022, OECD, IMF, national securities exchanges, national central banks, national pension regulators, OMFIF analysis

Note: The overall Pillar 4 score represents the average harmonised score of both pillar 4 indicators. Scores from 2021 are updated to incorporate any revisions, newly available data and/or improved data collection methods and may not reflect the Pillar 4 scores published in AFMI 2021. More information on pp.42-3

Pension funds play a significant role in local markets. Their long investment horizons, in addition to the magnitude of assets they hold, can facilitate the diversification of markets beyond 'safe' asset classes such as bonds and cash and towards investments such as listed equities, corporate bonds, infrastructure and real estate. For the second consecutive year, pension assets per capita in the index generally fell from the previous year. In dollar terms, aggregate pension fund assets declined by 11.2%, with 11 countries reporting lower figures in 2021 (the latest available data) than in 2020.

In per capita terms, the largest decrease in reported pension assets was in Mauritius, down 27%. However, one local respondent mentioned that 'the contraction is mainly due to a lower number of

**'In dollar terms, aggregate pension fund assets declined by 11.2%, with 11 countries reporting lower figures in 2021.'**

reporting private pension schemes for the year 2021 owing to the regulatory relief granted by the FSC Mauritius in respect of the submission of audited financial statements.' Accordingly, challenges in reporting probably overestimate the true scale of the decline in pension assets. In any case, Mauritius continues to score highly on this indicator. Its pension assets under capita are only surpassed by Namibia, which retains its top spot in Pillar 4 for a third consecutive year, as well as Botswana. These southern African countries have benefited from the early establishment of pension systems, and their close links to the largest exchange in Africa, the Johannesburg Stock Exchange, which has enabled pension funds to accumulate large holdings.

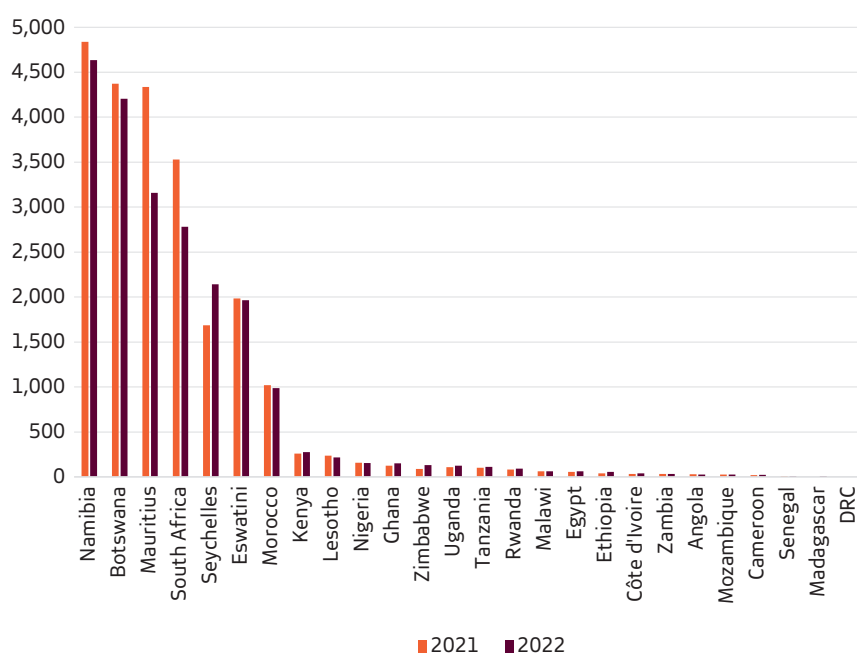
One country which bucked the regional trend was Seychelles. Its pension assets per capita climbed by 27% last year, contributing to the country scoring 15 points higher in Pillar 4 overall and rising two places to sixth. That said, this almost entirely reflects exchange rate effects. Pension assets per capita were nearly consistent in local currency terms but were valued much higher in dollar terms owing to the strong appreciation of the Seychelles rupee in 2021. Elsewhere, pension assets per capita also rose strongly in Zimbabwe, Ethiopia, Ghana and Côte d'Ivoire. These countries are among the 17 in the index with pension holdings of less than \$200 per capita, suggesting there is a long way to go to enhance pension funds' capacity.

**Diversification, localisation and capacity building**

Pillar 4 also considers the size of pension funds relative to their domestically listed assets to gauge the capacity of institutional investors to drive capital market growth. Market liquidity is considered on this front too, whereby pension funds which engage in greater domestic trading rather than buy-and-hold strategies are allocated higher scores. On

**Figure 4.2 Mauritius sees the largest fall in reported pension funds per capita**

Pension assets per capita, \$bn



Source: National central banks, national financial regulators, pension industry trade bodies, national finance ministries, African Development Bank, OECD, IMF, OMFIF analysis

these fronts, scores for Nigeria and South Africa fell this year as pension funds comprised a smaller share of domestically listed securities.

Among the countries in our sample, policy-makers have introduced a variety of regulatory measures to boost investments in local markets. In 2017, Namibia's financial regulatory authority, Namfisa, increased minimum domestic investment to 45% from 35%. Although the 45% threshold came into effect in 2018, this value was only met last year. Namfisa's local investment holdings expanded to 49.3% by end-2021, compared to 44.5% a year earlier.

In the same vein, regarding 2019 legislation regulating pension funds, a respondent to this year's survey from Lesotho stated that 'the promulgation of [the] Pensions Act that specifies local asset requirement ratio... [gives] hope for more money to be invested locally. This will enhance demand for investible assets [and] hence create supply.' In contrast, South Africa passed Regulation 28 in July 2022, which will come into force in January 2023, to 'prevent excessive concentration risk' by widening the scope of investments. In effect, this will encourage more investment in international markets, perhaps at the expense of deepening domestic markets.

Aside from the local or foreign split, there continues to be a wide range of diversification strategies among institutional investors across jurisdictions. Traditional asset classes remain the norm among pension sectors. For AFMI countries with an available breakdown, on average pension fund portfolio investments were primarily held in fixed-income instruments (40%) and listed equities (27%).

Southern African countries' pensions funds are the most diversified. The majority of South Africa's holdings falls outside of traditional bonds and equities and include real estate, hedge funds, private equity funds and other mutual funds. While Namibia holds just

**'There are 17 countries in the index with pension holdings of less than \$200 per capita, suggesting there is a long way to go to enhance pensions' funds capacity.'**

10% in alternative asset classes and investment vehicles, the pension sector is widely diversified across bonds (29%) and equities (52%). Similarly, more than half of pension fund assets in Botswana (64%), Mauritius (52%) and Malawi (51%) are held in equities.

In some cases, countries are struggling to break out from lower-risk fixed-income instruments to ramp up local investor capacity. In Angola, the majority of assets (67%) is held in cash and deposits. With 89% invested in bills and bonds, Ghana's pension portfolio is the

most concentrated. Given the sell-off in the country's sovereign bonds, as noted in Pillar 1, this lack of diversification harmed returns, which fell by -10% in real terms in 2021. Egypt's pension sector is also heavily concentrated in traditional asset classes, with 79% of assets held in bills and bonds. On the investment strategies of local pension funds, one survey respondent from the country noted that 'we believe they are aware of the products beyond government bonds and cash equities, yet they are not proficient or lack the risk appetite to take on positions in said asset classes or products.'

### **Financial inclusion and digitisation**

Building up savings and financial knowledge is necessary to develop local investor capacity. Policy-makers across the continent are working to upgrade market infrastructure and regulatory support for the development of technology-based tools to encourage financial inclusion. While these initiatives do not directly impact Pillar 4 scores, they demonstrate how countries can use innovation to increase financial access and participation, boost local markets and build a broader investor base. Initiatives launched this year demonstrate a strong link between financial inclusion strategies and efforts to improve digitalisation. The promotion of saving, knowledge of pension funds and economic inclusion are goals of various programmes. These include financial literacy initiatives, education programmes and mentorship.

Survey participants revealed a plethora of new programmes that were introduced in the past year. These include the Eswatini Gender Financial Inclusion Road Map, Kenya's financial literacy programmes in school curriculums and the national financial literacy and inclusion campaign for youths and senior citizens launched by Mauritius' financial regulator. The Central Bank of Malawi is also doing a large push in financial education, including National Pensions Awareness Week with workshops



**Pictured: Franschoek vineyards, South Africa**



‘Policy-makers across the continent are working to upgrade market infrastructure and regulatory support for the development of technology-based tools to encourage financial inclusion.’

**Figure 4.3: More countries offering online retail trading platforms**

Countries with digital platforms for retail securities trading

	Online trading	Mobile application
Kenya	✓	✓
Mauritius	✓	✓
Mozambique	✓	✓
Seychelles	✓	✓
Uganda	✓	✓
Zambia	✓	✓
Zimbabwe	✓	✓
Eswatini	✓	✓
Ghana	✓	In progress
Malawi	✓	In progress
Angola	✓	
Morocco	✓	
Rwanda	✓	
Tanzania	✓	
Botswana		✓
Nigeria		✓
Malawi		✓

Source: AFMI survey 2021-22

and virtual seminars. The Botswana Stock Exchange’s pioneering Tshipidi mentorship programme guides companies to raise capital on the country’s exchange. Zambia is planning to implement more financial literacy programmes, including supplementary financial education materials for teachers and pupils in secondary schools.

Corresponding with digital financial inclusion initiatives, a number of countries introduced online and/or mobile platforms this year to grow their retail trading bases. Uganda is a notable example: the Uganda Securities Exchange launched a mobile platform which can be used to open a

securities central depository account. The Bank of Uganda also implemented the Okusavinga platform, which enables retail investors to buy treasury bonds through their mobile phones, even without a bank account.

Several other jurisdictions also made progress on digital financial inclusion. The Stock Exchange of Mauritius, the Kenyan Capital Markets Authority, the Zimbabwe Stock Exchange and the Bolsa de Valores de Moçambique all released mobile apps this year to provide online market data and/or trading. The Malawi Stock Exchange and Ghana Stock Exchange are working on mobile trading platforms too.



# Pillar 5: Macroeconomic environment and transparency

**Pictured: Victoria falls, Zambia**

Pillar 5 looks at countries' underlying macroeconomic environments and the transparency of economic data, which underpin the development of their financial markets.

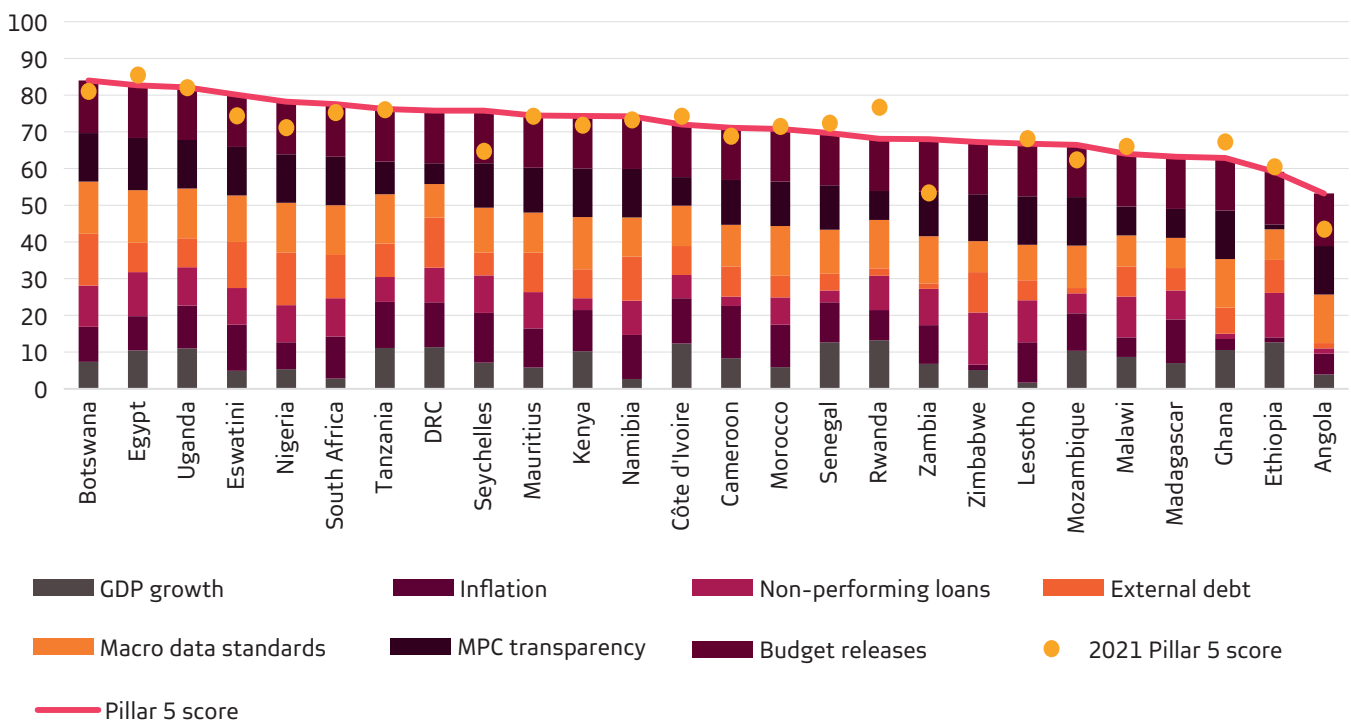
**Several respondents expressed concern over capital flight, rising prices and monetary tightening as a result of the Russia-Ukraine war.**

**Scores fell in many countries as a result of inflation rising.**

**Botswana rises to the top of Pillar 5, ahead of Egypt, owing to its low external debt, small share of non-performing loans and transparent data releases.**

**Figure 5.1: Botswana takes top spot while high inflation weighs on most countries' scores**

Contributing indicators and overall harmonised scores for Pillar 5, max=100



Sources: IMF, World Bank, national central banks, national finance ministries, OMFIF analysis

Note: The overall Pillar 5 score represents the average harmonised score across all Pillar 5 indicators. Scores from 2021 are updated to incorporate any revisions, newly available data and/or improved data collection methods. They are also adjusted to be consistent with the current methodology, with inflation added and measures for living standards and export competitiveness removed. More information on pp.42-3

Just as economies were recovering from the pandemic, shocks from the Russia-Ukraine war and the global monetary tightening cycle have emerged as a threat to macroeconomic growth and stability. The past two years have emphasised the need to build resilience against external shocks by managing inflation, debt and financial risks. It has also highlighted the importance of providing regular economic data and transparent policy decisions to offer investors clarity during these uncertain times.

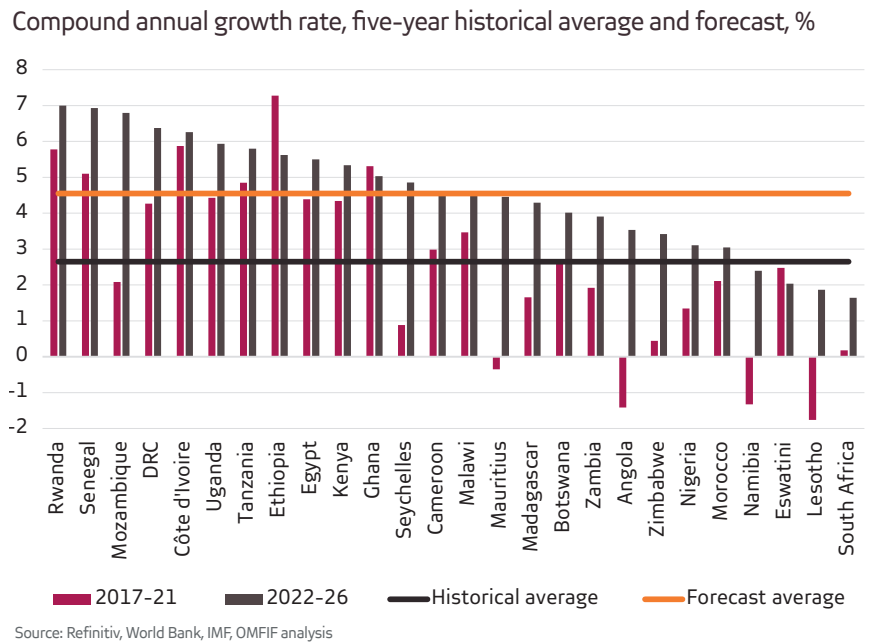
### Disparities in pandemic recovery

After the pandemic-induced downturn in 2020, most economies recovered well in 2021. Last year, real gross domestic product rose above its 2019 level in all but seven AFMI countries. The exceptions were tourism-dependent island economies – Mauritius, Seychelles and Madagascar – and those in the south of the region which have experienced sluggish growth for some time – South Africa, Namibia, Lesotho and Angola. This latter group are expected to maintain below-average rates of economic growth over the coming years. Accordingly, they score relatively poorly on the GDP growth measure in Pillar 5.

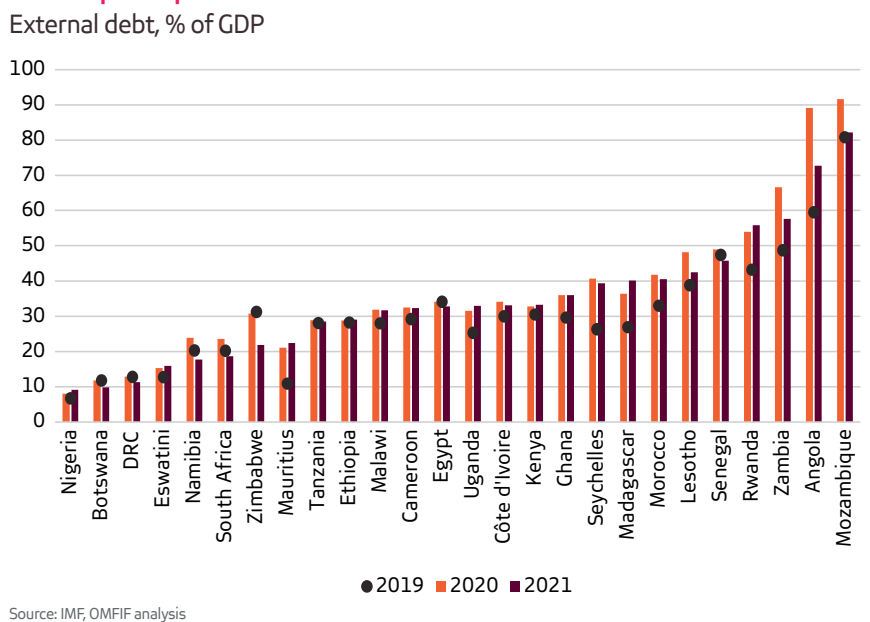
With the economic effects of the pandemic unwinding, the average rate of annual growth among index countries is expected to pick up to 4.6% over the next five years, compared to 2.6% over the previous five years. World Bank and International Monetary Fund forecasts for Rwanda, Senegal and Mozambique are consistent with strong annual growth rates of close to 7% over the next five years. All three countries are tied to IMF programmes designed to support structural reforms and medium-term growth. Moreover, output in Senegal is expected to be boosted by oil and gas facilities coming online in 2023, while liquefied natural gas projects are set to begin later this year in Mozambique.

The cyclical recovery from the pandemic is also reflected in the improving quality of banking sector

**Figure 5.2: Growth expected to remain sluggish in southern African economies**



**Figure 5.3: Debt burdens fall but remain higher than pre-pandemic levels**



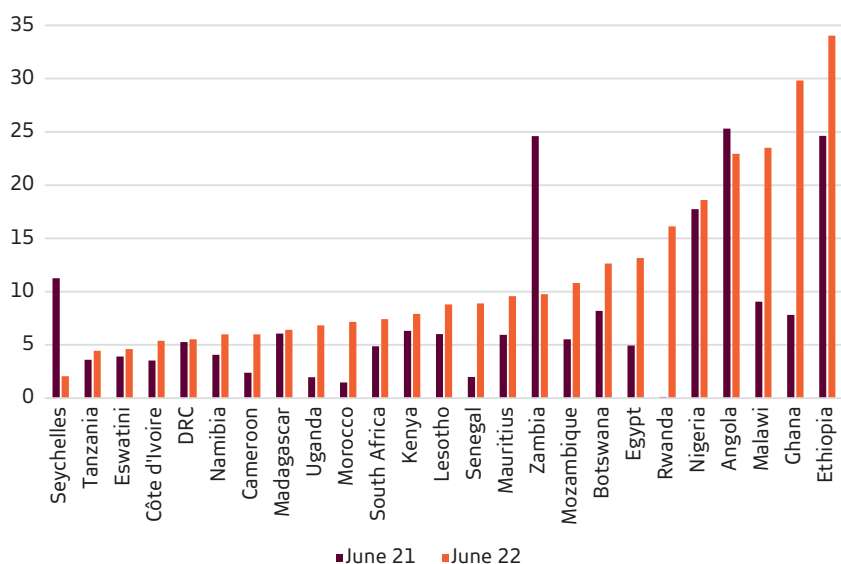
assets. The share of non-performing loans to gross loans fell in the majority of AFMI countries in 2021, with Eswatini and Zambia seeing the biggest reduction. This contributed to both countries' higher scores in Pillar 5 this year. On the other end of the spectrum, Angola scores lowest on this measure, and in Pillar 5 overall,

as its banking system remains fragile. Its NPL ratio rose to 20.3% in 2021, from 18.4% in 2020, and the Angolan authorities are working to restructure troubled public banks as part of the country's IMF deal.

On the plus side, Angola's debt troubles have eased. Its external debt-to-GDP ratio fell to 72.7% in

## Figure 5.4: Inflation has increased in all except Seychelles, Zambia and Angola

Consumer price indices, % year-on-year



Source: Refinitiv, OMFIF analysis

Note: Zimbabwe excluded from the chart, where inflation was 106.6% yoy in June 2021 and 191.6% yoy in June 2022.

**‘Last year, real gross domestic product rose above its 2019 level in all but seven AFMI countries.’**

their currencies. This weighed on their scores this year. Six other economies experienced double-digit inflation in June 2022, while it rose further into the triple-digits in Zimbabwe. Meanwhile, Seychelles, Zambia and Angola saw their currencies strengthen and inflation decline over the past year. That helped to elevate their scores in Pillar 5, particularly for Seychelles which rose 10 places to ninth.

2021, from 89.1% in 2020. This remained the second highest ratio among AFMI countries, though, only surpassed by Mozambique. Debt ratios declined in most economies last year owing to a rise in nominal GDP and improving fiscal positions. But this did not fully reverse the surge seen during the pandemic. For 19 countries in the index, external debt ratios in 2021 remained higher than they were in 2019, suggesting debt risks were lingering heading into this year. Botswana was a key exception. Its external debt ratio dipped below 10%, even lower than it was prior to the pandemic. Combined with its solid banking system and growth prospects, this factor elevated Botswana to the top position in Pillar 5 this year.

The spillovers from the Russia-Ukraine conflict present a major threat to the region. This is playing out through tighter global financial conditions, capital outflows and higher debt vulnerabilities. As of July 2022, the IMF identified eight countries in, or at high risk of, debt distress: Cameroon, Ethiopia, Ghana, Kenya, Malawi, Mozambique, Zambia and Zimbabwe. In the case of Zambia, there are encouraging signs that debt troubles will ease. The government is reportedly close to reaching a debt relief

agreement with bilateral creditors, including China. A fresh \$1.3bn IMF deal, agreed in August, may also pave the way for restructuring with Zambia’s private bondholders.

Survey participants also mentioned disruption to supply chains, weaker global growth and elevated commodity prices as headwinds to their economies. Commodity exporters in the region, particularly for oil, should benefit, but not all can fully capitalise on high prices. Underinvestment in mining sectors is constraining oil exports in Angola and Nigeria, and neither country is able to meet their OPEC+ output quota. Measures of export competitiveness and living standards have been removed in this year’s AFMI index as year-on-year changes in these variables are broadly captured within the existing measure of GDP growth.

Inflation has been introduced to Pillar 5 as a timely measure of macroeconomic stability. Higher food and fuel prices have resulted in greater inflation across almost all countries in the index, weighing on disposable incomes and consumption. There were marked increases in inflation in Ghana, Malawi and Egypt in the 12 months to June, where price pressures have been exacerbated by sharp falls in

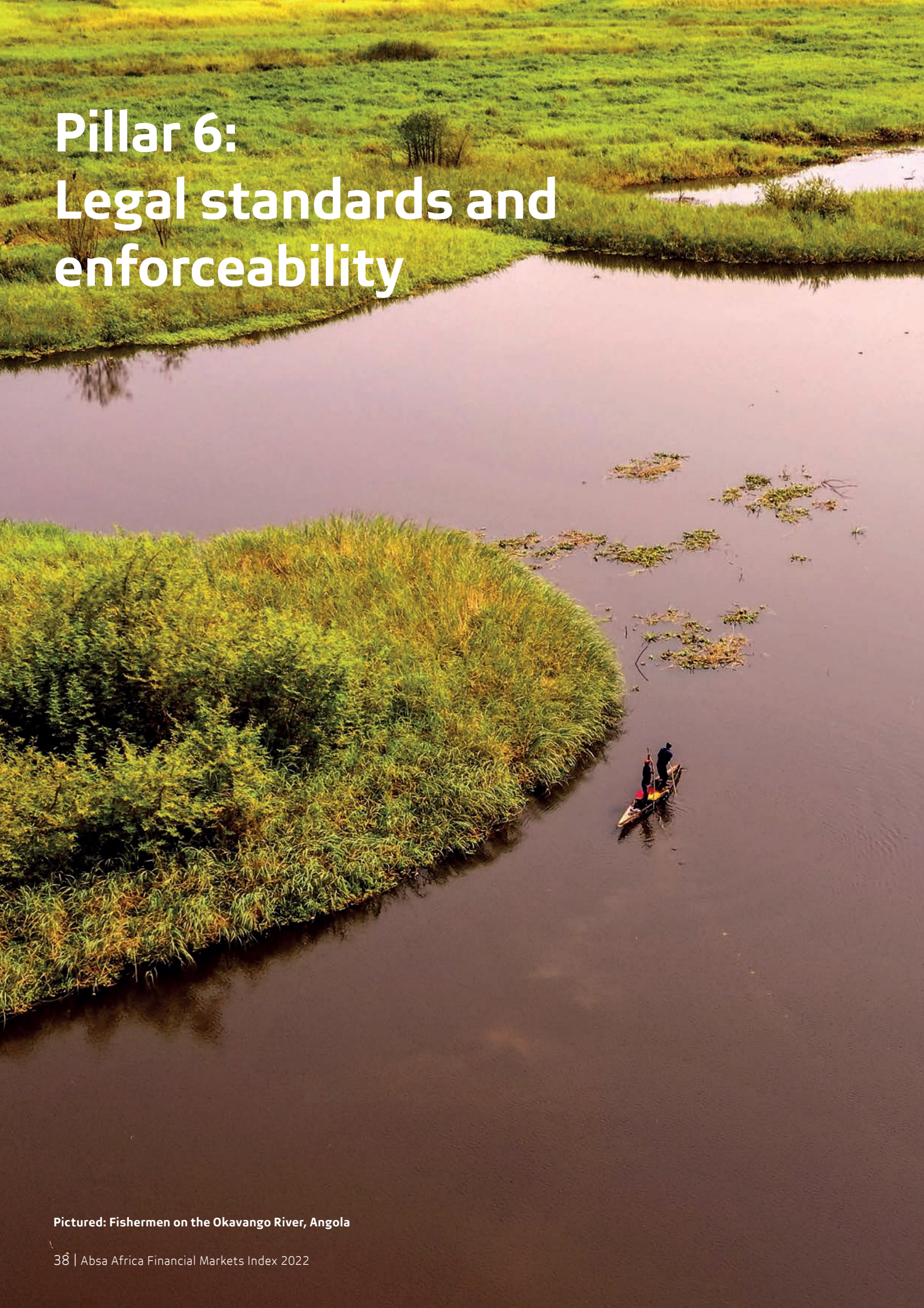
### Monetary and fiscal transparency in times of uncertainty

In the face of multiple global shocks, policy-makers have had to act decisively. In the 12 months to June, 21 central banks in the index have raised interest rates to combat high inflation.

Egypt continues to score highly on these measures. The central bank has eight monetary policy meetings a year, with clear reporting of the schedule and publication of policy decisions. The country’s reporting of macroeconomic data is strong, with daily reporting of interest rates, monthly reporting of inflation and quarterly reporting of GDP, all with minimal lags. Kenya and Botswana also score well for their clear and consistent macroeconomic data.

By comparison, Madagascar is among the lowest scorers for their data standards. GDP figures are only available on an annual basis, often published at irregular intervals or with a significant lag. However, Madagascar is taking steps to improve its fiscal transparency. It produces an annual fiscal budget, which can boost its credibility. Moreover, the Malagasy government now publishes granular public expenditure data on the Salohy online platform, and it is working with IMF specialists to make its fiscal reporting more robust.

# Pillar 6: Legal standards and enforceability



**Pictured: Fishermen on the Okavango River, Angola**

Pillar 6 considers countries' alignment with international legal and contractual standards across financial markets, evaluated by their adoption of standard master agreements and enforceability of close-out netting and collateral provisions.

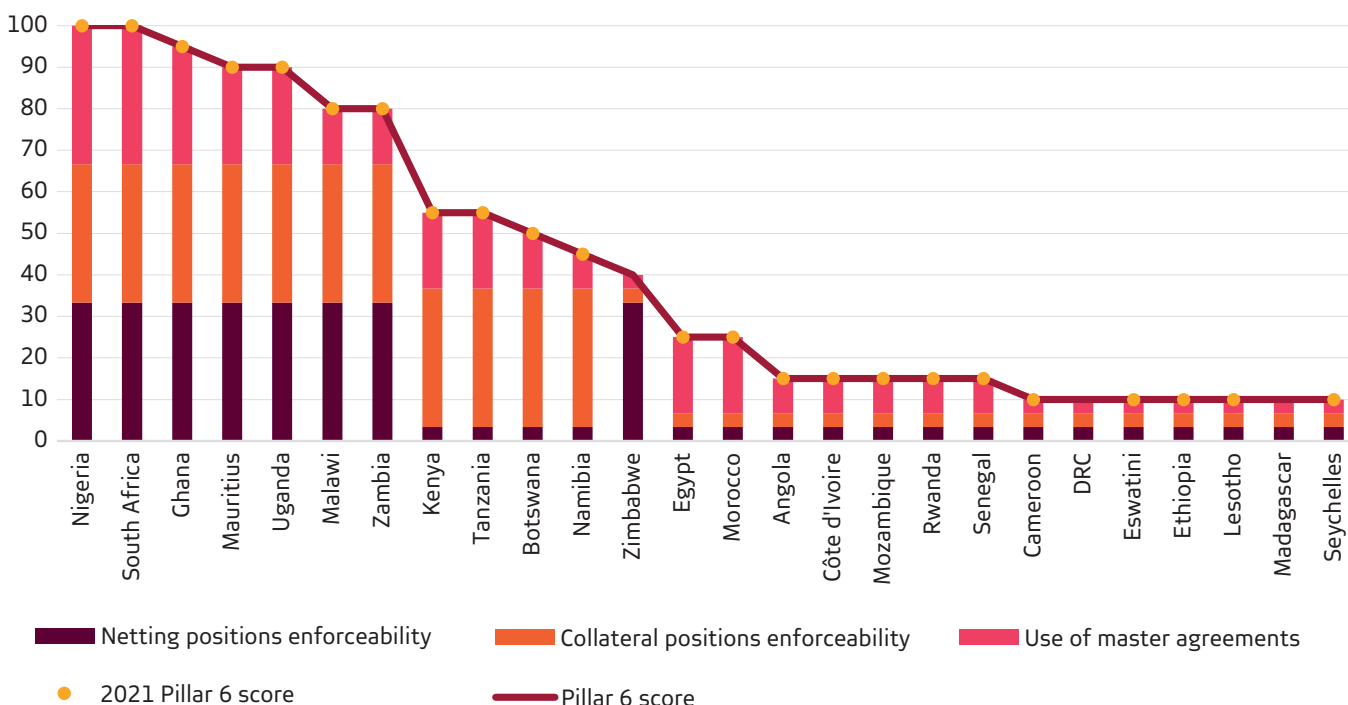
**Nigeria continues to score highest, bolstered by more widespread adoption of the three main standard master agreements.**

**Improvements in enforceability have prompted more use of ISDA and GMRA master agreements in Ghana.**

**Several countries highlighted projects targeting the enforceability of close-out netting and adoption of international legal standards.**

**Figure 6.1: Nigeria and South Africa score highest, legal reforms in the pipeline elsewhere**

Contributing indicators and overall harmonised score for Pillar 6, max = 100



Source: AFMI survey 2022, ISDA, Frontclear, OMFIF analysis

Note: The overall Pillar 6 score represents the average harmonised score across all Pillar 6 indicators. Scores from 2021 are updated to incorporate any revisions, newly available data and/or improved data collection methods and may not reflect those published in AFMI 2021. More information on pp.42-3.

**‘In the past year, Ethiopia joined Egypt, Morocco, Seychelles and Uganda in having its netting legislation status listed as ‘under consideration’ by ISDA.’**

Using standard master agreements helps to build trust among market participants by providing a globally recognised framework for financial transactions. The main contracts which govern over-the-counter derivatives and repurchase transactions are the International Swaps and Derivatives Association Master Agreement, Global Master Repurchase Agreement and Global Master Securities Lending Agreement. The enforceability of close-out netting and collateral provisions within these agreements is also important, as they serve to reduce counterparty risk in the event of insolvency or default. These factors provide market participants with greater certainty, reduce systemic risk and allow capital to be allocated more freely and efficiently.

Scores for Pillar 6, which are informed by survey participants as well as legal opinions from the International Securities and Derivatives Association and industry practitioners, are unchanged this year. While this indicates there has not been a fundamental change in the robustness of legal frameworks in the past 12 months, there have been signs of progress in some countries. Nigeria – which continues to score highest on Pillar 6 alongside South Africa – has deepened its use of master agreements. This comes after the passage of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act in 2020. These laws have promoted greater enforceability of netting-off provisions.

Nigeria’s progress has been acknowledged by ISDA. In August 2021, Nigeria became only the third country in the index to receive a clean netting opinion from ISDA, which provides a strong signal of legal credibility to domestic and international investors that close-out netting provisions are enforceable. One local survey respondent hopes that this will ‘increase the attractiveness of Nigeria and serve as [a] springboard for accelerated growth’ of its markets. South Africa and Mauritius have also received clean netting opinions from ISDA, as well as on their GMRA and GMSLA enforceability from the International Capital Market Association and International Securities Lending Association.

Ghana, ranked third in this pillar, has also implemented domestic close-out netting legislation. The recognition of the GMRA, later applied to all global standard documents, as enforceable under domestic netting legislation has been made more explicit by the Corporate Insolvency Act. This has contributed to a significant pick-up in the volume of transactions executed under GMRA over the past year. But adoption of GMSLA standards remains limited, which weighs on Ghana’s Pillar 6 score slightly. On the plus side, a survey participant mentioned that ‘a technical committee made up of representatives from various market participants and regulators has been

**Figure 6.2: Broader range of countries making progress on close-out netting**

Status of close-out netting legislation and ISDA netting opinion in each jurisdiction

	Close-out netting enforceability	ISDA netting opinion
South Africa	Yes	Yes
Nigeria	Yes	Yes
Mauritius	Yes	Yes
Ghana	Yes	No
Zambia	Yes	No
Zimbabwe	Yes	No
Egypt	Under consideration	No
Ethiopia	Under consideration	No
Morocco	Under consideration	No
Seychelles	Under consideration	No
Uganda	Under consideration	No
Angola	No	No
Botswana	No	No
Cameroon	No	No
Côte d'Ivoire	No	No
DRC	No	No
Eswatini	No	No
Kenya	No	No
Lesotho	No	No
Madagascar	No	No
Malawi	No	No
Mozambique	No	No
Namibia	No	No
Rwanda	No	No
Senegal	No	No
Tanzania	No	No

Source: ISDA, OMFIF analysis



set up to produce guidelines for securities lending and borrowing and work on adopting GMSLA.’

### Countries working to bolster legal frameworks

Projects to strengthen legal frameworks are in the pipeline elsewhere in Africa. Uganda, which ranks fourth in this pillar alongside Mauritius, is one example. It already recognised netting and collateral enforcement under the National Payment Systems Act of 2020. The authorities continue to work with global market institutions, such as ISDA, and financial development specialists to draft legislation to ensure greater netting enforceability across all master agreements. Frontclear – a development finance organisation dedicated to money and interbank markets – has provided technical assistance to the Bank of Uganda and efforts are underway to implement an umbrella guarantees facility – Tradeclear. This would see Frontclear guarantee transactions between eligible local banks, encouraging a more liquid domestic interbank market which would be underpinned by standard master agreements.

With support from the United Nations Economic Commission for Africa, Frontclear is also working with the Bank of Zambia and the country’s financial sector to develop a customised onshore guarantee facility for repo transactions, which would build best practice application of GMRA documentation. Progress is being made in smaller markets, such as Ethiopia, too. In the past year, the country joined Egypt, Morocco, Seychelles and Uganda in having its netting legislation status listed as ‘under consideration’ by ISDA. This follows a Frontclear-led review of legal and regulatory framework, including recommendations for GMRA and ISDA enforceability.

Authorities in Rwanda are looking to bolster financial market uptake of standard master agreements. The National Bank of Rwanda, working with Frontclear and the International Finance Corporation, concluded a regulatory review in June relating

## Figure 6.3: Widespread adoption of standard master agreements remains limited

Use of key financial market agreements in each jurisdiction

	ISDA	GMRA	GMSLA
South Africa	Widely used	Widely used	Widely used
Nigeria	Widely used	Widely used	Widely used
Ghana	Widely used	Widely used	Limited use
Mauritius	Widely used	Widely used	No
Uganda	Widely used	Widely used	No
Kenya	Widely used	Limited use	No
Tanzania	Widely used	Limited use	No
Malawi	No	Widely used	No
Egypt	Limited use	Limited use	Limited use
Morocco	Limited use	Limited use	Limited use
Botswana	Limited use	Limited use	No
Zambia	Limited use	Limited use	No
Mozambique	Limited use	No	No
Rwanda	Limited use	No	No
Côte d'Ivoire	Limited use	No	No
Namibia	Limited use	No	No
Senegal	Limited use	No	No
Angola	No	Limited use	No
Cameroon	No	No	No
DRC	No	No	No
Eswatini	No	No	No
Ethiopia	No	No	No
Lesotho	No	No	No
Madagascar	No	No	No
Seychelles	No	No	No
Zimbabwe	No	No	No

Source: AFMI survey 2022, OMFIF analysis

to the introduction of more market makers and the enforceability of GMRA legal documentation. In any of these markets, implementing these reforms and receiving clean legal opinions from the relevant international bodies would encourage greater market participation and boost scores in this pillar.

In the meantime, despite its continued leadership in Pillar 6, there is some uncertainty about South Africa’s legal framework. Potential concerns arise from the Financial Sector Laws Amendment Act 2021. This legislation gives the central bank the power to cancel agreements for failing financial institutions. The scope and effect of these powers are uncertain and the act provides no safe harbour for

repurchase and securities lending transactions and only a limited safe harbour for derivatives. For example, the central bank can cancel any agreement where the relevant agreement gives a preference to some creditors over others in resolution. This could threaten netting provisions for repurchase and securities transactions and, to a lesser extent, derivatives. It is worth emphasising there is still a lot of uncertainty over the specific implications of the legislation, and it will only come into effect on a date to be published in the government gazette. Nonetheless, the key point is that the grey area around the future enforceability of contracts may in itself be enough to weaken confidence and the volume of transactions among market participants.

# The Africa Financial Markets Index in focus

Using a variety of qualitative and quantitative data, the Absa Africa Financial Markets Index records the openness and attractiveness of financial markets in 26 African countries. Countries are scored on a scale of 10-100 based on six pillars comprised of over 40 indicators.

## Pillar 1: Market depth

### Product diversity

- Type of financial assets available, including sustainable finance and hedging products
- Currency availability of stock exchange products

### Size of market

- Total sovereign and corporate bonds outstanding and equity market capitalisation as a share of GDP

### Liquidity

- Total turnover of sovereign bonds, corporate bonds and equities as a share of bonds outstanding and market capitalisation, 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 primary dealer system
- Size of repurchase market

## Pillar 2: Access to foreign exchange

### FX reserves adequacy

- Foreign exchange reserves in months of import coverage

### FX liquidity

- Interbank market foreign exchange turnover

### Capital restrictions

- Foreign exchange capital controls
- Existence of multiple or unified exchange rate

### Official exchange rate reporting

- Quality of data and frequency of publication

## Pillar 3: Market transparency, tax and regulatory environment

### Financial stability regulation

- Basel Accords implementation stage
- Climate stress testing

### Corporate reporting standards and governance

- Use of international accounting and reporting standards (International Financial Reporting Standards)
- Existence of corporate action governance structure

### 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 versus non-resident ownership of domestic assets

### Market development policies

- Existence and effectiveness of capital market development strategy

### ESG initiatives and standards

- Existence of incentives for issuing sustainable finance products
- Initiatives integrating ESG into financial market standards

### Existence of credit ratings

- Existence of international sovereign credit rating (Fitch, Moody's, S&P)
- Number of corporate credit ratings (Fitch, Moody's, S&P) and coverage by regional ratings agency (GCR)

## Pillar 4: Capacity of local investors

### Pension fund size

- Value of pension assets per capita

### Pension fund assets to domestically listed assets

- Pension fund assets as a share of listed equities and bonds, weighted by market liquidity

## Pillar 5: Macroeconomic environment and transparency

### GDP growth

- Five-year average annual GDP growth, historical (2017-21) and projected (2022-26)

### Inflation

- Year-on-year change in consumer price index

### Non-performing loans

- Non-performing loans as a share of gross loans

### Macroeconomic data standards

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

### External debt

- External debt as a share of GDP

### Macroeconomic data standard

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

### Monetary policy committee transparency

- Frequency and regular publishing of monetary policy committee decisions and meeting schedules

### Budget release

- Annual release of fiscal budget

## Pillar 6: Legal standards and enforceability

### Enforceability of netting and collateral positions

- Enforceability of close netting-off and financial collateral positions

### Use of master agreements

- Adoption of ISDA master agreements, GMRA and GMSLA master agreements

# 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; macroeconomic environment and transparency; and legal standards and enforceability. These pillars are constructed from over 40 indicators listed on p.42.

This year, there were adjustments made to the indicators included in Pillars 2 and 5. In Pillar 2, the measure of FX reserves adequacy was changed to months of import coverage, rather than relative to net portfolio investment flows. This is a more robust and traditional measure of reserves adequacy, with figures published annually by the IMF. In Pillar 5, inflation was added as it is a monthly series which provides a timely indication of countries' macroeconomic stability. Measures of living standards (GDP per capita) and export competitiveness (absolute and growth in export market share) were removed from Pillar 5. Year-on-year changes in these variables are closely linked to changes in the existing indicator of GDP growth.

## 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 from the latest year available. For full year statistics (e.g. external debt, pension fund assets, NPL ratio) this is 2021 data. For statistics covering the previous 12 months (e.g. market liquidity) this is July 2021 to June 2022. 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-July 2022.

Quantitative data were collected using Refinitiv and publicly available sources, including websites of central banks and securities exchanges, as well as survey responses. Where no such official data are available, OMFIF uses reliable sources from the financial industry and research community. The survey also provided qualitative insights relating to legal, regulatory and market

conditions in each country.

The survey was conducted between June and September 2022, covering more than 50 organisations operating throughout Africa. Participants include central banks, securities exchanges, regulators, international organisations, banking associations and accounting firms.

## Scoring

Countries are scored based on their relative, not absolute, performance on each indicator.

Raw data for each variable are rebased to fit a harmonised scale of 10-100. This allows for comparability between indicators that are originally measured on different scales. Outliers in the data, defined as two standard deviations from the mean, are removed. Values greater than the upper bound are replaced by the next highest data point, while values below the lower bound are replaced by the next lowest data point. This means that more than one country can receive the maximum or minimum score within each indicator.

Once outliers are removed, scores for each indicator are allocated such that the maximum value is rebased to 100 and the minimum value is given 10. All other values are rebased within this range to create their harmonised score.

Within each pillar, the harmonised score of each indicator is averaged to form a country's pillar score. The six pillar scores are averaged to create a country's overall score in the index.

## 2022 scores

Figures for 2022 scores may not correspond with those published in last year's AFMI report. Changes to the indicators included in Pillars 2 and 5 were applied to 2021 data to neutralise the impact of methodological changes, thus allowing for accurate year-on-year comparisons. Moreover, 2021 data were adjusted to take account of any revisions, newly available data and/or improved data collection methods.

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