Absa Africa Financial Markets Index 2021

Potential lives here

Pictured: Grand Bai (Pereybere) Mauritius

The Absa Africa Financial Markets Index was produced by OMFIF in association with Absa Group Limited. The scores on p.7 and elsewhere record the total result (max = 100) of assessments across Pillars 1-6. For methodology, see individual Pillar assessments and p.42-43.

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

Absa Project Team

Fiona Kigen, Vice-President: Marketing, Investment Banking, **Erica Bopape**, Head of Marketing, Investment Banking, **Andile Makholwa**, Vice-President: External Communications, CIB, **Phumza Macanda**, Group Head of Media Relations, **Jerome Raman**, Communications Manager, CIB, **Benedict Maaga**, Head of Integrated Communications, CIB, **Varini Chetty**, Digital Lead, CIB, **Gerald Katsenga**, Head of Corporate Sales, ARO Markets

OMFIF Editorial, Meetings and Marketing Team

Clive Horwood, Managing Editor and Deputy Chief Executive Officer**, Simon Hadley**, Director, Production, **William Coningsby-Brown**, Production Manager, **Sarah Moloney**, Subeditor, **Stefan Berci**, Communications Manager, **James Fitzgerald**, Marketing Manager, **Ben Rands**, Director of Events, **Sasha Stileman**, Events Manager, **Jamie Bulgin**, Relationship Director, Economic and Monetary Policy Institute, **Emma McGarthy,** Head of Policy Analysis, Sustainability

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

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

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

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

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The Official Monetary and Financial Institutions Forum is an independent think tank for central banking, economic policy and public investment – a non-lobbying network for best practice in worldwide public-private sector exchanges. At its heart are Global Public Investors – central banks, sovereign funds and public pension funds – with investable assets of $42tn, equivalent to 43% of world GDP. With offices in both London and Singapore, OMFIF focuses on global policy and investment themes – particularly in asset management, capital markets and financial supervision/regulation – relating to central banks, sovereign funds, pension funds, regulators and treasuries. OMFIF promotes higher standards, invigorating exchanges between the public and private sectors and a better understanding of the world economy, in an atmosphere of mutual trust.

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Contents

Forewords

Aim of index

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

Jason Quinn
Interim Chief Executive Officer, Absa Group

Benefiting people and planet

In today's uncertain socioeconomic climate, one constant is the need globally to ensure that sustainable economic growth benefits people and the planet. Now more than ever, governments, businesses and organisations are called upon to provide leadership that actively demonstrates a commitment to cultivating a healthy, thriving society.

The repercussions of the Covid-19 pandemic and the slow pace of the vaccination roll-out continue to be a major challenge for growth on the continent. While initiatives such as the African Continental Free Trade Area are encouraging, progress needs to be faster to address many of the historical challenges and provide an opportunity for Africa to build continental resilience.

As a pan-African bank, we firmly believe that financial market development can play a vital role in increasing Africa's resilience to shocks and improve the continent's chances of having a sustainable recovery.

We are extremely proud of the annual Absa Financial Markets Index report, which has become a critical toolkit for countries seeking to strengthen their financial markets infrastructure. Now in its fifth year, the index records countries' openness to foreign investment and is an objective indicator of the attractiveness of Africa's capital markets, intended for use by policy-makers, investors and asset managers around the world.

At the core of AFMI is a push towards deeper financial markets that are open, transparent and accessible and facilitate the mobilisation of savings towards investment in productive assets.

The introduction of sustainability-focused indicators and the improved focus on green finance will ensure that the index remains an essential resource for investor, business and governance communities to gauge the performance of financial markets in Africa.

We believe in the continent's potential for growth and our partnership with OMFIF to produce this index demonstrates our commitment to investing in Africa and shaping its growth and sustainability.

David Marsh
Chairman, OMFIF

Vera Songwe
UN Under-Secretary-General and Executive Secretary of the Economic Commission for Africa

Platform for resilience

When OMFIF and Absa decided to create the Africa Financial Markets Index in 2016, we had two principal purposes in mind. The first was to develop a first-rate comparative tool to measure African countries' financial market progress. The second was to set benchmark objectives for improving the capability of financial markets to spur growth, investment and prosperity.

The last 18 months have been difficult. The scars of 2020-21 show clearly in the sharp fall in average scores, although some of this is due to methodological changes. But the need for the index has never been better illuminated. Africa has built a platform for resilience, displayed in constructive detail in this year's findings and countries' ability to adapt to a world in transition.

Covid-19 has had a bigger negative impact in Africa than elsewhere. Exacerbated social pressures, volatile commodity prices, worries about rising US interest rates and fears that Africa could be squeezed by Sino-US competition compound the challenges. On the other hand, although individual countries have needed debt restructuring, Africa has not had to weather a full-scale financial crisis.

The IMF and multilateral development banks have made exceptional efforts to help emerging and frontier markets weather the pandemic, underlined by international consensus on a $650bn special drawing right allocation. International reserve liquidity has held up relatively well, with the assets of African global public investors rising.

Three positive factors shine out from the findings. First, Africa is paying more attention than ever to adapting market standards to meet the needs of international investors seeking to diversify risks. Second, deepening local financial markets is now universally seen as an optimal means of hedging against international economic fluctuations. Third, African countries are embracing sustainable finance, incorporating international investment norms and in some cases adopting pioneering methods. Africa's improved financial market resilience makes the continent better equipped to forge a brighter future.

Integration and co-operation

The United Nations Economic Commission for Africa supports the long-term development of Africa's financial markets. A robust and competitive market environment builds investor confidence, stimulates job creation and creates opportunities for growth.

The Absa Africa Financial Markets Index is a valuable tool for measuring progress and encouraging initiatives that enhance investment and economic expansion. The fifth edition of this index comes at a time when demonstrating the continent's deep potential has become even more important, providing a useful overview of recent advancements and innovations in countries across the region.

Africa responded to the Covid-19 crisis with resilience and tenacity, but challenges remain. The continent lost many jobs during the pandemic. Governments face fiscal difficulties and debt pressures. Countries in the region are vulnerable to the consequences of climate change, as demonstrated by the drought in East Africa and other weather-related disturbances.

Beneath these challenges lies Africa's inherent ability to surmount them. During a period of uncertainty, investor optimism in the region stays firm, indicating that Africa is still seen as a desirable region for investment. The index and its new focus on environmental, social and governance factors reflect the urgency of aligning markets with broader sustainability objectives. Capital markets will have a crucial role to play in climate action and closing investment gaps in Africa.

Integration and intra-regional cooperation will continue to be an important element of Africa's path to recovery and prosperity. Earlier this year, trading in the African Continental Free Trade Area began. The single continental market will expand intra-African trade and unlock industrial capacity. Similarly, efforts to integrate the region's capital markets and encourage cross-border investment will boost growth. Tracking these developments through the index is a valuable exercise, providing a meaningful assessment of the continent's progression.

Pictured: Sunrise over the Masai Mara, Kenya

Introduction

Future-proofing Africa's financial markets

As the global economy struggles to recover from the worst health crisis in a century, African economies face the twin challenges of reinvigorating financial markets while strengthening market infrastructure through technological innovation and investment-enabling policies. The pandemic has reinforced the importance of deepening domestic markets to hedge against foreign capital outflows and help the region achieve its full potential.

Average scores declined to 46.4 from 50.8 last year, with only seven countries earning above 50. Malawi, Egypt and Uganda are among the countries that improved their ranking the most. Advancements in establishing the enforceability of global contractual frameworks lift Malawi's and Uganda's scores. Reforms in Egypt continue to boost its macroeconomic prospects, and its management of reserves has ensured its ability to meet foreign currency demand.

While challenging market conditions affected country scores, most drops are attributed to methodological changes adopted to better reflect country performance and evolving trends in financial markets. The index, now in its fifth year, benefits from continued engagement with policy-makers, regulators, market participants and industry experts providing the latest information about developments in the region.

As part of its aim to encourage progress, this year's index introduces new indicators that acknowledge the role of sustainable finance in expanding capital markets and achieving broader socio-economic goals. The introduction of sustainability-focused indicators weighs down scores, especially for countries at a much earlier stage of market development. However, as with all indicators used across the index, the new measures serve as targets for countries to work towards.

In addition to a stronger, forward-looking focus on sustainability and green finance, the index recognises the role of digital technology and innovation in future-proofing Africa's financial markets. The report highlights countries' efforts to upgrade market infrastructure and regulatory support for the development of technology-based tools. While these initiatives do not directly impact scores, they demonstrate how countries can use innovation to boost local markets and build a broader investor base.

Rank		Country	Score		Comments
2021	2020		2021	2020	
1	1	South Africa	**86**	89	Consistently strong performance across pillars hampered by weak economic growth
2	2	Mauritius	**70**	79	Robust legal and market environment dampened by low liquidity
3	3	Nigeria	**63**	65	Attractive regulatory and market environment
4	6	Ghana	**62**	59	Strong contractual frameworks but relatively low pension assets per capita
5	10	Uganda	**57**	52	Large pension fund assets under management, but illiquid markets
6	4	Botswana	**51**	63	Market growth offset by weaker FX reserves position
7	9	Zambia	**51**	53	Revival in investor confidence boosted government bond market
8	5	Namibia	**48**	61	Liquid market and deep pension assets
9	14	Egypt	**48**	50	High equities turnover and strong macroeconomic performance
10	18	Malawi	**48**	37	Adoption of Global Master Repurchase Agreement expected to boost cross-border repo
11	7	Kenya	**47**	58	Progress in sustainable finance supports market development
12	8	Morocco	**47**	56	Market depth improved by wide range of sustainable financial products available
13	12	Tanzania	**45**	50	Export market growth improves macroeconomic outlook
14	13	Rwanda	**43**	50	Promising growth outlook and higher level of FX reserves
15	15	Eswatini	**39**	49	Growth in FX reserves strengthens position
16	11	Seychelles	**38**	51	Improving market environment and local investor capacity despite exchange rate volatility
17	16	Ivory Coast	**38**	43	Wider range of financial products available
18	17	Mozambique	**35**	43	Improvements in adopting International Financial Reporting Standards
19	19	Senegal	**34**	37	Strong economic growth forecast but weak market environment
20	22	Angola	**33**	30	Floating exchange rate and minimal intervention aid response to shocks
21	20	Lesotho	**30**	33	High withholding tax rates weaken market environment
22	21	Cameroon	**29**	32	Merger with regional stock exchange attracts new listing
23	23	Ethiopia	**25**	27	Concrete steps to launch securities exchange

Score across all pillars, max = 100.

Executive summary

Innovation in financial markets

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

In its fifth year, the index is expanding with the introduction of new indicators. The availability of sustainable finance products, such as green bonds and equities, contributes to the score for market depth. Policies that encourage the issuance and trading of these products, as well as those that intend to mitigate against climate-related financial risks, form part of the score for regulatory environment.

OMFIF conducted extensive research using data from central banks, securities exchanges and international financial institutions. OMFIF surveyed over 50 policy-makers, regulators and executives from financial institutions operating across the 23 countries, including banks, securities exchanges, central banks, regulators, audit and accounting firms, and international financial and development.

Continued on p.10 >>

Overall pillar scores max = 100

Pillar 1: Market depth

South Africa	97
Nigeria	62
Mauritius	57
Botswana	55
Morocco	53
Ghana	50
Kenya	46
Uganda	45
Tanzania	45
Egypt	42
Angola	38
Mozambique	38
Zambia	37
Senegal	36
Ivory Coast	34
Malawi	33
Namibia	32
Rwanda	30
Seychelles	29
Cameroon	28
Eswatini	24
Lesotho	11
Ethiopia	11

Pillar 2: Access to foreign exchange

South Africa	80
Egypt	79
Rwanda	61
Uganda	61
Tanzania	59
Eswatini	59
Ghana	59
Mauritius	55
Ivory Coast	55
Zambia	50
Lesotho	48
Senegal	46
Kenya	45
Mozambique	44
Malawi	44
Namibia	44
Morocco	40
Angola	40
Seychelles	38
Cameroon	31
Botswana	29
Ethiopia	28
Nigeria	20

Pillar 3: Market transparency, tax and regulatory environment

Nigeria	86
South Africa	84
Mauritius	83
Kenya	79
Ghana	75
Morocco	73
Zambia	69
Rwanda	67
Tanzania	66
Botswana	61
Uganda	60
Egypt	60
Seychelles	57
Malawi	56
Ivory Coast	55
Angola	54
Lesotho	50
Senegal	43
Mozambique	42
Namibia	41
Eswatini	37
Cameroon	34
Ethiopia	28

Pillar 4: Capacity of local investors

Namibia	100
South Africa	77
Mauritius	68
Botswana	60
Nigeria	44
Eswatini	41
Morocco	39
Seychelles	31
Kenya	24
Tanzania	23
Ghana	21
Mozambique	18
Malawi	18
Zambia	18
Egypt	18
Uganda	16
Cameroon	15
Rwanda	15
Lesotho	13
Angola	12
Ivory Coast	11
Senegal	11
Ethiopia	10

Pillar 5: Macroeconomic opportunity

Egypt	82
South Africa	77
Botswana	76
Uganda	70
Nigeria	69
Mauritius	67
Tanzania	65
Ghana	65
Morocco	64
Rwanda	64
Namibia	64
Eswatini	64
Kenya	62
Ivory Coast	62
Seychelles	62
Ethiopia	62
Senegal	59
Cameroon	57
Malawi	55
Mozambique	52
Lesotho	52
Zambia	47
Angola	41

Pillar 6: Enforceability of standard master agreements

Ghana	100
Nigeria	100
South Africa	100
Uganda	90
Mauritius	90
Zambia	85
Malawi	80
Kenya	28
Botswana	25
Rwanda	18
Mozambique	18
Egypt	10
Tanzania	10
Morocco	10
Namibia	10
Eswatini	10
Ivory Coast	10
Seychelles	10
Ethiopia	10
Senegal	10
Cameroon	10
Lesotho	10
Angola	10

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Bankers Association of Zambia

Bolsa de Dívida e Valores de Angola

Botswana Stock Exchange

Capital Markets Authority, Kenya

Capital Markets Authority, Uganda

Capital Markets Commission, Angola

Casablanca Stock Exchange, Morocco

Central Bank of Eswatini

Central Bank of Seychelles

Debt Management Office, Nigeria

Eswatini Stock Exchange

Financial Services Regulatory Authority, Eswatini

Johannesburg Stock Exchange

Market Infrastructure and OTC Markets department of the Financial Sector Conduct Authority, South Africa

Mauritius Commercial Bank

Merj Exchange, Seychelles

Ministry of Finance, Trade Investment and Economic Planning, Seychelles

Nairobi Securities Exchange

Nigerian Exchange Group

Reserve Bank of Malawi

Securities and Exchange Commission, Ghana

Securities and Exchange Commission, Nigeria

Securities and Exchange Commission, Zambia

Seychelles Ministry of Finance

Stock Exchange of Mauritius

Uganda Securities Exchange

Individuals

Adebayo Araoye, Capital Markets and Accounting Advisory Services, PricewaterhouseCoopers Nigeria

David Fernandes-Collett, Chief Operating Officer, Global Markets - Absa Regional Operations

Jeff Gable, Head of Macro and Fixed Income Research, Absa

Abeku Gyan-Quansah, Partner/Director, PricewaterhouseCoopers Ghana

Ingrid Hagen, Vice President of Strategic Projects, Frontclear

Anthony Kirui, Director, Head of Global Markets - Absa Regional Operations & Head of Global Markets - Absa Bank Kenya

Jacqueline Irving, Senior Sector Economist, Sector Economics and Development Impact Department, International Finance Corporation, World Bank Group

Vipin Mahabirsingh, Managing Director, Central Depository and Settlement Company, Mauritius

Moremi Marwa, Chief Executive Officer, Dar es Salaam Stock Exchange

Prosscovia Nambatya, Corporate Finance Lawyer

Birgit Reuter, Financial Officer, Global Macro and Market Research Department, International Finance Corporation, World Bank Group

Peter Werner, Senior Counsel, International Swaps and Derivatives Association

Report authors

Kat Usita, Head of Reports and Surveys

Natalia Ospina, Head of Policy Analysis, Sustainable Policy Institute

Chevano Baker, Policy Analyst

Mausi Owolabani, Policy Analyst

With support from **Brendan Kiy,** Research Assistant

Pictured: Eygpt

The report finds that:

• South Africa, Mauritius and Nigeria maintain their lead in the index, despite having lower overall scores than last year's. Ghana and Uganda enter the top five for the first time, both earning points for progress in the enforceability of standard master agreements. Seychelles had a challenging year, experiencing severe exchange rate volatility. It falls five places in the index, the only country with scores falling in all six pillars.

• Few countries manage to score over 50 in **Pillar 1: Market depth**. Low liquidity impacted marks, with total equity turnover ratio in the index for the 12 months leading to June declining by five percentage points. Market capitalisation rose in almost all countries in the index, but not enough to offset weak activity.

• Nine countries have introduced products that can be classified as green or sustainable. Green bonds are the most popular instrument, available in seven countries either in exchanges or over the counter. Kenya and Morocco score highest in this indicator for having green or sustainable bonds, equities and mutual funds in their markets. Additionally, Kenya has issued ethical securities to fund socially responsible investment opportunities.

• Securities exchanges across the region are innovating their platforms to encourage greater retail participation and ease listing processes. Rwanda developed eSub, a platform enabling people to buy and sell government securities using their mobile devices. In Seychelles, Merj Exchange has an online listing process that does not require the submission of physical documents.

• Eswatini moves up 11 places in **Pillar 2: Access to foreign exchange**. Foreign exchange reserves by grew by 24%, strengthening its position relative to total portfolio investment flows. Liquidity in FX markets, measured through interbank figures, weakened across countries and pulled down the average score by 2.8.

• Nearly all countries' scores dropped in **Pillar 3: Market transparency, tax and regulatory,** mainly due to weak scores in sustainability indicators. South Africa is the only country to have adopted climate risk as part of its macroprudential stress testing framework. Nine countries have policies that incentivise the issuance of sustainable financial products, including Kenya, whose Green Bonds Programme is encouraging the development of a green bond market domestically as well as across East Africa.

• Survey respondents expressed concern about the quality of financial reporting and lack of oversight to improve. The number of tax treaties that incentivise foreign investment increased in 14 countries.

• Countries struggled in **Pillar 4: Capacity of local investors**, averaging a score of 31. Namibia tops the pillar once again, earning full marks for having a deep pension market relative to the size of its population and securities market. However, 18 of the 23 countries failed to score over 50, indicating weak potential on the part of domestic pensions markets to drive local market activity.

• Countries performed best in **Pillar 5: Macroeconomic outlook**, achieving an average score of 62. Egypt regains the lead, propelled by gross domestic product growth in 2020 while most other economies in the index contracted. All countries in the index score full points for budget transparency, although there is variation in the level of detail that governments publish.

• Ghana, Nigeria and South Africa earn full points in **Pillar 6: Enforceability of standard master agreements**. The Bank of Ghana issued notice recognising netting arrangements for transactions using global standard documentation.

• Uganda, in fourth place, enacted legislation late last year with provisions for enforcing close-out netting and collateral arrangements.

Highlights 2020-21

Angola enacted its Insolvency and Corporate Recovery Law and amended its Private Investment Law.

The Egyptian Exchange launched a Treasury Bonds Index to help investors track the performance of securities traded.

Botswana's Non-Bank Financial Institutions Regulatory Authority published regulations for online securities trading.

The Ethiopian parliament enacted the capital markets establishment proclamation to pave the way for the creation of a securities exchange.

South Africa is reforming its regulatory framework for OTC derivatives.

Cameroon extended the three-year tax breaks for companies listed on the Bourse des Valeurs Mobilières de l'Afrique Centrale to last for as long as they are still on the exchange.

Kenya raised $740m through the issuance of a 21-year infrastructure bond.

Zambia established a Capital Markets Tribunal to speed up dispute resolution and settlement within the securities market.

The Stock Exchange of Mauritius launched its Venture Market, a platform for shareholders of unlisted companies to trade their securities.

The Casablanca Stock Exchange launched the Morocco Stock Index 20 to aid investors in monitoring performance of the 20 most-traded listings.

The Malawi Stock Exchange launched a Whatsapp portal to publicise information about securities listed and how to investment in them.

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

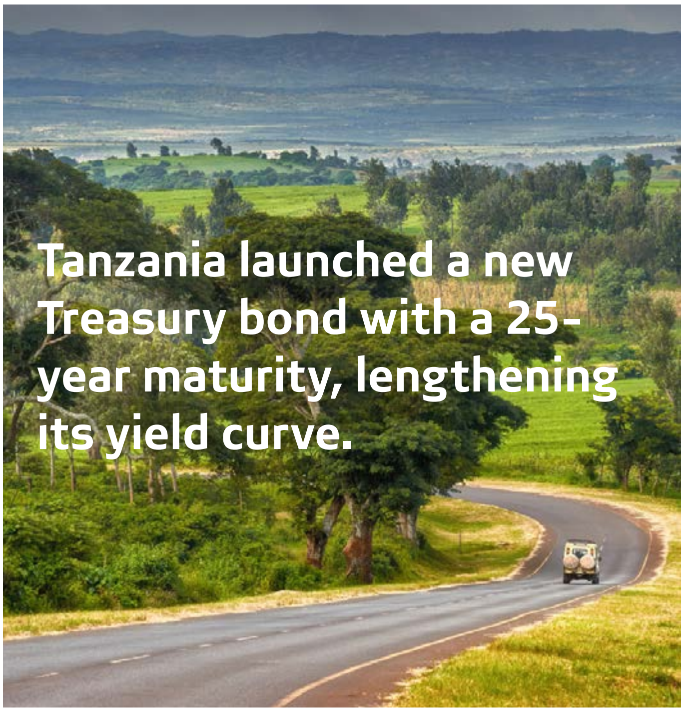
Namibia's Financial Institutions and Markets Act was signed into law, updating the legal framework regulating financial institutions.

Nigeria's Securities and Exchange Commission approved guidelines for trading derivatives on the Nigerian Stock Exchange.

Energicotel became the first SME to list on the Rwanda Stock Exchange.

The Bourse Régionale des Valeurs Mobilières, which covers Cameroon and Senegal, has been made a full member of the World Federation of Stock Exchanges.

Sekhametsi Investment Consortium is preparing to become the first company to list on Lesotho's Maseru Stock Exchange.



Uganda is linking together the central securities depository of the central bank and the stock exchange to facilitate retail trading of government securities.

Eswatini's Financial Services Regulatory Authority updated its regulatory framework to create a broader capital market product offering.

Ghana's Securities and Exchange Commission launched a 10-year capital markets master plan to increase product diversity and widen its investor base.

Mozambique's investment law was amended to increase the minimum value required for foreign direct investments.

Pillar 1: Market depth

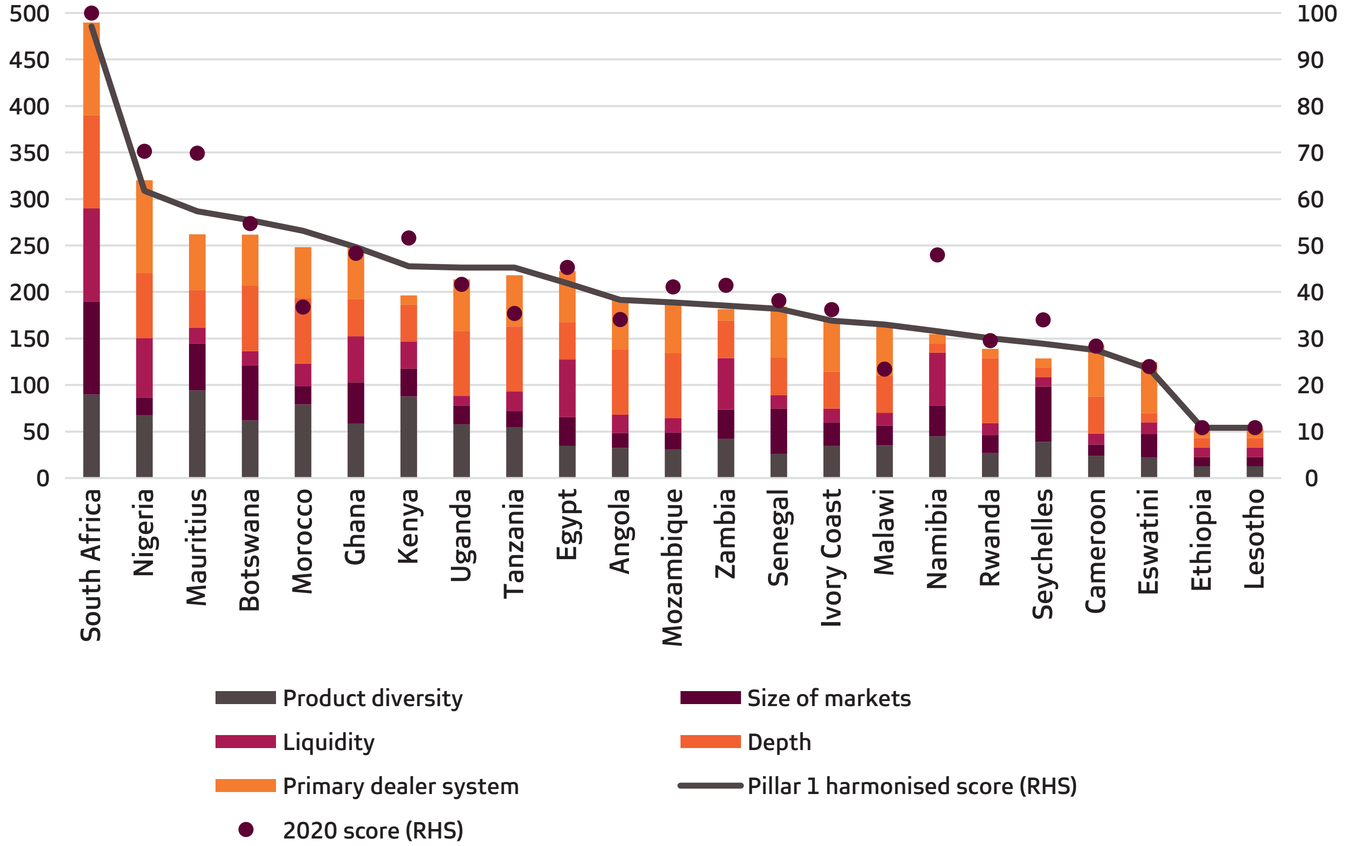
Pictured: Vineyard in Stellenbosch, South Africa

Restoring dynamism

Survey respondents identified weaker market liquidity and new developments in regulation as the two most significant changes in the market over the past year.

Figure 1.1: Lower turnover weighed on scores

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



Source: AFMI survey 2021, national central banks, national stock exchanges, national capital market authorities, IMF, World Federation of Exchanges, OMFIF analysis.

Note: Category scores (LHS) provide the average of indicator scores within each category. The harmonised score (RHS) represents the average of all Pillar 1 indicators and is used to compile the total for Pillars 1-6.
More information on p.42-43.

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. On average, countries' scores dropped by 1 point when compared to last year. Low equity turnover played a significant role in this deterioration.

Reduced activity

In total, equity market turnover as a proportion of market capitalisation fell by 5 percentage points (to 24%) in the year to June 2021 compared with a year earlier. South Africa, which remains at the top of Pillar 1, experienced one of the most considerable reductions in market activity. The turnover ratio fell seven percentage points to 26% due to slow market trading during the second half of 2020 and higher market capitalisation. Since February of this year, 'These markets have normalised and exhibit ample liquidity [...] equities have extended gains and now exceed pre-pandemic levels,' affirmed one South African survey respondent.

This drop was not limited to South Africa. Market activity across most countries in the index continued to be adversely impacted by the Covid-19 pandemic. New waves of the virus and consequent containment measures, along with a slow vaccine roll-out, are thwarting efforts to revamp economic activity. 'The rate of recovery [has] an impact on turnover levels and market confidence,' stated one central banker.

Another respondent commented that as vaccination rates improve and the economy reopens, there will be a more stable path towards economic recovery and market players' interest will be revitalised. Many countries in the region are already experiencing some market reactivation. A participant from Kenya described how 'Recently, the market has realised an upturn, with some of the value losses being recouped [...] market liquidity fell (though it has now started picking up) as the market incorporates the Covid-19 pandemic effects in securities pricing.'

Growth in Egypt's equity market liquidity stands out when compared to the average performance of the other countries in the index. The total value of equities traded increased by 68% year-on-year, reaching $21.7bn up from $12.9bn. The turnover ratio was 51%, 16 percentage points higher than last year. In March 2021, the Central Bank of Egypt and the Financial Regulatory Authority agreed to establish a fund aimed at increasing liquidity in the Egyptian Exchange, prompting the entry of new investors. The number of listed companies on the bourse dipped slightly to 215 at the end of 2020, but this recovered to 220 by September of this year.

Market capitalisation rose in almost all of the countries in the index. In Mauritius, which ranks third in Pillar 1 again this year, equity market value grew the most with a 47% year-on-year increase. The country's market capitalisation to GDP ratio reached 79%, up from 42% last year. The Financial Services Commission made several changes to the capital market regulatory frameworks, including narrowing down the definition of reporting issuers and exempting foreign companies that fall into this category from specific disclosure requirements. According to one respondent, 'These changes will definitely make Mauritius and the SEM [Stock Exchange of Mauritius] a more compelling capital-raising and listing platform for niche international issuers.'

> 'Exacerbated government dependency on the domestic debt market has increased the size of bond markets across most countries in the index.'

Between mid-2020 and mid-2021, market capitalisation plummeted in the Bourse des Valeurs Mobilières de l'Afrique Centrale, the Stock Exchange of Central Africa. However, new listings could help the exchange pick up momentum. The BVMAC had its first initial public offering since it merged with the Douala Stock Exchange in 2019. La Régionale, a microfinance institution in Cameroon, launched an IPO in February 2021, raising capital in support of its plans to become a universal bank. It is the first financial institution listed on the BVMAC, which now has five listed companies. According to market participants, the regional stock exchange is expected to continue down this path of greater dynamism with various IPOs of state-owned enterprises in the pipeline.

Fixed income markets

Higher budget deficits and lower tax revenues as a result of Covid-19 continue to sway public debt and impact the economy (see Pillar 5). Exacerbated government dependency on the domestic debt market has increased the size of bond markets across most countries in the index. In Botswana, which maintains its fourth place in Pillar 1, the total value of sovereign bonds outstanding as a percentage of GDP increased to 10%, up from 6% last year. The government of Botswana doubled its domestic borrowing programme to BWP30bn (around $2.6bn). 'This, coupled with the increased frequency of bond auctions, has significantly improved bond market activity,' affirmed one survey participant. Despite greater activity, the turnover ratio was nearly unchanged because of the increase in the value of outstanding debt.

Governments across the region are not only issuing more bonds but also introducing longer tenors. Uganda, which rises one rank to eighth in Pillar 1, introduced a 20-year treasury bond tenor on the auction calendar in the last quarter of 2020. In April of this year, Tanzania issued its first 25-year treasury bond. Lengthening the maturity of domestic government securities is a step forward in central banks' efforts to build robust yield curves that can be used as a pricing benchmark for other assets.

As countries broaden their bond markets, they are also focusing on guaranteeing an active and liquid secondary market by introducing essential players and strengthening existing ones. The Bank of Uganda reformed the primary dealership system in the last quarter of 2020, limiting the competitive bidding in the primary market to seven primary dealer banks, who are obliged to make markets at all times during trading hours. 'Since the introduction of market makers, there is significant improvement in secondary market activity noted by increased secondary market turnover,' remarked one survey respondent. In Ghana, bond market specialists were introduced as a new sub-category of primary dealers that have the exclusive right to participate in primary issuance of all government treasury bills, notes and bonds.

Market infrastructure and regulatory developments

The development of capital markets must be built on up-to-date infrastructure. Some of the recent amendments made to the Securities Act in Mauritius pave the way for the establishment of new clearing and settlement facilities and other securities exchanges alongside the SEM. Kenya will soon start the user-testing phase for its upgraded central securities depository, which is expected to go live in April of next year. The revised CSD will address challenges around horizontal repurchase agreements, and it will also allow repos of government securities to go through a fully automated process, contributing significantly to deepening the secondary market in these sovereign asset classes. Additionally, and in

Figure 1.2: Equity market turnover falls

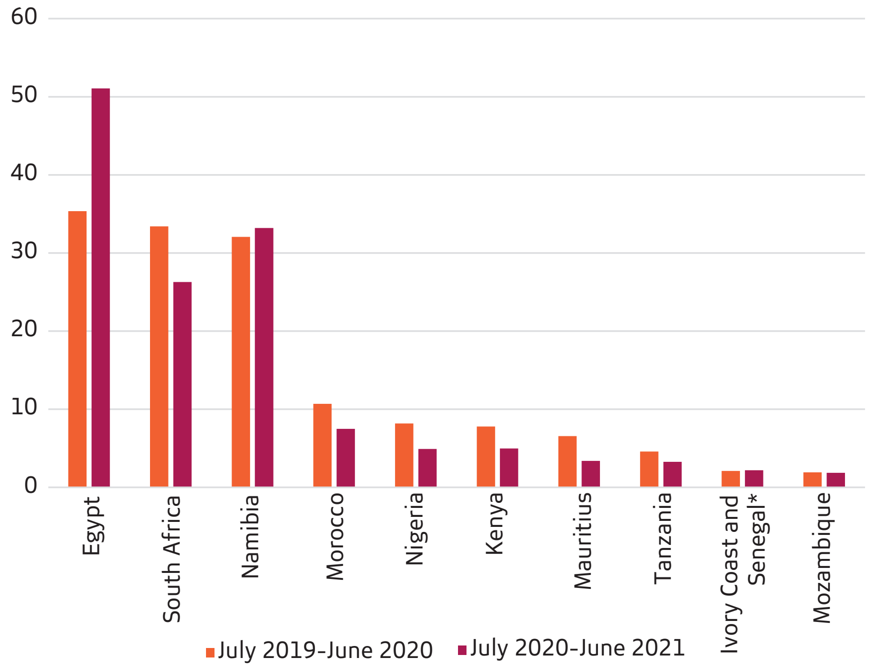
Market size and liquidity

Country	Market capitalisation, % of GDP	Turnover of equities, % of market capitalisation	Total sovereign and corporate bonds listed on exchanges, $bn	Total turnover in bond market, % of listed bonds outstanding
South Africa	427.0	26.3	258.0	246.1
Botswana	231.6	0.2	2.1	16.1
Seychelles	149.0	0.2	0.2	0.0
Mauritius	78.6	3.4	0.9	4.0
Morocco	62.8	7.5	0.8	3.7
Rwanda	36.6	0.6	0.8	4.8
Senegal	35.7	2.2	12.5	2.7
Malawi	28.0	2.3	1.0	0
Kenya	25.3	5.0	26.6	30.0
Namibia	18.1	33.2	3.6	5.5
Uganda	15.9	0.1	5.1	0
Ghana	15.6	1.1	26.9	109.9
Zambia	14.4	0.4	5.9	266.5
Ivory Coast	14.2	2.2	12.5	2.7
Egypt	11.7	51.1	116.9	20.1
Nigeria	11.7	4.9	46.0	131.5
Tanzania	11.4	3.3	6.4	15.1
Eswatini	7.5	1.5	0.5	0.2
Mozambique	1.9	1.9	1.6	5.9
Cameroon	0.2	0.9	1.5	0
Angola	0	0	6.4	28.0

Source: AFMI survey 2021, national central banks, national stock exchanges, national capital market authorities, IMF, World Federation of Exchanges, OMFIF analysis.

Figure 1.3: Egyptian Exchange bucks downward trend

Total equities turnover, % of market capitalisation, top 10 most active exchanges



Source: National central banks, national stock exchanges, national capital market authorities, IMF, World Federation of Exchanges, OMFIF analysis *Note: Ivory Coast and Senegal are among eight countries that comprise the regional stock exchange, Bourse Régionale des Valeurs Mobilières.

Pictured: Train tracks in Muizenberg Beach, South Africa

'Nine countries in the index have introduced products that can be classified as green or sustainable. Green bonds are the most popular instrument, being at investors' disposal in seven countries.'

line with Kenya's efforts around financial inclusion, the CSD technology is being tailored to give access to all market participants, including retail investors.

Regulatory authorities in the region have created master plans to guide capital market development and orderly growth. In May, Ghana launched its capital market master plan with an enhancement path for the next 10 years. Zambia unveiled a 10-year master plan and the Securities and Exchange Commission is finalising its strategic plan for 2022-27.

Ethiopia reached an important milestone in efforts to establish its capital market. In June, the parliament unanimously approved and enacted the capital markets establishment proclamation. The Ethiopian Capital Markets Authority is expected to become operational before the end of this year, paving the way for the joint partnership between the government and the private sector to constitute the securities exchange.

Sustainability-focused products

Many survey respondents raised the lack of product diversity as one of the most significant challenges to capital markets in the region. A global focus on sustainable finance has led to the introduction of green financial products across the world, and countries in the index are following suit. The availability of these products in the domestic markets is a new indicator forming part of countries' Pillar 1 scores.

Nine countries in the index have introduced products that can be classified as green or sustainable. Green bonds are the most popular instrument, being at investors' disposal in seven countries. Kenya and Morocco score highest in this indicator for having green or sustainable bonds, equities and mutual funds in their markets. Additionally, Kenya has issued ethical securities to fund socially responsible investment opportunities. In March of this year, the Banque Centrale Populaire group in Morocco launched the gender bond programme, the country's first project to finance female entrepreneurs and self-employed women.

Figure 1.4: Nine countries actively moving towards sustainable capital markets

Availability of sustainable finance products on exchanges or OTC

Country	Green bonds	Other sustainable bonds	Green/ sustainable equities	Sustainable ETFs	Sustainable mutual funds
Kenya	✓	✓	✓		✓
Morocco	✓	✓	✓		✓
Mauritius	✓	✓	✓		
South Africa	✓	✓		✓	
Ghana		✓		✓	
Egypt	✓				
Namibia	✓				
Nigeria	✓				
Seychelles		✓			

Source: OMFIF Absa survey 2021

Partnerships and integration

In addition to broadening available products, countries have developed various strategies to increase participation in their domestic capital markets. As part of its internationalisation strategy, the Botswana Stock Exchange partnered with Bloomberg to attract new issuers and investors. Bloomberg will include floating content about the exchange with a direct link to the relevant information on its website. The Ghana Stock Exchange partnered with the London Stock Exchange to support Ghana's capital market development. This partnership will focus on upgrading Ghana's classification from a frontier to an emerging market and supporting cross-listings between both exchanges.

Countries are also doubling their efforts to be part of globally recognised indices to put their

Digital developments in financial markets

Increased digitalisation, fintech innovation and exploration into central bank digital currencies are spurring on financial market transformation.

Automation and digitalisation of trading platforms and regulatory processes

Digital technologies are reshaping financial markets in many countries. Beyond improving accessibility, digital innovations can make capital markets more efficient and competitive, attracting investors and issuers.

- The Bank of Mauritius launched the FSC One platform, an integrated innovative digital system that helps track applications' authorisation process.
- The Central Bank of Rwanda developed eSub, a platform enabling people to buy and sell government securities using their mobile devices.
- In Seychelles, Merj Exchange has an online listing process that does not require the submission of physical documents.
- Nigeria's Securities and Exchange Commission licensed Chaka, the first digital trading platform.
- The Bank of Zambia aims to develop an online government securities application platform.
- The Johannesburg Stock Exchange is developing a digital private placements platform for raising capital for infrastructure finance and small- and medium-sized enterprises.
- The Eswatini Stock Exchange is in the process of launching an automated trading system.
- Kenya will soon start the user-testing phase for its upgraded central securities depository, which will provide a web-based centralised registry for sovereign securities.
- The Malawi CSD is being enhanced to include an investor portal that enables access to accounts and portfolio investments in real time.

Regulatory sandboxes for fintech and innovation

Regulatory sandboxes can serve as an evidence base for regulation, allow new firm entry, strengthen competition and encourage market innovation by providing a testing environment for pioneering products and services.

- Zambia's SEC launched a capital markets sandbox.
- Nigeria's SEC launched FinPort, a fintech and innovation portal to assist fintech businesses to understand the regulatory requirements for the Nigerian capital market. The SEC will also be rolling out a regulatory incubator for fintech seeking to conduct capital market activities.
- The central banks of Angola, Eswatini and Ghana launched payments-focused sandboxes.
- The Bank of Uganda issued its legal framework for a national payments systems regulatory sandbox.
- The Bank of Ghana established a new desk called the Fintech and Innovation Office to drive cash-lite, e-payments and digitalisation.
- Kenya's Capital Markets Authority used its sandbox regulatory regime to conduct innovation testing of digital platforms.

Digital currencies and assets

Central banks are exploring the possibility of issuing central bank digital currencies. Several index countries have initiated research and development projects. The central banks of Ghana, Kenya and Rwanda are researching the potential benefits of CBDC in promoting payments system efficiency and stability, fostering competition in the financial sector and boosting economic growth.

CBDC projects are further advanced in Nigeria, Mauritius and South Africa. The Central Bank of Nigeria announced the engagement of a technical partner for the introduction of its digital currency, called eNaira, later this year. South Africa recently announced the testing of CBDCs for cross-border payments. In 2020, Mauritius amended its legislation to make the CBDC a legal tender and is now developing legislation to govern virtual assets. The central bank also developed a licensing structure for custodians and standards for issuing security tokens.

capital markets on the radar of international investors. In January 2021, Mauritius was admitted to the Bloomberg African bond index. In June, Egypt was included in the FTSE Frontier Emerging Markets Government Bond Index. It is working towards moving from JP Morgan's watch list to its government index for emerging markets.

Some countries have already made significant achievements in luring investors back. In August, Rwanda raised $620m through a 10-year eurobond, which was oversubscribed with orders of $1.6bn. A respondent from Uganda shared that 'By June 2021, non-resident holdings in government securities had a year-on-year increase of 140.6% compared to a year-on-year increase by June 2020 of 36.8%.'

On 13 November, the 30-day grace period that Zambia had to comply with a coupon payment on its $1bn eurobond, which was due on 14 October, ended. After being labelled Africa's first bond default in the pandemic, the country has made significant strides in winning investors' confidence back. On its latest monetary policy committee statement, the Bank of Zambia reported a surge in demand for government bonds, which reached a subscription rate of 162%, a rise of 96 percentage points from the rates seen in the first quarter. Non-resident investors represented 70% of this increased demand for government bonds. International investors' holdings of government securities more than doubled, reaching 25% of outstanding sovereign securities in June 2021, up from 13% reported in March. According to the central bank, 'This was mostly on the back of high yield rates and improved investor sentiments following the credit rating upgrade by Fitch in April 2021.'

Integration efforts in the region are not only aimed at widening the investor base but also, in the words of a survey respondent, 'at unlocking Pan-African investment flows, promoting innovations that support diversification for investors and addressing depth and liquidity in the markets.' The African Exchanges Linkage Project reached an important milestone in July of this year when the African Securities Exchanges Association signed the contract to procure an order-routing system, bringing cross-border trading one step closer to realisation. Similarly, the Economic Community of West African States is planning to link up debt markets by the end of 2023 to allow debt auctions from any country to be open to investors from the bloc. Ghana's Securities Exchange has shared that regulators and stock exchanges from ECOWAS are currently developing a system to enable brokers to trade across the different markets of the group.

Figure 1.5: Stock exchanges using technology to boost retail participation

Countries with digital platforms for retail securities trading

Country	Mobile application	Online trading
Angola		✓
Botswana	✓	
Eswatini	✓	✓
Ghana		✓
Kenya		✓
Mauritius		✓
Morocco		✓
Nigeria	✓	
Rwanda		✓
Seychelles	✓	✓
Tanzania		✓
Uganda		✓
Zambia	✓	✓

Source: AFMI survey 2021

Figure 1.6: African central banks considering digital currency

Countries with CBDCs in either research or development phase

Country	Type of CBDC		
	Retail	Wholesale	Undecided
Eswatini	✓	✓	
Ghana	✓		
Kenya	✓		
Mauritius	✓	✓	
Morocco	✓		
Nigeria	✓		
Rwanda			✓
South Africa	✓	✓	

Source: AFMI survey 2021

Pillar 2: Access to foreign exchange

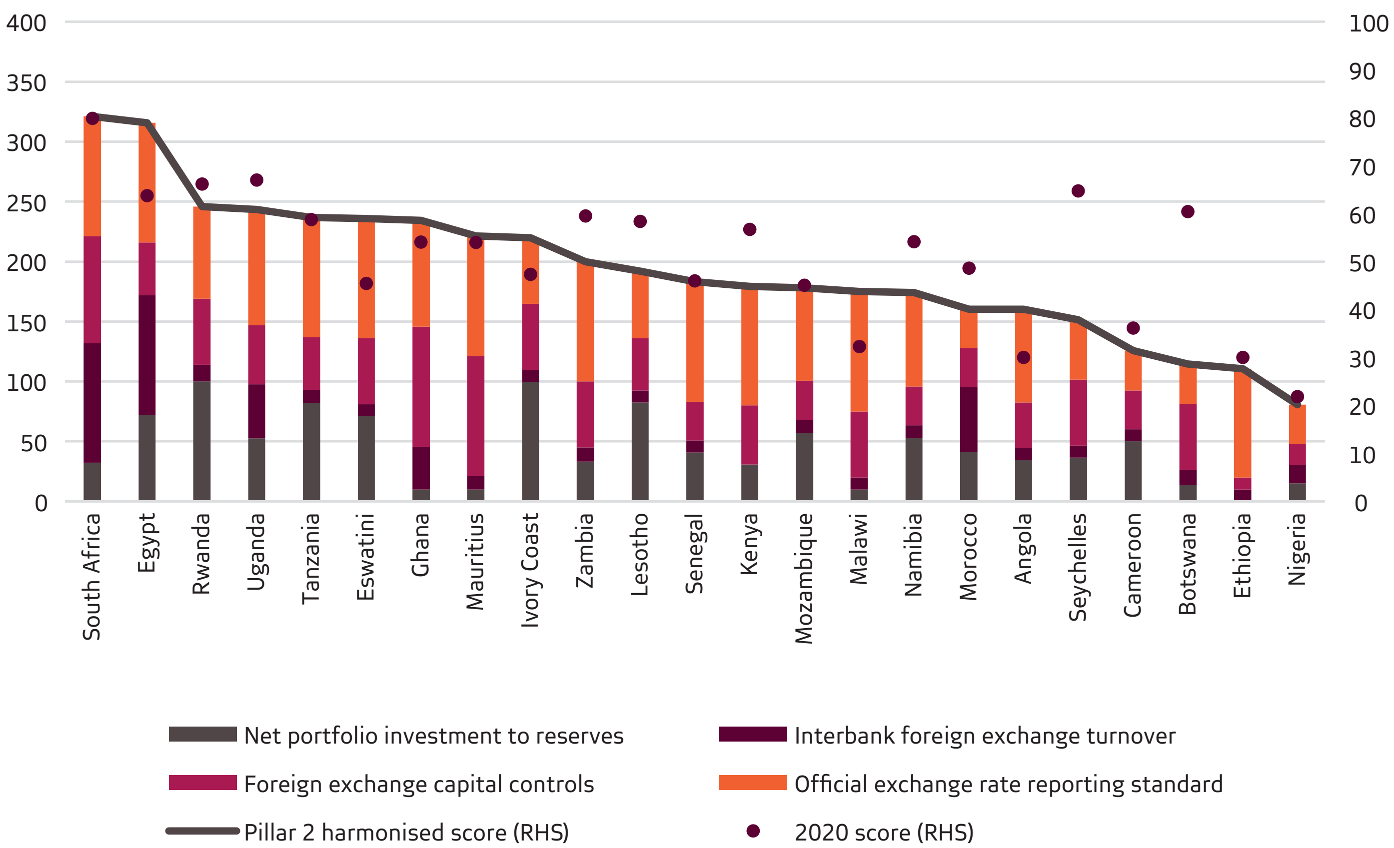
Pictured: Hot air balloon, Sossusvlei in Namibia

Managing volatility

Responsive interventions, debt issuance and support from international financial institutions proved crucial in maintaining foreign exchange liquidity in a turbulent environment.

Figure 2.1: FX liquidity challenges dampened countries' performance

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



Sources: International Monetary Fund, national central banks, AFMI survey 2021, OMFIF analysis.

Note: The harmonised score represents the average of all Pillar 2 indicators and is used to compile the total scores for Pillars 1 to 6. More information on p.42-43. The Central Bank of Kenya does not publish figures for interbank foreign exchange turnover.

Pillar 2 examines factors that impact markets' accessibility to international investors. These include the existence and severity of capital controls, exchange rate reporting standards and the level of foreign exchange liquidity. This pillar also assesses countries' ability to manage volatility resulting from openness. This is measured by central banks' readiness to meet the demand for currency by looking at the ratio of net portfolio flows to reserves.

On average, country scores declined by 2.8 points in this pillar, partly due to weaker reserve positions relative to net portfolio flows. Nonetheless, budget support from international financial institutions helped governments meet their FX liquidity needs and buffer reserves against the pandemic shock.

South Africa maintains its lead in this pillar. An outlier with the most active interbank FX market, South Africa had annual turnover of $3.5tn. Egypt ranks second place but, with annual turnover of $55.2bn, the gap between the two countries is significant. High interbank FX activity provides several benefits, including more accurate exchange rates for domestic rates and a greater flow of FX through the official market.

Before the pandemic hit, Egypt implemented measures to restore macroeconomic balance and increased reserves to an all-time high. Floating the exchange rate prevented currency overvaluation and FX shortages. Following a significant decrease in net portfolio investments and a subsequent drop in reserves, the ratio of the two fell to 3% from 25.7%. The buffer in reserves suggests that Egypt will have sufficient cover even when net portfolio flows increase.

Despite a decline in its interbank FX market turnover, Ghana climbs five positions in Pillar 2. Ghana's performance was driven mainly by more frequent official exchange rate reporting and wider adoption of the FX Global Code. Its current account deficit widened marginally to 3.1% of GDP, as lower oil exports were offset in part by higher gold prices, robust remittances and fewer imports. In 2020, the Ghanaian cedi remained relatively stable against the dollar due to reduced FX demand, structural changes such as the increased use of forward FX auctions, and limited central bank interventions to smooth sharp exchange rate changes to protect reserves.

'On average, country scores declined by 2.8 points in this pillar, partly due to weaker reserve positions relative to net portfolio flows.'

Managing foreign exchange liquidity needs

The Covid-19 pandemic disrupted FX markets and global capital flows, necessitating interventions in some countries to smooth excessive market volatility and restrict capital outflows.

Uganda continues to do well in Pillar 2 but drops two places to fourth this year. Amid the global financial market turbulence in 2020, the Bank of Uganda intervened in the currency market by selling around $200m in FX, causing the shilling to appreciate. The Bank of Uganda authorised the inclusion of FX swaps in the monetary policy toolkit to increase access to foreign currency and moderate exchange rate volatility.

Following a significant shortage of FX resulting from a decline in tourism activities, the Bank of Mauritius intervened in the FX market to provide much-needed liquidity. The country's total portfolio investment flows to reserves decreased to 79.8% from 86.6% as net portfolio flows fell faster than reserves. Several amendments to the Securities Act were enacted as the country sought to attract more foreign investors. The laws now permit retail investors and the registration of foreign funds whose assets are marketed to retail investors in or from Mauritius. Foreign reporting issuers are also no longer required to be registered with the Financial Services Commission.

Nigeria continues to perform poorly in this pillar. It imposed administrative controls by expanding the number of goods subject to import restrictions, enforcing existing export repatriation rules and restricting FX supply to certain windows. While these measures restricted capital outflows and helped keep reserves stable, market liquidity remained below pre-pandemic levels. Due to the control measures and global macroeconomic imbalances, foreign portfolio investors' appetite remained subdued. The volatile FX market and the delays in the repatriation of foreign currency out of Nigeria caused further problems. Despite a rebound in oil prices and remittances, the FX shortage persists as imports recover faster than exports. All these factors contributed to Nigeria's poor performance in Pillar 2.

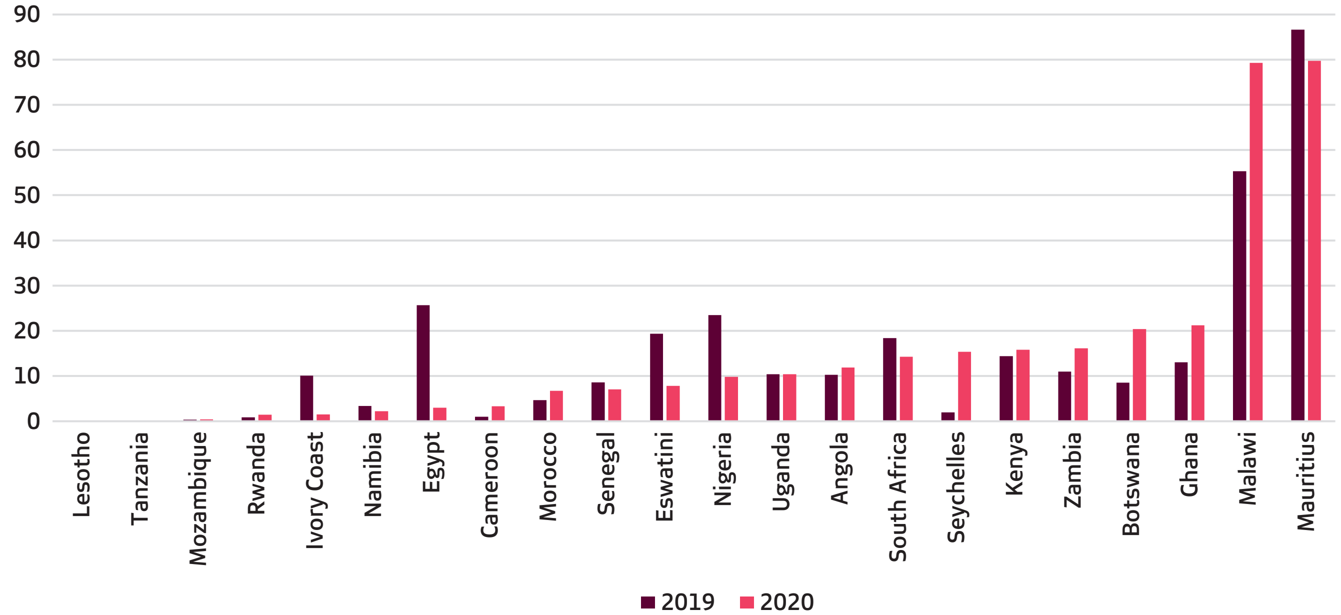
Emergency funding cushioning the impact of shocks on reserves

Credit facilities from international financial institutions and bond issuers have been crucial in cushioning the impact of the pandemic and boosting FX reserves for many index countries. Reserves for many countries increased. Morocco had the largest increase of 37%, resulting from quick access to emergency funding from donors, including $3bn from the International Monetary Fund and $460m from the African Development Bank. Morocco issued a €1bn eurobond in September 2020, which also boosted reserves.

Eswatini, one of the smallest economies in the index, has the lowest level of international reserves among countries covered. Following budget support inflows, Eswatini's reserves grew by 24% to $545.6m from $440.3m. It received emergency financial assistance of around $110.4m from the IMF to meet the balance of payment needs. Before the pandemic, the current account surplus narrowed and international reserves were declining amid increased portfolio investments. Notably, the increase in reserves along with a fall in total portfolio investments reduced Eswatini's total portfolio investment flow to reserves ratio to 7.8% from 19.4%. This performance lifts Eswatini by nine places, the

Figure 2.2: Malawi experiences sharp drop in reserves

Net portfolio investment to reserves, %



Sources: IMF, national central banks, OMFIF analysis

'Credit facilities from international financial institutions and bond issuers have been crucial in cushioning the impact of the pandemic and boosting FX reserves for many index countries.'

largest improvement in Pillar 2 this year. Other countries with increases in international reserves of over 20% include the West African Economic and Monetary Union (22%) and Rwanda (23%).

Despite financial support, reserves for several index countries could not withstand the pressures caused by the pandemic. Malawi's reserves shrank by 30% to $575m in 2020, the most significant drop in reserves among index countries. As a result, Malawi's total portfolio investment flows to reserves ratio increased significantly, signalling potential difficulty in meeting foreign currency demand from investors.

Angola's reserves were impacted by both the pandemic and a drop in oil prices. Angola's exports fell by 20% in 2020 due to a significant drop in oil prices and decreasing oil output earlier in the year. A subsequent rebound in prices in late 2020, along with substantial import contraction due to the kwanza's real depreciation, led to a modest current account surplus. Angola's implementation of a floating exchange rate system in 2019 and minimal FX intervention aided in the response to shocks in 2020. According to a survey respondent, 'The flexibilisation of the capital account by the Banco Nacional de Angola in 2019 created a favourable environment for foreign investors by allowing the free repatriation of capital without the need for authorisation from the central bank.' These developments helped Angola rise by three places in Pillar 2.

Seychelles and Botswana dropped the most in the rankings, both falling by 15 places. Before the pandemic, Botswana was dealing with adverse external shocks such as falling diamond prices and adjustment delays, which resulted in a substantial loss in reserves. The pandemic exacerbated these problems, causing a significant drop in GDP and widening the current account deficit. As a result, reserves dropped considerably though remaining well over adequate levels.

A tourism-dependent economy, Seychelles experienced severe exchange rate volatility in 2020. A survey respondent stated that they consider FX risk as the most significant challenge to Seychelles' capital markets in the coming year. Reserves dropped for the first time in four years in 2020, although remaining within an adequate range, as net capital and financial inflows fell short of the current account deficit.

Pillar 3: Market transparency, tax and regulatory environment

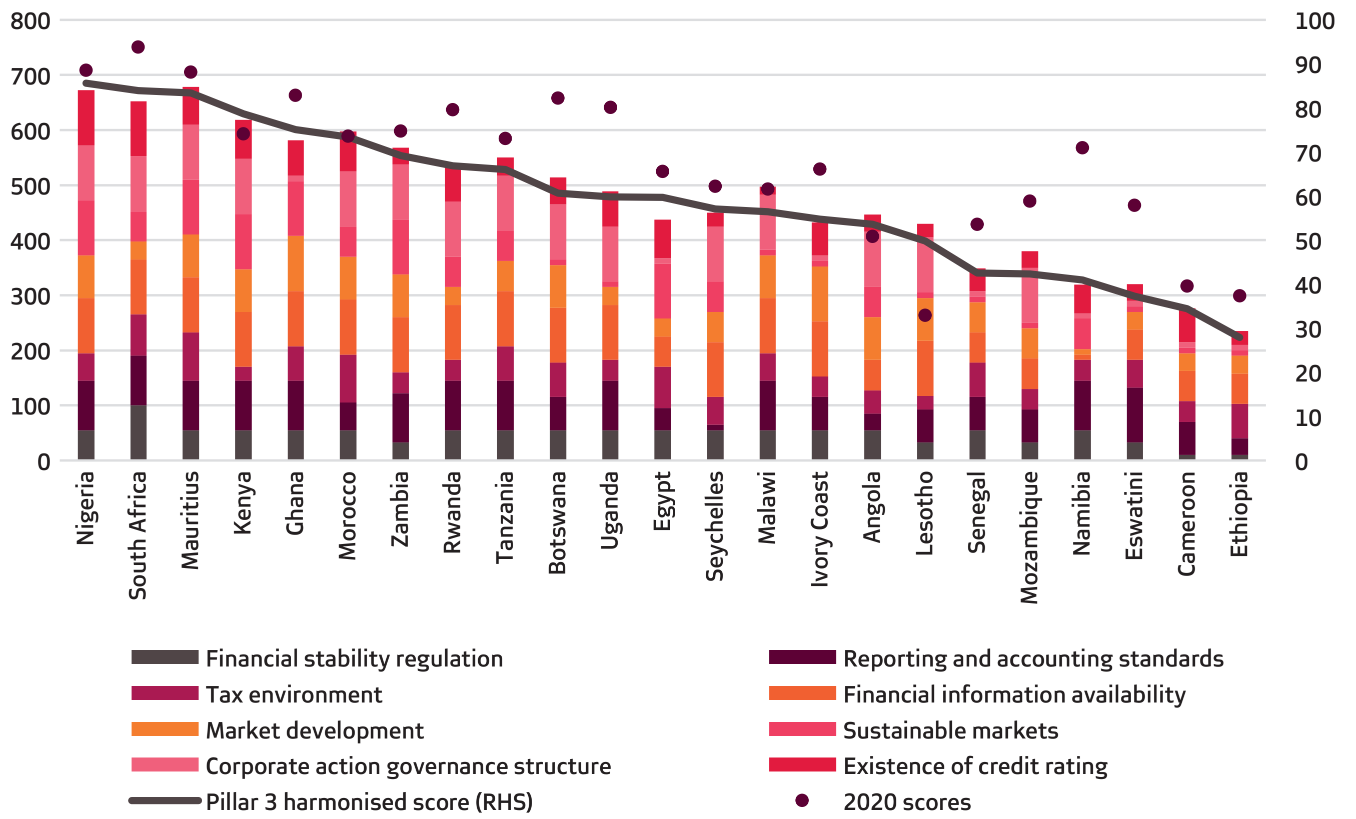
Pictured: Fishermen in Vilankulo, Mozambique

Slow sustainable development

New indicators for ESG factors and sustainable market development significantly impacted scores in this pillar.

Figure 3.1: Scores drop due to lower marks on market development and introduction of ESG metrics

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



Sources: Bank for International Settlements, International Financial Reporting Standards, Deloitte International Accounting Standards Plus, Trading Economics, GCR Ratings, AFMI survey 2021, OMFIF analysis.

Note: Category scores (LHS) provide the average of indicator scores within each category. The harmonised score (RHS) represents the average of all Pillar 3 indicators and is used to compile the total for Pillars 1-6. More information on p.42-43.

Pillar 3 scores countries on the conduciveness of the regulatory environment for local and foreign investment, gauged through tax incentives, reporting standards and market transparency. On average, scores fell by 8.2 points.

Part of the score deterioration is due to lower marks in capital market development, which gives points based on survey respondents' assessment of relevant initiatives being undertaken in their jurisdiction. Nigeria moves up one place to the top of the pillar, narrowly overtaking South Africa. Nigeria's Securities and Exchange Commission is in the process of updating its ten-year capital market master plan, which spans from 2015-25, to reflect changes in market and economic conditions.

Another reason for the overall decline in scores is the introduction of new indicators on environmental, social and governance factors, scoring countries based on policies that support the development of sustainable markets. The index also incorporates climate stress testing as one of the financial stability indicators, an indicator where only South Africa earned points. Ten countries earned minimal points on all three new indicators, suggesting that, despite the prominence of sustainability in financial sector discourse, more needs to be done to integrate ESG into financial policies across the region.

Kenya improves the most, moving up five places after scoring better on financial information availability and market development, as well as being one of only six countries that earned full marks on sustainable markets. A survey respondent highlighted the introduction of a securities lending and borrowing framework to boost liquidity in the Nairobi Securities Exchange. The Capital Markets Authority works closely with other stakeholders on different market enhancements, including establishing electronic OTC secondary market trading platforms and developing Kenya's green bond programme.

Incentivising investment

Mauritius and Morocco tie with top marks for their tax regimes once again.

'Ten countries earned minimal points on all three new indicators, suggesting that, despite the prominence of sustainability in financial sector discourse, more needs to be done to integrate ESG into financial policies across the region.'

Figure 3.2: Ghana offers investors generous tax rates
Witholding tax rates, %

Country	Withholding tax rates: Dividends	Withholding tax rates: Interest	Tax treaties
Mauritius	0	15	45
Morocco	15	10	52
Egypt	10	20	59
South Africa	20	15	78
Tanzania	5	10	9
Ghana	8	8	12
Ethiopia	10	10	25
Botswana	10	15	19
Senegal	10	16	18
Nigeria	10	10	14
Malawi	10	15	6
Eswatini	15	10	7
Seychelles	15	15	28
Angola	10	15	1
Mozambique	10	20	9
Rwanda	15	15	9
Ivory Coast	15	18	12
Uganda	15	20	9
Cameroon	16.5	16.5	6
Namibia	20	10	11
Zambia	20	20	21
Kenya	15	25	14
Lesotho	25	25	5

Source: Deloitte, OMFIF analysis

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

Both countries have a high number of double taxation treaties, and Mauritius has tax exemptions for dividends. The number of tax agreements in 14 countries increased, signalling that countries are recognising the importance of incentivising foreign investment through tax concessions. Zambia entered into 10 additional tax treaties, the biggest increase in the index, helping it move up one places.

Earlier this year, the Ghanaian parliament passed legislation for its tax waiver on capital gains for listed securities, making permanent the incentive they established in 2020. In Egypt, non-residents have been exempted from taxes on capital gains from treasury bonds.

Survey respondents highlighted the less favourable tax regime in Uganda, where the withholding tax rate on interest and dividends for non-residents is at the higher end at 20% and 15%, respectively. Botswana, meanwhile, increased its withholding tax rates on dividends to 10% from 7.5%.

Transparency and the availability of financial information help investors gain confidence in markets they plan to enter. Nearly all countries score full marks on the timeliness of financial market reporting, except for Namibia where there are no scheduled reporting requirements. Despite this, respondents in several countries expressed concern about the quality of financial reporting. One respondent in Nigeria noted that, 'The quality of financial reporting is still low and the poor oversight by regulators has done little to improve this.' Another respondent from Uganda stated that there is 'poor enforcement of financial reporting standards for companies as prescribed in the Companies Act.'

Mozambique made progress in adopting International Financial Reporting Standards, as it now requires this for listings by foreign companies. Since the index started in 2017, respondents from different countries have consistently flagged the lack of sufficient audit capacity to ensure proper implementation. One respondent this year said, 'As the jurisdiction moves to adopt IFRS reporting, there is a need to have more auditors with the capacity to audit to such standards.'

Sovereign and corporate credit ratings help investors gauge market environments. The pandemic prompted a wave of negative credit rating actions since its onset, but the index scores countries on whether or not they have a non-default sovereign rating. Angola, Ethiopia, Mozambique and Zambia lose points for not having ratings from all three of the three international ratings agencies.

The number of corporate ratings in index countries went down to 179 from 205. The biggest decrease was in South Africa, where 27 corporates lost their ratings, although it still has the highest number with 66. Egypt and Morocco each had four additional corporates rated. Tanzania had two, while Botswana, Ghana and Kenya had one each. The total number of ratings given by regional ratings agency GCR went down to 458 from 523. The number of ratings for Nigeria went up by 15, while Namibia's increased by three.

Encouraging sustainable markets

Greening capital markets could be key to attracting investors looking for alternative asset classes, while enabling countries to finance sustainable projects. Some countries have introduced incentives and regulatory guidelines to support the development of sustainable finance products. In certain jurisdictions, listed companies are encouraged to integrate information on environmental, social and governance factors in their reporting.

Zambia reduced the registration fees for green instruments by 50% and published guidance for the issuance of green bonds. Nigeria issued similar guidance in 2018, prompting the issuance of corporate and sovereign green bonds.

More recently in June, the Bank of Mauritius released guidelines for the issuance of sustainable bonds. One respondent said that 'The guide on sustainable bonds provides an overview of the requirements and process for the issuance of sustainable bonds and the listing of these bonds on the Stock Exchange of Mauritius... It not only seeks to ensure the integrity of the sustainable financing ecosystem in Mauritius but also to prevent greenwashing'. The SEM also has a sustainability index that tracks the performance of listed companies based on ESG metrics.

To encourage activity in the green bond market, Kenya implemented tax exemptions for interest earned. The Ghanaian National Pensions Regulatory Authority released guidelines for incorporating ESG factors in investment decisions. Up to 5% of a pension scheme's assets under management invested in green bonds will not count towards its maximum allocation for securities.

Botswana, Morocco and Nigeria are among the countries that have guidelines for listed companies on reporting ESG information to investors. Ghana is working with the Global Reporting Initiative to introduce sustainability reporting in its market by the end of the year.

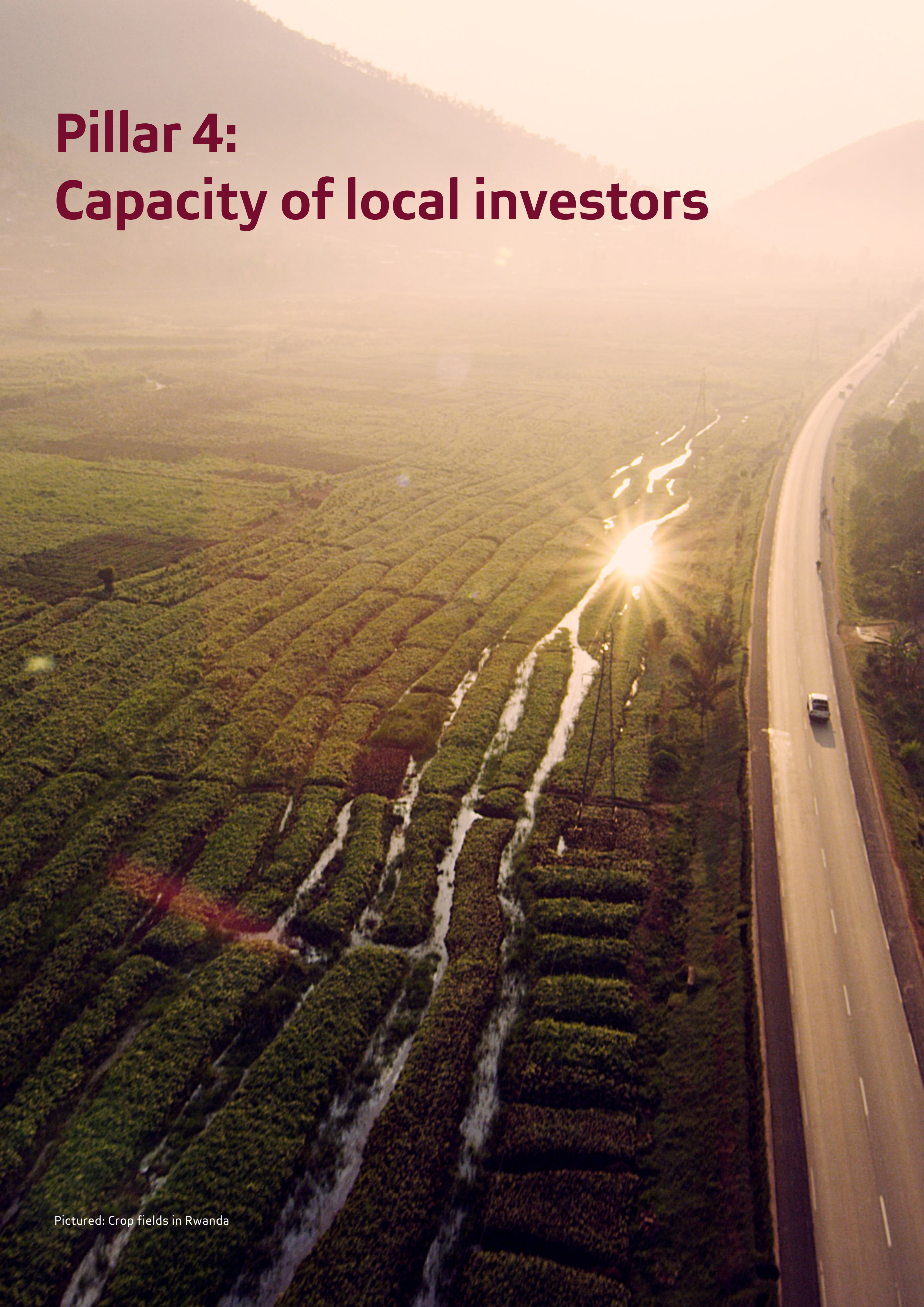
Figure 3.3: Over half of index countries score on ESG indicators

Existence of sustainability-focused policies

Country	Incentives for issuing ESG assets	Initiatives integrating ESG into financial market standards	Climate stress testing
Egypt	✓	✓	
Ghana	✓	✓	
Kenya	✓	✓	
Mauritius	✓	✓	
Nigeria	✓	✓	
Zambia	✓	✓	
Morocco	✓		
Rwanda	✓		
Tanzania	✓		
South Africa	✓	✓	✓
Angola		✓	
Namibia		✓	
Seychelles		✓	

Source: AFMI survey 2021

Pillar 4: Capacity of local investors



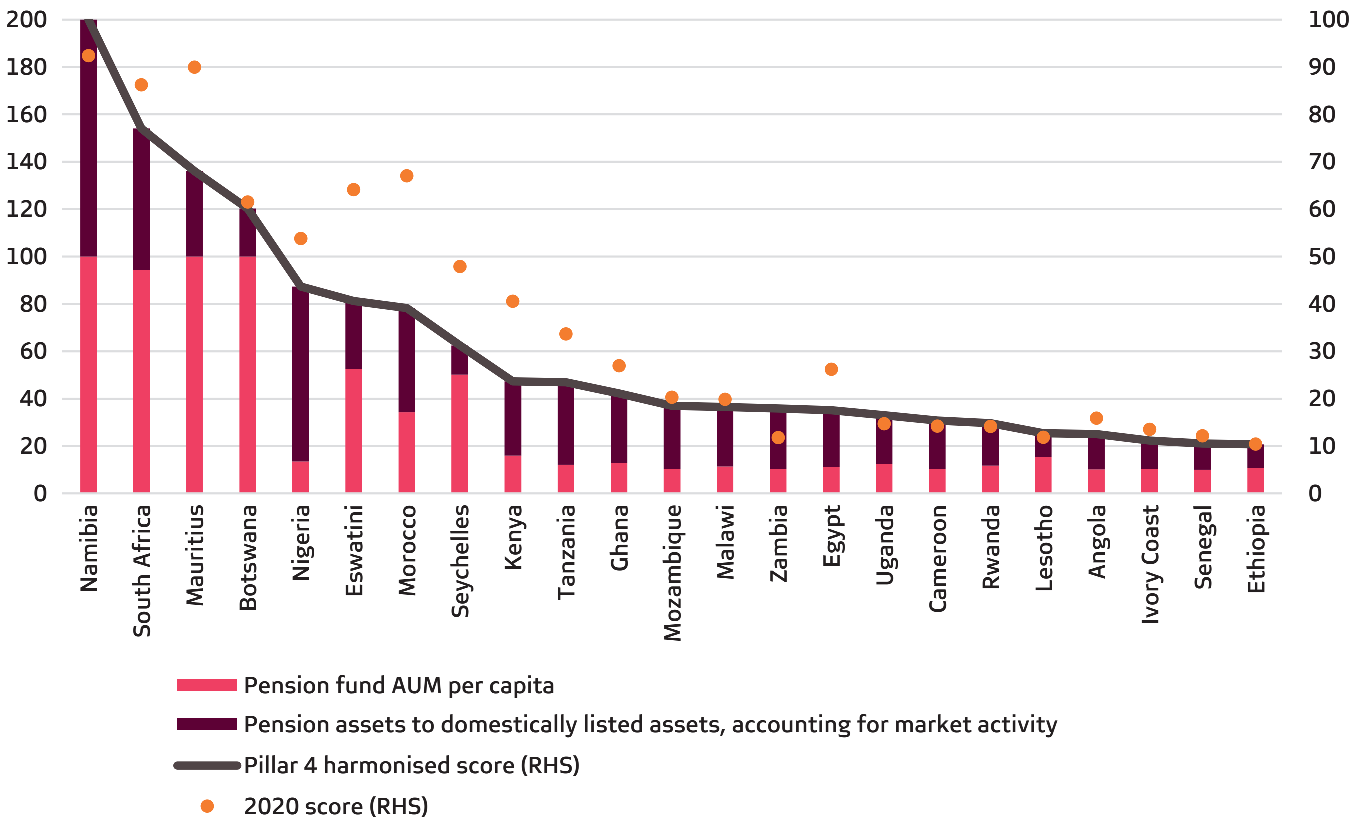
Pictured: Crop fields in Rwanda

Driving domestic market growth

Institutional investors play a significant role in local investment because of the magnitude of assets they hold, with the pandemic demonstrating their importance as domestic market participants.

Figure 4.1: Lower pension fund assets pull down scores

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



Source: African Development Bank, Organisation for Economic Co-operation and Development, IMF, national securities exchanges, national central banks, national pension regulators.

Note: The harmonised score (RHS) represents the average of both Pillar 4 indicators and is used to compile the total scores for Pillars 1-6. More information on p.42-42.

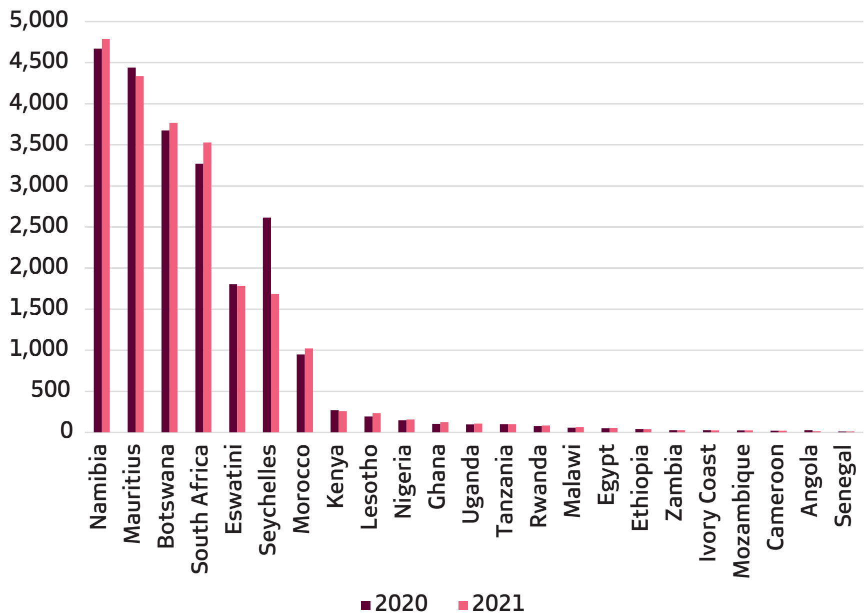
‘The need to ensure that local investors have sufficient resources for capacity building is constant, especially as markets grow and new asset classes emerge.’

Pillar 4 evaluates local investor capacity based on the size of the pension fund market and its potential to drive market activity. Collectively, country scores dropped by 6.3 points, with 17 countries falling down the rankings. Aggregate pension fund assets in the index declined by 1.9%, with 11 countries reporting lower figures for 2020.

Maintaining its lead from last year, Namibia earns full points in this pillar for having the largest pool of pension assets relative to the population. Southern African economies score well on pension assets per capita. Namibia, Botswana, South Africa and Eswatini are all in the top five for this indicator, along with Mauritius. The early establishment of pensions systems in these countries, as well as proximity to the Johannesburg Stock Exchange, enabled funds to build up sizeable assets compared to others in the region. Around a fifth of Namibia’s pension assets are invested in the common monetary area, which it shares with South Africa, Eswatini and Lesotho.

Figure 4.2: Southern African economies have higher pension assets per capita

Pension fund AUM per capita, $



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

Namibia’s ratio of pension fund assets under management against listed securities is second only to Eswatini, but it scores higher for having a far more liquid market. In this indicator, pension assets are weighted by local market liquidity to reward countries with high domestic trading and discourage buy-and-hold strategies.

Namibia’s government mandates pension funds to invest at least 45% of assets domestically. The Namibia Financial Institutions Supervisory Authority credits this regulation for making pension funds the largest investors in the domestic market. Namfisa reported that funds’ local investment holdings had grown to 44.6% of total pension assets by end-2020. While this is still slightly short of the requirement, it is an improvement from the previous year, when retirement assets invested locally were 41.1% of the total.

South Africa moves up one place to second, with its pension assets per capita increasing by 7.9%. It loses points due to its securities market growth outpacing that of pension assets, but manages to overtake Mauritius, which moves down to third. While Pillar 1 encourages market growth, Pillar 4 emphasises the need to grow the pool of domestic assets alongside this. South Africa’s $115.8bn Government Employees Pension Fund has 90% of its portfolio invested in domestic assets.

Both Namibia and South Africa, as with the other pension funds in the region, have primarily invested in traditional assets. Both countries have the largest share of their assets in listed equities. Namibia’s pension sector collectively held 51.8% in listed shares last year. South Africa’s Public Investment Corporation, which manages GEPF, allocates 80% of AUM to listed assets, contributing 12.5% to the Johannesburg Stock Exchange’s market capitalisation.

Diversifying and building capacity

At the end of 2020, three-quarters of Ugandan pension assets were held in government securities. Its pensions market is small compared to other countries in the index, but it is taking steps to improve its impact on the local securities market. Pension funds have been allowed to invest in real estate investment trusts, and regulators are training trustees to encourage them to move away from traditional asset classes.

Encouraging pension funds to explore new forms of investment requires building their familiarity with different investment instruments. Survey respondents' feedback on pension fund trustees' investment skills and competencies are mixed, although regulators and other industry stakeholders are working to improve this.

A respondent from Ghana stated that many trustees in their jurisdiction come from commercial banking backgrounds and lack sufficient knowledge of capital markets. They tend to have a short-term view of investments, making them more risk-averse and unlikely to invest in unfamiliar sectors. Another survey participant from Botswana said that their trustees have yet to adopt active management strategies.

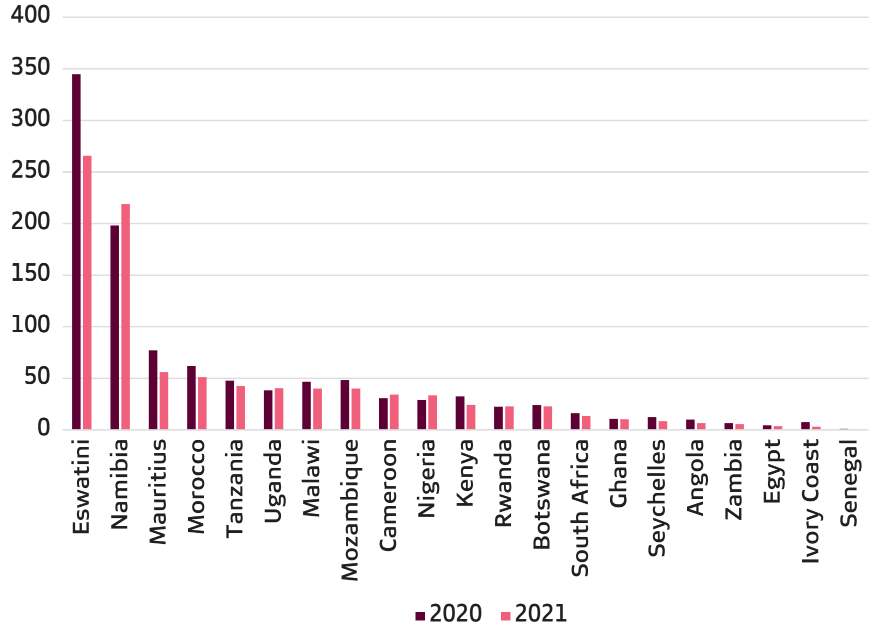
Respondents that rate their local pension fund trustees highly added that, even if these individuals are competent and knowledgeable, they also rely on service providers and investment consultants for direction. A respondent from Mauritius pointed out that effective pension boards are those that work with licensed investment advisers in allocating assets.

Alignment among different stakeholders on capital market development goals can be beneficial to increasing participation in the local market. Kenya's Capital Market Authority undertakes capacity-building initiatives for different groups, including pension and insurance schemes. The Moroccan economic and finance ministry established a capital markets committee composed of regulators and industry groups, including the supervising body for pension funds, to develop a consolidated development strategy.

The need to ensure that local investors have sufficient resources for capacity building is constant, especially as markets grow and new asset classes

Figure 4.3: Namibian pension assets growing faster than local market

Pension fund assets, % of listed securities



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

emerge. Pension funds in Ghana are encouraged to invest in sustainable financial products. Up to 5% of a fund's AUM may be invested in green bonds without having it count towards the allowed maximum allocation for fixed income. More funds will move in this direction if trustees and investment managers have the confidence to evaluate new kinds of investment opportunities.

Pandemic pressure

The pandemic put pressure on pension funds to help mitigate socio-economic effects of the crisis, even as they coped with disruption to contributions and loss of membership. Nigeria granted relief to unemployed members, while Ghana had to ease early access to retirement funds through a tax waiver on withdrawals. Disruption also brings about administrative challenges. A respondent from Mauritius stated that there may be under-reporting of pension assets due to relaxation of rules on the submission of audited financial statements.

The long investment horizon of pension funds gives them leeway to withstand some of the pandemic's short-term effects, and a well-managed fund should still be able to meet payment obligations despite shocks. The crisis has shown, however, that the size of local assets can have implications not just on capital market development, but on an economy's ability to respond to crisis.

Countries have been employing financial inclusion strategies to encourage better retirement planning, long-term saving and personal investment. Morocco has adopted an inclusive insurance programme, which encourages the creation of new financial tools that give greater access to social protection and retirement products. Securities exchanges across the continent are launching digital applications that enable retail participation (see Pillar 1), which could help individuals grow their retirement pots. These programmes are especially important in the context of countries with high levels of informal employment and low access to financial services.

Pillar 5:
Macroeconomic opportunity

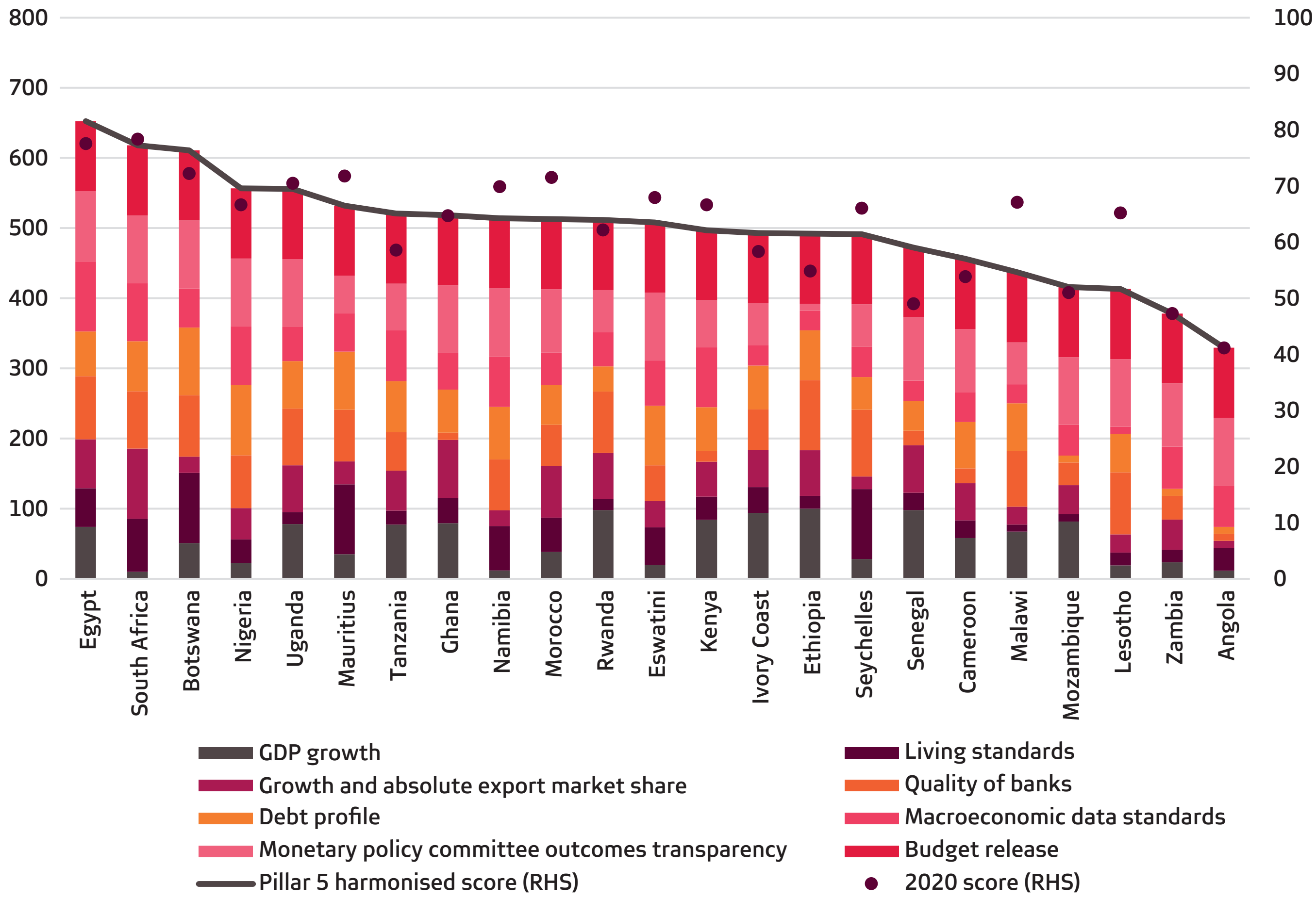
Pictured: Sun setting over Victoria Island, Lagos

Navigating an uneven recovery

Economic recovery from the pandemic is expected to be slow and uneven as countries continue to grapple with the effects of the pandemic. Improvements in fiscal management and governance will be key to a sustainable future.

Figure 5.1: Egypt continues reform-backed growth

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



Source: IMF, World Bank, national central banks, national finance ministries, African Development Bank, OMFIF analysis

Note: The harmonised score represents the average of all Pillar 5 indicators and is used to compile the total scores for Pillars 1-6. More information on p.42-43.

Pillar 5 assesses countries' potential for growth by looking at both macroeconomic performance and quality of governance. Scores for this pillar are calculated using macroeconomic data from end-2020, although transparency indicators are based on information available for mid-2021.

Countries collectively performed best in this pillar, scoring an average of 62. Despite constrained growth and deteriorating credit quality in a number of countries in 2020, improvements in financial and fiscal transparency kept scores steady.

Egypt tops Pillar 5, regaining the lead from South Africa. Egypt is one of the few countries that experienced positive economic growth in 2020 despite the pandemic. In June 2021, the IMF completed the second and final review of Egypt's economic reform programme supported by a 12-month stand-by arrangement. The IMF expects Egypt to rebound strongly over the next five years. Improvements in living standards, a low ratio of non-performing loans and an improved debt profile also contributed to Egypt's performance.

South Africa moves down one place to second in Pillar 5. Despite having higher GDP per capita and a larger export market share than Egypt, South Africa's bank loans deteriorated, and the country continued to experience poor economic growth in 2020.

Tanzania rises nine places to seventh, the largest improvement in the pillar. This performance was driven mainly by expansion in its share of regional exports and improvements in transparency, specifically in communicating monetary policy decisions.

Growth prospects

Ethiopia ranks first for GDP growth, which looks at both historical growth and forecast. In 2020, Ethiopia performed well under the IMF's Extended Credit Facility and Extended Fund Facility with a continued commitment to medium-term macroeconomic reforms while balancing the challenges created by the pandemic and domestic security concerns. Ethiopia moves up two places but remains among the lower-ranked countries at 16th, limited by low scores in living standards, macroeconomic data standards and monetary policy transparency.

Rwanda and Senegal round out the top three in GDP growth, and are expected to grow by 7.4% and 7.1%, respectively, over the next five years. Both countries are projected to rebound stronger than others as they are less dependent on oil and commodities exports. In July 2021, the IMF completed its fourth review under the Policy Coordination Instrument and approved a one-year extension for Rwanda to facilitate macroeconomic and financial stability while advancing reforms under Rwanda's National Strategy for Transformation. The IMF also approved a $650m stand-by arrangement for Senegal and completed the third review under the PCI.

Angola and Namibia score low in economic growth as the pandemic impacts the countries' recovery and macroeconomic outlooks. Angola's medium-term outlook remains challenging and unpredictable with oil output constrained and recovery in non-oil sectors likely to be slow. Meanwhile, lower mining production hampers Namibia's recovery.

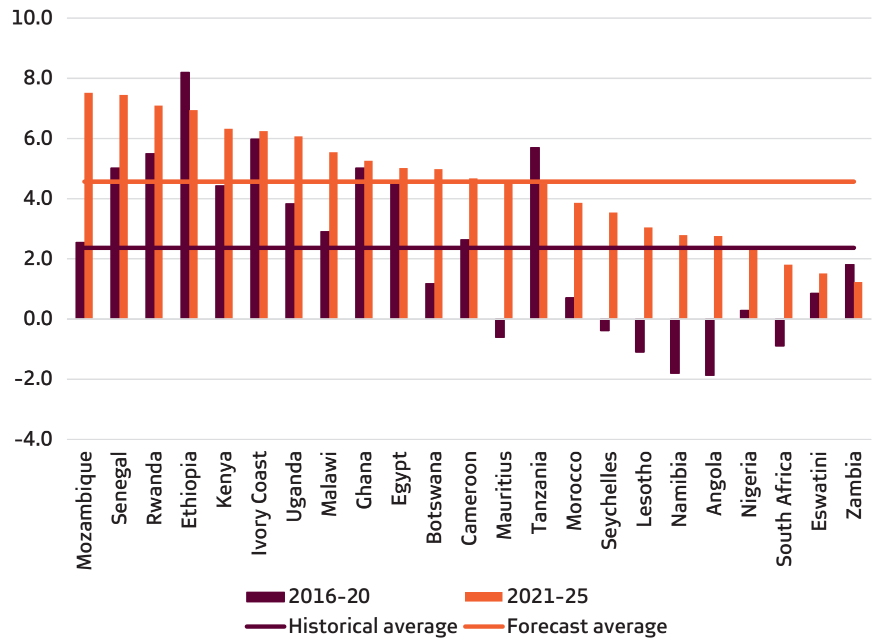
Worsening external debt levels and credit quality

External debt profiles worsened for most countries during the pandemic. Four countries had external debt above 50% of GDP at the end of 2020, up from three the year before with Rwanda joining the group. Mozambique remains in debt distress, having the worst debt-to-GDP ratio at 97.5%. It is one of the countries to benefit from the IMF's Catastrophe Containment and Relief Trust, which provides grants for debt service relief to countries left most vulnerable by natural calamities and public health disasters.

Angola had the largest increase in its external debt-to-GDP ratio, climbing to 83.4% from 56.1%. While Angola's external debt remains vulnerable to shocks, in particular unfavourable current account developments and large exchange rate depreciation, the

Figure 5.2: High disparity in recovery forecast

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

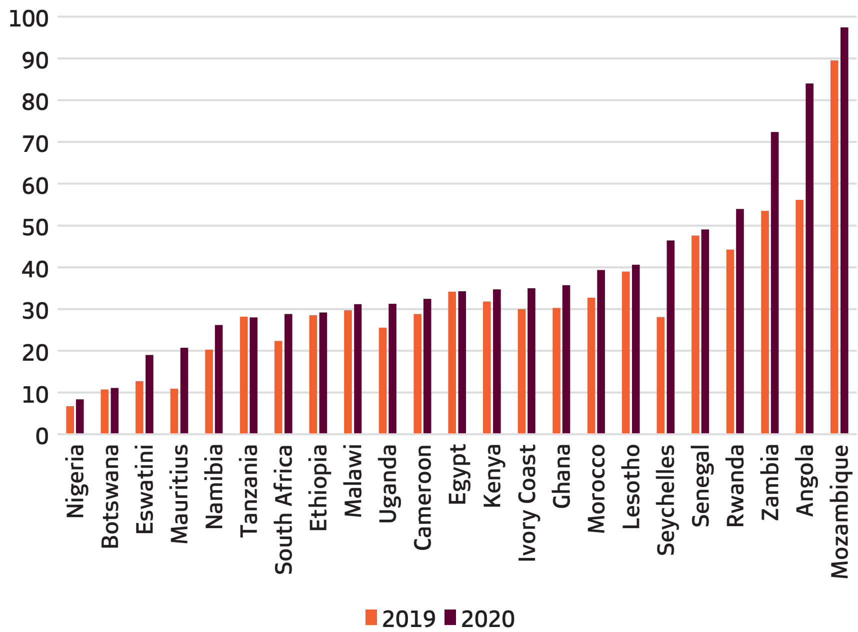


Source: IMF, OMFIF analysis

‘External debt profiles worsened for most countries during the pandemic. Four countries had external debt above 50% of GDP at the end of 2020.’

Figure 5.3: Countries face risk of debt distress

External debt to GDP ratio, %



Source: IMF, OMFIF analysis

IMF projects external debt to decline in the medium term. Zambia’s external debt-to-GDP ratio rose to 72.4% from 53.5%. With the debt ratio already high before Covid-19, Zambia sought a comprehensive debt treatment under the G20 Debt Service Suspension Initiative.

Aside from Mozambique, the IMF identified several other index countries at risk of debt distress as of end-June 2021. Cameroon, Ethiopia, Ghana, Kenya and Zambia are at high risk, while Ivory Coast, Lesotho, Malawi, Rwanda, Senegal and Uganda are at moderate risk. In addition to the short-term emergency funding and other debt relief measures from the IMF to help mitigate the impact of the pandemic on countries’ finances, 14 countries have sought relief from the DSSI as of July.

In contrast, Nigeria has kept its official borrowing relatively low. At 8.4% of GDP, it has the best debt profile, boosting its ranking by five places to fifth. However, with oil prices expected to remain relatively low, the debt ratio is expected to go up. Botswana and Eswatini also score well, with external debt at 11% and 19% of GDP, respectively.

Several countries, including Ghana, Kenya, Senegal, Ivory Coast and Cameroon issued eurobonds in the first half of 2021. Funding from eurobonds helps countries to finance maturing debt obligations and infrastructure projects and support their budgets. Access to international capital markets is critical in crises, allowing countries to diversify their funding sources.

With economic activity constrained, households and businesses faced difficulties in meeting credit obligations, affecting the asset quality of banking systems. Around half of the countries in the index had higher NPL ratios in 2020 compared to 2019. Angola had the highest NPL ratio, although this has substantially declined to 18.4% in 2020 from 32.5% the year before, following a restructuring of three large state-owned banks.

High NPL ratios could leave banks vulnerable and unable to lend, further derailing recovery. Zambia had the largest increase, up to 11.6% from 8.9% in 2019. Kenya, Namibia and Mozambique are also among the countries with the largest increases in NPL ratios in 2020. Notably, Botswana, Egypt, Ethiopia, Lesotho, Rwanda and Seychelles maintained NPL ratios of less than 5% in 2020.

Monetary and fiscal transparency

Providing timely information about monetary policy decisions, especially in times of crisis, helps anchor expectations by reducing information asymmetry about policy actions between the central bank and financial institutions. Tanzania improves its score by increasing the frequency of publishing meeting outcomes, while Senegal now publishes a full-year calendar on its websites.

Budget transparency, meanwhile, leads to greater fiscal credibility and can enhance investor confidence. All countries earn full points on budget transparency for publishing the state budget for the current fiscal year. Angola improves its score by publishing its state budget for 2021-22, compared to previous years when this was not the case.

Pillar 6: Enforceability of standard master agreements

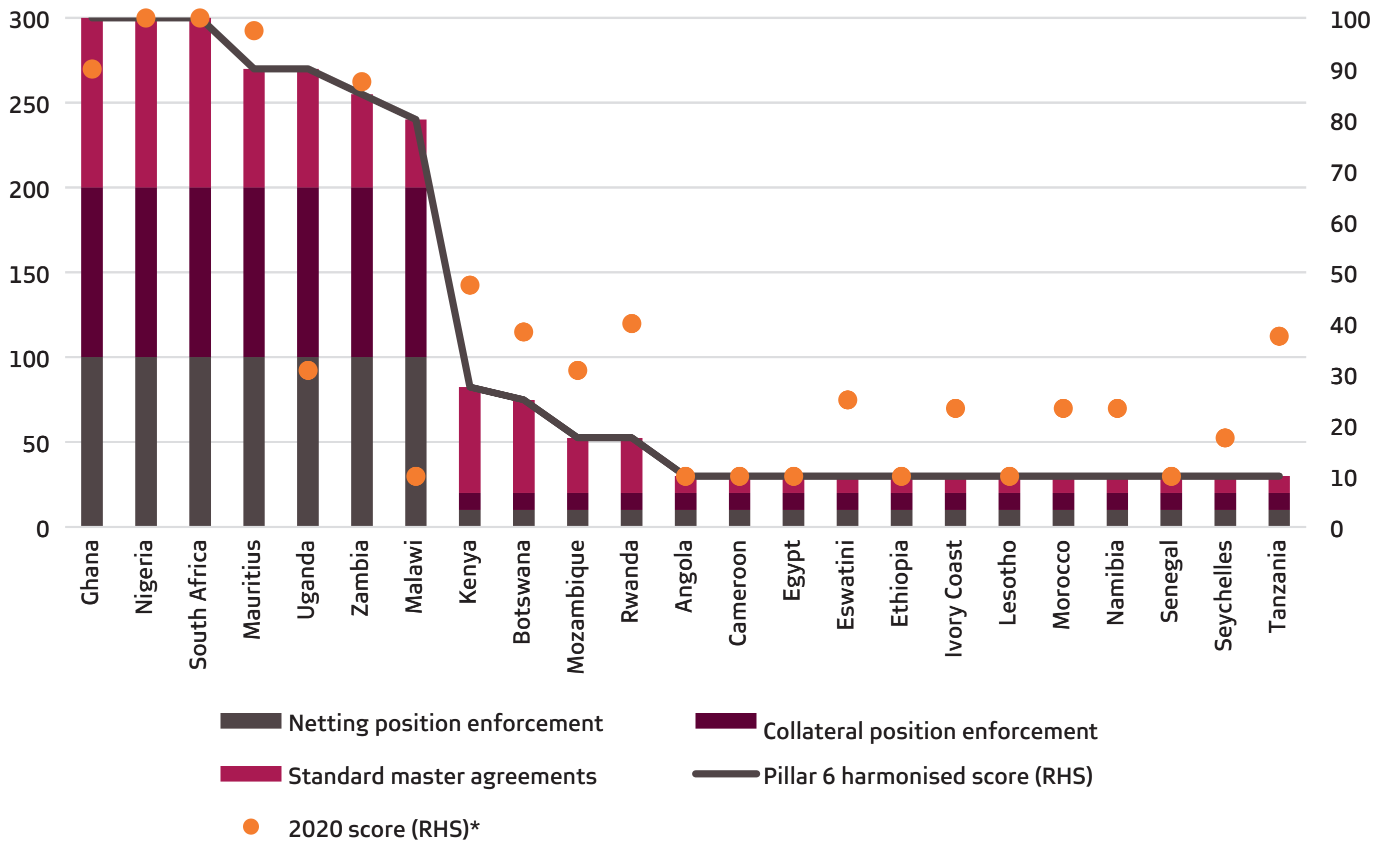
Pictured: Sunrise over the Masai Mara, Kenya

Mitigating uncertainty through legal frameworks

Risk mitigation in financial markets has become even more important for intermediaries and counterparties in the context of the pandemic.

Figure 6.1: Ghana, Nigeria and South Africa tie in first place with full marks

Scores for Pillar 6 indicators, max = 300; harmonised score, max = 100 (RHS)



Sources: AFMI survey 2021, International Securities and Derivatives Association, Frontclear, OMFIF analysis

Note: The harmonised score represents the average of all Pillar 6 indicators and is used to compile the total scores for Pillars 1-6. More information on p.42-43.

Note on methodology: In previous years, Pillar 6 featured an indicator evaluating countries' insolvency frameworks based on scores in the World Bank's 'Doing Business' report. The report has been discontinued as of September 2021 and the relevant indicator has been removed from the index. Inevitably, this impacts countries' scores and rankings. Nonetheless, the remaining indicators remain sufficient measures of countries' progress in this pillar. The 2020 score excludes the indicator on resolving insolvency to ensure comparability.

'Close-out netting reduces credit exposures and credit shortfalls for commercial banks and capital market intermediaries.'

Regulatory frameworks need to be in place to ensure the enforceability of contracts and continuity of transactions in the face of uncertainty. Pillar 6 evaluates countries based on the enforceability of close-out netting rules and use of standard financial markets master agreements.

Ghana, Nigeria and South Africa earn full points in this pillar, while 12 countries only score the minimum. This stark disparity shows the unevenness of contractual standards across the region.

Close-out netting enforceability

The enforceability of close-out netting within a country's financial system promotes financial stability. Close-out netting serves as the primary means of credit risk mitigation especially for OTC derivatives. It ensures that commercial transactions continue to be viable notwithstanding default due to adverse economic and market conditions or unforeseen circumstances that can be treated as force majeure, such as the pandemic. Close-out netting reduces credit exposures and credit shortfalls for commercial banks and capital market intermediaries.

Scoring for this year's index is based on information from central banks, market regulators, securities exchanges and market participants, cross-referenced with legal opinions from the International Securities and Derivatives Association and consultations with industry practitioners.

Frontclear, a financial markets development company, is working with Ghana to review the legal and regulatory framework for repurchase agreements and derivatives, identifying gaps and advising on how to bring the country's regulatory regime for repos and derivatives in line with prevailing international standards. Earlier this year, the Bank of Ghana issued notice recognising netting arrangements for transactions using global standard documentation.

Nigeria continues to make strides in creating an enabling investment environment for foreign investors, with the necessary regulatory developments and policy initiatives. Further to enacting enforceable netting-off provisions in the country's Companies and Allied Matters Act of 2020, ISDA has published a legal opinion on Nigeria's insolvency regime, elevating it to an acceptable level of international best practice in netting-off and insolvency. Ghana, Uganda and Zambia are in the process of commissioning ISDA opinions on their netting-off and insolvency regimes. ISDA's legal opinions support the enforceability of netting provisions, enhancing legal certainty.

Uganda, which is tied in fourth place with Mauritius in this pillar, has made considerable progress in making netting enforceable under its domestic law over the past year. The country enacted the National Payment Systems Act towards the end of 2020. The law includes a dedicated section on collateral arrangements and includes

Figure 6.2: Countries make progress in close-out netting enforceability

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

Source: AFMI survey 2021, ISDA, Frontclear, OMFIF analysis the 'Enforcement of close-out netting provisions'. This recognises that the close-out netting provisions are valid, enforceable and binding on third parties, including a liquidator, without prior notice of an order of court. To further strengthen its netting-off and insolvency regulatory regime, the Bank of Uganda is developing a separate and more explicit netting bill that will become the governing legislation for financial transactions documented under master agreements of ISDA and the Global Master Repurchase Agreement.

Countries progressing with netting legislation are likely to move up this pillar in coming years. Ethiopia and Namibia are drafting legislation to cover netting-off enforceability. Egypt is partnering with international financial institutions to develop the required regulatory regime for close-out netting.

Standard master agreements

Aside from the ISDA master agreement and GMRA, the index evaluates countries on the use of the Global Master Securities Lending Agreement. Only the three top-ranked countries observe wide use of all three master agreements, which boosted their scores. Mauritius and Uganda have reported substantial adoption of the ISDA and the GMRA, but not the GMSLA. Botswana, Kenya, Malawi, Mozambique, Rwanda and Zambia use one or more of the master agreements, showing some progress in their adoption. Other countries on the index have not shown any form of adoption and/or use of these master agreements.

Malawi joins the countries that have shown the enforceability of collateral provisions under the GMRA under domestic law, although only for repurchase agreements. The other countries with collateral provisions include Ghana, Mauritius, Nigeria, South Africa, Uganda and Zambia.

The Bank of Zambia has made efforts to develop the repo market by encouraging commercial banks in the country to adopt the GMRA and ISDA agreements for commercial transactions. The regulatory review will make these master agreements enforceable under Zambian domestic law. Zambia is reviewing its Companies and Insolvency Acts to create a more robust regulatory framework for

Figure 6.3: Majority of countries not using internationally recognised agreements for derivatives, repos and securities lending

	ISDA	GMRA	GMSLA
Ghana	Widely used	Widely used	Widely used
Nigeria	Widely used	Widely used	Widely used
South Africa	Widely used	Widely used	Widely used
Mauritius	Widely used	Widely used	No
Uganda	Widely used	Widely used	No
Kenya	Widely used	Limited use	No
Botswana	Limited use	Limited use	No
Zambia	Limited use	Limited use	No
Mozambique	Limited use	No	No
Rwanda	Limited use	No	No
Malawi	No	Widely used	No
Angola	No	No	No
Cameroon	No	No	No
Egypt	No	No	No
Eswatini	No	No	No
Ethiopia	No	No	No
Ivory Coast	No	No	No
Lesotho	No	No	No
Morocco	No	No	No
Namibia	No	No	No
Senegal	No	No	No
Seychelles	No	No	No
Tanzania	No	No	No

Source: AFMI survey 2021, OMFIF analysis

'Ghana, Nigeria and South Africa earn full points in this pillar, while 12 index countries only score the minimum. This stark disparity shows the unevenness of contractual standards across the region.'

insolvency protection and practice in the country.

As part of its regulatory development efforts, Namibia is reviewing and updating its Insolvency Act to align with global best practice and to foster development of the capital market. It was enacted in 1936 and the country is carrying out an extensive review of the act to bring it in line with current economic realities and global best practice. Updating insolvency laws and similar legislation typically entails including provisions that enforce close-out netting and collateral positions, which in turn increases legal certainty from the use of standard master agreements.

The Africa Financial Markets Index in focus

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

Pillar 1: Market depth

Product diversity
- Type of assets available, including sustainable finance products
- Currency availability of stock exchange products
- Number of hedging products available

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

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

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

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

Pillar 2: Access to foreign exchange

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

Foreign exchange liquidity
- Interbank market foreign exchange turnover

Capital restrictions
- Foreign exchange capital controls

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

Pillar 3: Market transparency, tax and regulatory environment

Financial stability regulation
- Basel accords implementation stage
- Climate stress testing

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

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

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

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

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

Pillar 4: Capacity of local investors

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

Pillar 5: Macroeconomic opportunity

GDP growth
- Composite five-year historical GDP growth average (2016-20) and five-year forecast (2021-25)

Living standards
- GDP per capita

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

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

Budget release
- Regular release of budget

Monetary policy committee outcomes transparency
- Frequency and regular publishing of MPC decisions and meeting schedules

Debt profile
- External debt-to-GDP

Quality of banking sector assets
- Non-performing loans ratio

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

Netting and collateral positions
- Enforced netting and collateral positions

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

Methodology

Pillars and indicators

The index scores each country based on six pillars: market depth; access to foreign exchange; market transparency, tax and regulatory environment; capacity of local investors; underlying macro opportunity; and the legality and enforceability of standard financial markets master agreements. The pillars are built from a set of key indicators listed on p.8-9.

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

Data and survey

The data informing the scores for each pillar and their indicators stem from a mixture of quantitative and qualitative analysis. The quantitative data collected are from the latest year available. For full year statistics (i.e. GDP) this is 2020 data. For statistics covering the previous 12 months (i.e. securities market turnover) this is July 2020 to June 2021. In cases where the data refer to current conditions, such as for the Basel implementation stages, international accounting standards and credit ratings, the data are as of mid-August 2021.

Most of the quantitative data were collected from publicly available sources, including websites of central banks and securities exchanges. Where no such official data are available, OMFIF uses reliable sources from the financial industry and research community.

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

The survey was conducted between June and September 2021, covering more than 50 individuals from institutions operating throughout Africa. Participants include chief executives, managing directors, managing partners or country experts across a range of global, regional and local institutions, including banks, securities exchanges, regulators, asset managers and investors.

Harmonisation and scoring

Raw data are harmonised on a scale of 10-100 to allow comparability between indicators. Outliers in the raw data falling above or below two standard deviations of the mean are accounted for during the scoring. In the case of an outlier greater than the upper bound, its value is replaced by the next highest data point in the sample. This means indicators can have more than one country scoring maximum points. The scoring of each indicator and pillar works under the same process. Once indicators have a harmonised score, the average is taken across each indicator in a pillar to create the overall pillar score. Similarly pillar scores are averaged to create the country's composite score.

In cases where a country does not release certain information and no alternative source is available, it may receive a score of zero in the relevant indicator.

How to get full marks

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

Absa Group Limited
15 Troye Street, Johannesburg, 2001, South Africa
T: +27 (0) 11 350 4000
www.absa.africa
@Absa

Official Monetary and Financial Institutions Forum
30 Crown Place, London, EC2A 4EB, United Kingdom
T: +44 (0)20 3008 5262
www.omfif.org
@OMFIF