



Absa Africa Financial Markets Index 2023

Valuable African insights, border to border

Pictured: The Skeleton Coast natural border of Namibia



Acknowledgements

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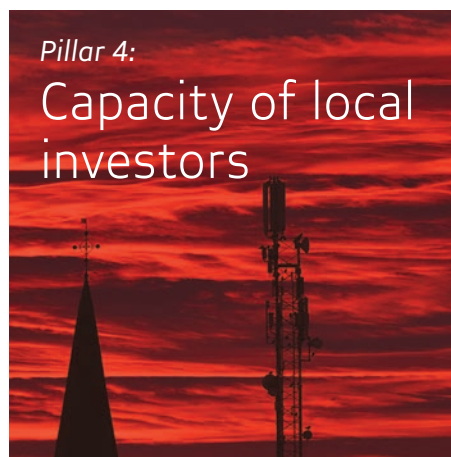
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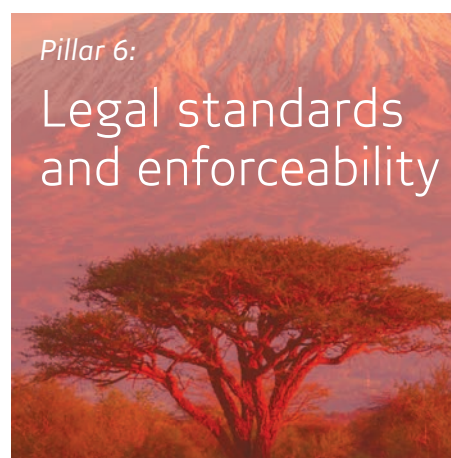
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Introduction

Unlocking the potential of Africa

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

With support from the United Nations Economic Commission for Africa, coverage in this year's report has grown to 28 countries with the addition of Cabo Verde and Tunisia. The index now encompasses approximately 80% of the population and gross domestic product of Africa.

To construct the index, OMFIF conducted extensive quantitative research and data analysis with surveys of over 50 organisations across Africa, including central banks, securities exchanges, regulators and market participants.

Over 40 indicators are considered across six pillars: **Pillar 1 – Market depth; Pillar 2 – Access to foreign exchange; Pillar 3 – Market transparency, tax and regulatory environment; Pillar 4 – Capacity of local investors; Pillar 5 – Macroeconomic environment and transparency; and Pillar 6 – Legal standards and enforceability.**

Pillar scores are based on countries' relative performance for each indicator, which is rebased to fit a harmonised scale from 10-100. Overall scores are calculated as an average of the scores from each pillar.

Given its growing importance to global investors, the availability of Islamic financial products is considered for the first time in this year's index. The methodology has been altered to include more robust measures of capital control stringency and legal standards. Scores for 2022 have been adjusted to this methodology to allow for more accurate year-on-year comparisons, so they may differ from those published in AFMI 2022. See p.42-43 for more details.

Forewords



A destination for capital investment

We are destined to live in interesting times. Little could we have known when the first version of this index was launched seven years ago that the world would go through a global pandemic, a land war in Europe and the steepest rise in global policy rates since the inflation shocks of the 1980s. There has been much for African policy-makers to contend with, which has at times distracted from a focus on long-term structural reform of financial markets.

The challenging global macroenvironment continues to make itself felt throughout this index. Many countries have seen the size of their domestic capital markets shrink as global risk aversion, higher global borrowing costs and concerns over debt sustainability have resulted in some pullback to Africa's access to global capital markets. There remains a clear focus among policy-makers on improving countries' financial markets' openness, transparency and accessibility. Just over half of the countries in the index have seen their scores improve year on year.

More than 20 countries in the index now have some form of environmental, social and governance-linked financial policies. Sukuk financing, with new domestic bond issuance in South Africa and Tanzania, is a further development that helps ensure Africa's financial markets are open to a wide range of capital. As a purpose-led, pan-African bank, we believe bold ESG investments can support and improve the continent's financial resilience.

The Absa Africa Financial Markets Index now covers 28 countries across the continent. Last year, the index welcomed the Democratic Republic of the Congo, Madagascar and Zimbabwe. This year, we welcome Cabo Verde and Tunisia into the AFMI fold. The results from the new joiners highlight the critical importance of proactive dialogue and knowledge exchange.

With global financial markets likely to remain tight for the foreseeable future, it has never been more important to focus on Africa as a destination for capital investment. This seventh edition of the report is a critical contribution to that goal.



Clive Horwood
Deputy Chief
Executive Officer
and Managing Editor,
OMFIF

Understanding opportunities in Africa

Since its launch in 2017, the Absa Africa Financial Markets Index has endeavoured to demystify the continent as an investment destination. We do this by applying global market standards on key issues such as market accessibility, openness and transparency. The aim is to measure progress in the development of capital markets and demonstrate to individual countries the actions they could take to attract international investment to their markets.

At OMFIF, we are proud of the continual evolution of the index over the last seven years, and the importance central banks, ministries of finance and stock exchanges across the region attach to their scores. Our scorecards of capital market development began with 17 African countries, and in 2023, the number of countries covered by our analysis rises to 28.

Among the countries we cover, three that ranked in the top five in our inaugural rankings retain their position in the highest tier – South Africa, Mauritius and Namibia. Nigeria (ranked sixth of 17 in 2017) and Uganda (rising from 10th of 17) round out the top five.

Progress over the past two years has been encouraging. In previous generations, the global shocks of Covid-19, war in Ukraine, issues around food and energy security and rising inflation may have derailed or delayed important advances in capital markets. Today, these countries are more resilient.

We thank all of the institutions that devoted valuable time to assisting our research, through in-person conversations or by filling in our surveys. Thanks also to the UN Economic Commission for Africa and the Southern African Development Community for their invaluable support. And particular thanks to our partners in this project from day one, Absa, for their commitment not just to this project but also for their important work on developing Africa’s capital markets.



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

Financing sustainable development goals

Amid the polycrisis, the global economy is at risk of not achieving the goals of the 2030 Agenda for Sustainable Development. In Africa, with shrinking fiscal space, exchange rate turbulence and mounting external debt servicing costs, the risk is highest. Still, there is a chance to meet the United Nations’ sustainable development goals if countries can find innovative ways to mobilise financing.

Countries need to prioritise the strengthening of their financial markets. This requires the creation of an enabling environment through appropriate policies and frameworks that encourage investment in local currencies in critical sectors, such as infrastructure and agriculture, to strengthen the continent’s food systems. Additionally, it is crucial to develop innovative instruments that respond to the financial needs of micro, small- and medium-sized enterprises and support climate mitigation and adaptation measures. To this end, increasing awareness and strengthening the capacity of stakeholders in using these financing tools will be critical.

In 2023, the United Nations Economic Commission for Africa launched several initiatives to support countries in market development. These included preparations for the launch of a securities exchange in Ethiopia, money market development in Tanzania, local currency bond market development in Uganda, the strengthening of institutional investors’ capacities in the West African Economic and Monetary Union and the establishment of a partnership with ASEA. Case studies were also conducted to assess the feasibility of inclusive bonds in Cameroon and Côte d’Ivoire. Together with partners and stakeholders, ECA aims to accelerate Africa’s financing for the SDGs in a sustainable and inclusive manner.

The Absa Africa Financial Markets Index continues to be a valuable tool for African countries. It serves as a reference point-for policy-makers aiming to strengthen financial markets. At ECA, we are delighted to have supported Cabo Verde and Tunisia in their first-time inclusion in the 2023 edition of the index. We remain steadfast in our efforts to help our member states develop their financial markets.

Executive summary

Pictured: Saffron, South Africa

Further signs of progress

For the second year running, scores have risen for the majority of AFMI countries. They increased in 15 countries largely due to an improvement in market transparency, particularly a rise in the number of credit ratings, which boosts scores in **Pillar 3**. Most countries also score higher in **Pillar 5** as macroeconomic conditions have generally stabilised following shocks from the pandemic and the Russia-Ukraine conflict.

Among the biggest improvements in the overall score were Zimbabwe and Rwanda, rising by almost 2 points each, linked to progress in building sustainable financial market frameworks. Zimbabwe has added climate risks to financial stability regulation while Rwanda is working with multilateral organisations to improve market standards for green investments. Overall, 20 AFMI countries now incorporate environmental, social and governance-linked financial policies, which can help to mobilise new investment.

There have been other encouraging initiatives across the continent. Survey respondents in nine AFMI countries mentioned measures for improving central security depositories to enhance efficiency. New assets are becoming available on domestic exchanges, including the first sukuk bonds in South Africa and Tanzania. Otherwise, while not directly impacting scores, survey participants mentioned various financial inclusion policies to boost local investor capacity.

However, progress in the index has not been uniform. Each country experienced a lower score in at least one of the six pillars. This is mainly due to unfavourable global conditions outside of African policy-makers' direct control. Rising interest rates in advanced economies have prompted exchange rate depreciation and capital outflows for many African countries. In the case of

commodity importers, this has been compounded by a deterioration in trade balances. These factors have contributed to weaker foreign exchange reserves and lower scores for 17 index countries in **Pillar 2**. The challenging global environment has also impacted liquidity and the size of domestic financial markets in dollar terms, which weighs on scores in **Pillar 1**. The size of pension assets in dollar terms has also declined for most countries, which reduces scores in **Pillar 4**.

Egypt has been hit especially hard and its overall score falls by 3 points, with the country now ranking outside the top 10. Overall scores have also declined in South Africa, Nigeria and Uganda although they all maintain their position in the top five, as do Mauritius and Namibia.

The underlying message is one of slow progress in building capital markets. In 17 countries, scores are higher this year than when they were first introduced to the index. But there is a wide gap between the highest scoring countries and the rest. Based on the new methodology, only the top five score above 60. South Africa and Mauritius remain the only countries to score above 70 – as has been the case since 2019. This suggests there is plenty of scope for further improvement across the continent.

There are three general areas where Africa's investment climate can be improved. Liquidity is limited in domestic equity, fixed income and foreign exchange markets in most cases. Tax environments are becoming less conducive to investment in some jurisdictions. And legislation to promote the use of standard master agreements remains sparse, leading to low scores for most AFMI countries in **Pillar 6**. Policy-makers should look to address these barriers to further develop capital markets and unlock the potential of Africa.

Rank		Country	Score		Comments
2023	2022		2023	2022	
1	1	 South Africa	88	89	Lower pension assets in dollar terms weigh on score
2	2	 Mauritius	77	77	Rise in sovereign and corporate credit ratings
3	3	 Nigeria	67	68	Foreign exchange shortages and rising inflation reduces score
4	4	 Uganda	63	64	Fall in FX reserves and liquidity
5	5	 Namibia	63	63	Large pension assets but decline in fixed-income market
6	8	 Botswana	59	58	New incentives for ESG asset issuance lifts score
7	6	 Kenya	59	60	Lower FX reserves and market liquidity
8	10	 Morocco	58	57	New climate stress testing and higher FX liquidity
9	7	 Ghana	58	59	Deterioration in FX reserves and price stability
10	12	 Tanzania	55	55	Improved product diversity with sukuk bond issuance
11	9	 Egypt	55	58	Weaker FX reserves and macroeconomic outlook
12	11	 Zambia	55	55	Reduction in external debt after restructuring
13	13	 Malawi	49	49	Surge in market capitalisation but liquidity remains low
14	14	 Eswatini	46	46	Higher pension fund assets but limited market activity
15	15	 Seychelles	46	45	Jump in value of pension fund assets
16	-	 Cabo Verde	45	-	New framework and issuance of blue bonds
17	16	 Rwanda	44	43	Stronger ESG market framework with support of international bodies
18	19	 Zimbabwe	43	42	New climate risk management guidelines lift score
19	-	 Tunisia	43	-	Macroeconomic vulnerabilities constrains score
20	17	 Angola	43	42	Improvement in inflation and external debt
21	18	 Côte d'Ivoire	40	42	Fall in FX reserves reduces score
22	21	 Cameroon	40	40	Market size and liquidity remains relatively low
23	20	 Senegal	38	40	Rise in external debt-to-GDP ratio
24	22	 Mozambique	37	36	Strong growth prospects from liquified natural gas boost
25	23	 DRC	35	34	Improvement in monetary policy reporting
26	24	 Lesotho	34	34	Limited market activity and high tax rates
27	25	 Madagascar	31	32	Fall in FX reserves coverage
28	26	 Ethiopia	29	27	Moving closer to launching a securities exchange

Source: Absa Africa Financial Markets Index 2023

Note: Overall scores calculated as an average of six pillar scores. Maximum score = 100. Scores from 2022 are updated to incorporate any revisions and/or improved data collection methods and may not reflect those published in AFMI 2022. More information on pp.42-43.

Country snapshots



Overall pillar scores max = 100

Pillar 1: Market depth

South Africa	100
Morocco	60
Nigeria	56
Mauritius	56
Botswana	54
Tanzania	49
Ghana	46
Uganda	46
Tunisia	45
Namibia	43
Kenya	42
Egypt	42
Cabo Verde	36
Mozambique	33
Angola	33
Rwanda	31
Zambia	30
Senegal	30
Côte d'Ivoire	28
Malawi	28
Cameroon	26
Seychelles	23
Eswatini	23
DRC	18
Zimbabwe	17
Madagascar	16
Lesotho	12
Ethiopia	10

Pillar 4: Capacity of local investors

Namibia	100
South Africa	63
Mauritius	61
Eswatini	60
Botswana	57
Seychelles	57
Morocco	29
Nigeria	27
Lesotho	25
Cabo Verde	23
Ghana	22
Kenya	18
Zimbabwe	18
Cameroon	16
Tanzania	15
Egypt	15
Uganda	14
Rwanda	13
Mozambique	13
Malawi	12
Angola	12
Côte d'Ivoire	11
Tunisia	11
Zambia	11
Senegal	11
Ethiopia	11
Madagascar	10
DRC	10

Pillar 2: Access to foreign exchange

South Africa	88
Egypt	87
Morocco	76
Mauritius	75
Kenya	70
Botswana	68
Cabo Verde	68
Uganda	67
Nigeria	60
Rwanda	59
Seychelles	58
Madagascar	58
Zambia	57
Angola	57
Namibia	56
Cameroon	55
Tanzania	54
Lesotho	54
Côte d'Ivoire	54
Senegal	54
Ghana	51
Tunisia	51
Mozambique	49
Eswatini	49
Malawi	43
Ethiopia	41
DRC	40
Zimbabwe	33

Pillar 5: Macroeconomic environment and transparency

Botswana	87
Uganda	86
Tanzania	81
Nigeria	79
South Africa	78
Seychelles	77
Egypt	76
Namibia	76
Kenya	76
Eswatini	76
DRC	76
Mauritius	76
Zambia	74
Rwanda	74
Lesotho	72
Côte d'Ivoire	71
Mozambique	70
Morocco	70
Zimbabwe	70
Senegal	67
Cameroon	66
Malawi	65
Angola	64
Ethiopia	63
Cabo Verde	63
Madagascar	61
Ghana	60
Tunisia	54

Pillar 3: Market transparency, tax and regulatory environment

South Africa	98
Mauritius	94
Kenya	92
Morocco	89
Nigeria	88
Egypt	87
Zimbabwe	83
Ghana	82
Nigeria	79
Rwanda	79
Tanzania	78
Botswana	78
Zambia	74
Tunisia	70
Angola	66
Malawi	62
Eswatini	61
Namibia	61
Cabo Verde	58
DRC	55
Côte d'Ivoire	52
Cameroon	51
Seychelles	50
Mozambique	47
Senegal	42
Ethiopia	40
Madagascar	32
Lesotho	31

Pillar 6: Legal standards and enforceability

Mauritius	100
South Africa	100
Nigeria	90
Ghana	85
Malawi	85
Uganda	85
Zambia	85
Kenya	55
Tanzania	55
Namibia	40
Zimbabwe	40
Angola	25
Cabo Verde	25
Cameroon	25
Côte d'Ivoire	25
Egypt	25
Morocco	25
Senegal	25
Tunisia	25
Botswana	10
DRC	10
Eswatini	10
Ethiopia	10
Lesotho	10
Madagascar	10
Mozambique	10
Rwanda	10
Seychelles	10

Highlights 2022-23

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

Angola

The Bolsa de Divida e Valores de Angola launched its repurchase market in mid-2022.

Botswana

The Botswana Stock Exchange unveiled a new automated trading system and central securities depository system.

Cabo Verde

In January 2023, the first blue bond was issued on Cabo Verde's Blu-X sustainable finance platform.

Cameroon

The Bourse des Valeurs Mobilières de l'Afrique Centrale signed the Marrakech pledge to promote green finance.

Côte d'Ivoire and Senegal

The Bourse Régionale des Valeurs Mobilières was one of seven participating exchanges in phase one of the African Exchanges Linkage Project, which went live in November 2022 to enable cross-border trading.

Democratic Republic of the Congo

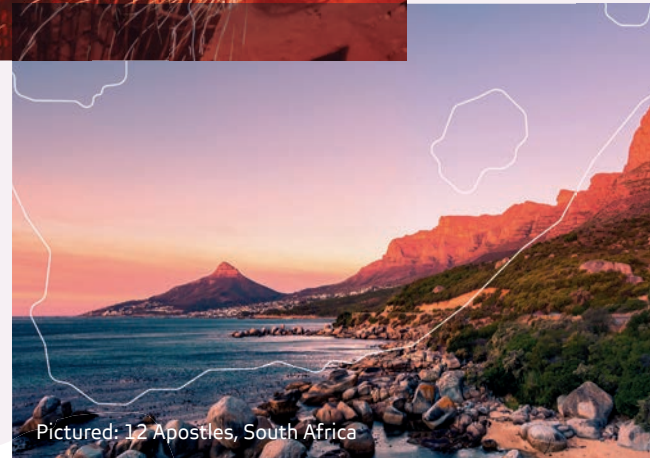
Rawbank completed the first issue of negotiable commercial paper in the Democratic Republic of the Congo.

Egypt

Egypt's Capital Markets Law was amended to allow the introduction of new products including social bonds and climate bonds.

Eswatini

Eswatini's Stock Exchange launched its environmental, social and governance guidelines in late 2022.



Ethiopia

The Ethiopia Capital Markets Authority was formally established in December 2022, paving the way for the creation of the Ethiopian Securities Exchange.

Ghana

Ghana's Stock Exchange launched the ESG Disclosures Guidance Manual in November 2022.

Kenya

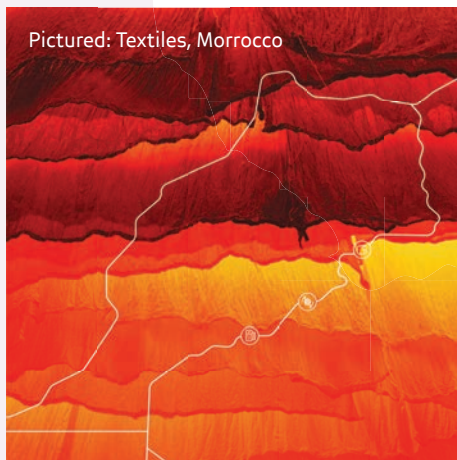
The Central Bank of Kenya created a new central securities depository – DhowCSD – that went live in July 2023.

Lesotho

Lesotho issued a 15-year treasury bond for the first time in the market.

Madagascar

Policy-makers finalised a capital market master plan with support from the International Finance Corporation and Frontclear.



Malawi

Malawi finalised a framework for market makers to operate in the secondary market for government bonds.

Mauritius

The Bank of Mauritius is developing a carbon-trading framework for blue and green credits.

Morocco

Bank Al-Maghrib carried out an initial study of banks' exposure to physical and transitional climate risks.

Mozambique

Tropigalia SA became the 12th company to list on the Bolsa de Valore de Moçambique in December 2022.

Namibia

The Namibian Stock Exchange is establishing a central securities depository which is expected to launch in Q1 2024.

Nigeria

The Central Bank of Nigeria unified all segments of the foreign exchange market into the investors and exporters window.

Rwanda

Rwanda was the first African country to reach an agreement with the International Monetary Fund through the Resilience and Sustainability Trust to enhance climate adaptation and mitigation.

Seychelles

Seychelles concluded its national risk assessment on virtual assets to support policy-makers with designing a digital market framework.

South Africa

South Africa's first gender-linked bond and sukuk bond was issued on the Johannesburg Stock Exchange.

Tanzania

The KCB Bank Tanzania's Fursa Sukuk became the first Sharia-compliant sukuk bond listed on the Dar es Salaam Stock Exchange.

Tunisia

Tunisia is transitioning to International Financial Reporting Standards frameworks, scheduled to come into force in January 2024.

Uganda

Ugandan local currency government bonds were added to the FTSE Frontier Emerging Markets Government Bond Index.

Zambia

In July 2023, the Bank of Zambia implemented the straight through processing of payments for government securities to enhance efficiency in settlements.

Zimbabwe

The first real estate investment trust was listed on the Zimbabwe Stock Exchange in November 2022.

Pillar 1:

Market depth



Pictured: A coffee plantation in Ethiopia

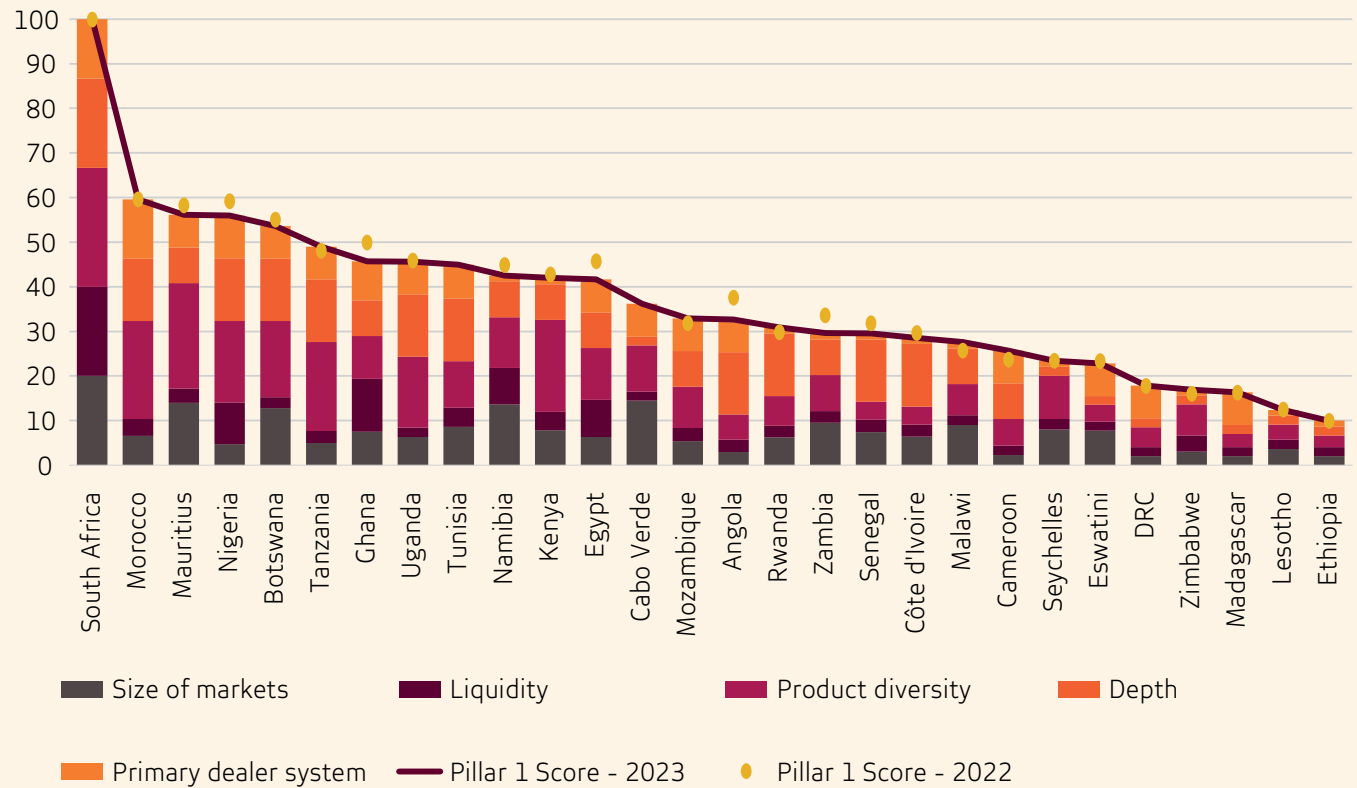
Pillar 1 evaluates the size and liquidity of domestic equity and bond markets, along with the diversity of listed assets and the existence of standard features that enhance market depth.

Key findings:

1. Difficult global conditions have weighed on market size and liquidity across most AFMI economies in the past 12 months.
2. Product diversity continues to expand across the continent with the availability of Islamic financial products and environmental, social and governance assets becoming more widespread.
3. Some countries are taking steps to upgrade central securities depositories to enhance efficiency, transparency and regulatory oversight.

Figure 1.1. South Africa remains largest and most advanced market

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



Source: AFMI 2023 survey, national central banks, national stock exchanges, national capital market authorities, International Monetary Fund, World Federation of Exchanges

Note: The overall Pillar 1 score represents the average harmonised score across all Pillar 1 indicators. Scores from 2022 are updated to incorporate any revisions, newly available data and/or improved data collection methods and may not reflect the Pillar 1 scores published in AFMI 2022. More information on pp.42-43.

The challenging global economic environment has hit financial markets in Africa once again this year. Various survey respondents identified inflation, rising interest rates in advanced economies and geopolitical tensions as challenges to their domestic markets. One survey participant from Mauritius also stated that 'Foreign participation has declined since the advent of Covid-19 and the start of the Russia-Ukraine war. This has been triggered by the flight-to-quality phenomenon, generally observable in periods of global uncertainty.'

These factors have all contributed to the decline in equity markets across the continent. The depreciation of most African currencies in the past 12 months has exacerbated the weakness in dollar terms. In the 12 months to June, the aggregate stock market capitalisation of AFMI countries fell by \$50bn, down 4%. Declines were broad based, experienced by 16 economies in the index. In dollar terms, the largest falls came in Zimbabwe (62%), Nigeria (34%) and Kenya (30%), partly due to the sharp depreciation of their currencies.

Malawi is a notable exception to this trend. Its market capitalisation more

than doubled in dollar terms to \$5.6bn in June, from \$2.6bn a year before. As a share of gross domestic product, it rose to 44.5% which is the fifth highest in the index (Figure 1.2). A local survey participant mentioned the surge in its stock market is due to the strong financial performance of listed companies and 'investors rebalancing their overall investment portfolios to hedge against high inflation', with 'stocks more attractive than fixed-income securities'. This contributes to Malawi's 2-point rise in Pillar 1, though it still ranks 20th as its securities market remains relatively illiquid.

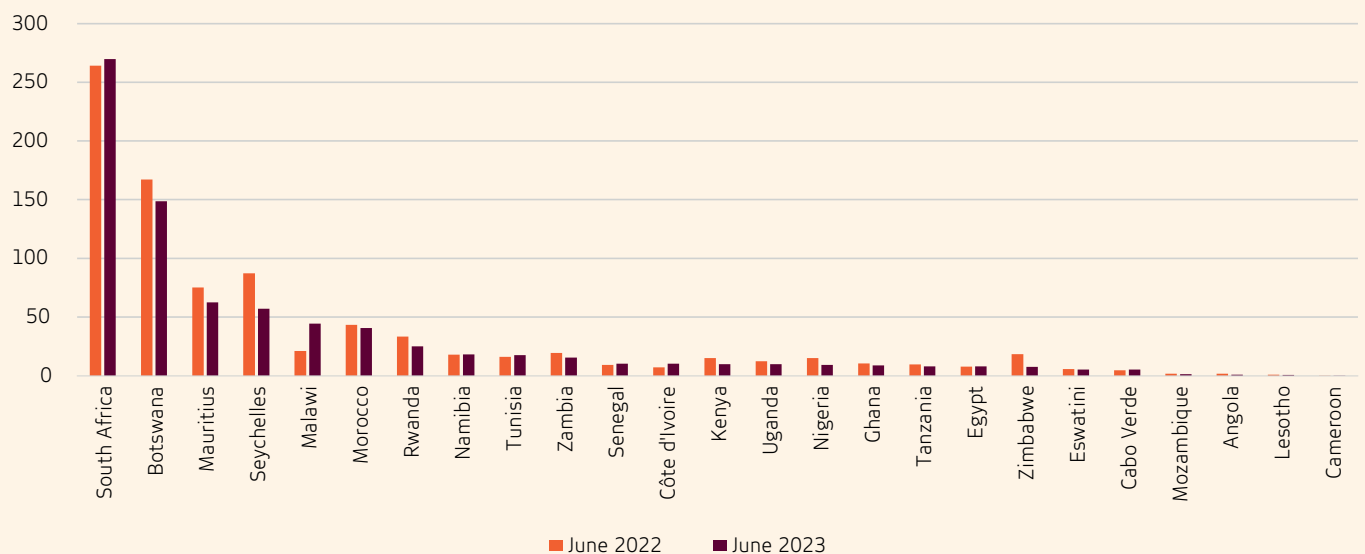
Turnover across AFMI stock markets has generally declined. On average, annual equity turnover as a share of market capitalisation fell to 6.0% in the 12 months to June, from 6.7% in the previous year. Egypt continues to rank first on this measure despite a decline to 50.6%, from 62.0%, over this period. In its latest quarterly report, the Egypt Stock Exchange noted that foreign investors have been net equity sellers in the first half of 2023, but this has been offset by a surge in retail flows with local investors accounting for close to 85% of the value traded in listed stocks, up from 72% a year before.

Similar to equities, corporate bond markets have generally come under pressure. In the 12 months to June 2023, the value of corporate bonds outstanding fell in dollar terms and as a share of GDP in 17 of the 22 index countries with these assets available on domestic exchanges. Ghana saw the steepest decline in corporate bonds outstanding to just 0.1% of GDP in June, from 1.9% a year before. Bonds issued by ESLA and Daakye Trust – special purpose vehicles set up by the government and incorporated as public companies – were restructured as part of its domestic debt exchange programme in February 2023.

This restructuring has also weighed on the value and turnover of Ghana's listed government bonds, with one local survey respondent stating that, 'With the recent economic downturn and the domestic debt exchange programme, investors have lost confidence in the Ghanaian economy.' Consequently, Ghana fell by 4 points in Pillar 1, to 46. One positive is that, after further rounds of domestic debt reprofiling in August and September, Ghana's government is on track to meet the terms of its \$3bn IMF programme to release further disbursements from the Fund.

Figure 1.2. Malawi an exception to declining market capitalisation

Stock market capitalisation, % of GDP



Source: AFMI 2023 survey, World Federation of Exchanges, national stock exchanges, OMFIF analysis

Note: Excludes the DRC, Ethiopia and Madagascar, which are yet to establish securities exchanges.

Concerns over inflation and fiscal positions have weighed on government bond markets in other major African economies such as Egypt, Nigeria and South Africa. The average value of listed sovereign bonds across AFMI countries was 12.1% of GDP in June 2023, from 12.7% a year earlier. But there were increases in nine countries including Uganda, Mozambique and Cote D'Ivoire. That links to a rise in domestic debt issuance as it has become increasingly costly to list government bonds on international markets. One survey respondent from Kenya observed how 'The national treasury has been forced to rely on the domestic credit market to finance the budget deficit as it is squeezed in part by roadblocks in accessing the international capital markets.'

Liquidity has declined in many government bond markets too. Turnover fell in 11 index countries as a share of listed government bonds in the 12 months to June. This ratio dropped sharply for Egypt to 12.6%, from 38.7%. This is mainly due to the normalisation of trading as there had been a surge of activity in early 2022 following Egypt's inclusion in the JP Morgan index for emerging market bonds. For South Africa, despite a decline in bond turnover, liquidity remains higher than in all other AFMI countries combined. With the largest, most liquid and most developed financial market infrastructure on the continent, South Africa continues to score 100 in Pillar 1 overall.

New products come to market

New financial assets are becoming available in Africa to attract investment. Due to their increasing importance to global finance, Islamic financial products are now included in our measure of product diversity in Pillar 1. They are available in eight AFMI economies, with the first sukuk bonds being launched on domestic exchanges in South Africa and Tanzania in the past 12 months (Figure 1.3). A Tanzanian survey respondent described how the ethical Sharia-compliant sukuk bond, known as the KCB Fursa Sukuk, was oversubscribed by 110% and the

proceeds are being used to finance small- and medium-sized Sharia-compliant businesses.

Other countries are also looking to incorporate Islamic financial products. A respondent in Mauritius mentioned listing rules are being reviewed to ensure the jurisdiction is 'positioned as an attractive platform to list and trade Islamic products'. This was echoed by a respondent in Kenya who mentioned they are looking to establish the country as 'a regional Islamic financial hub' to allow individuals to explore 'an alternative investment choice away from traditional investment channels'. A respondent from Ethiopia stated they will 'work towards developing Sharia-compliant Islamic financial products' to cater to the country's large Muslim population.

Environmental, social and governance-based assets are also gaining traction. This is not just limited to green bonds. Barloworld issued Africa's first gender-linked bond on the Johannesburg Stock Exchange in August 2022, with coupon rates linked to gender diversity in leadership and the use of black women-owned businesses in the company's supply chain. This helps South Africa to score highest on the availability of listed ESG assets, alongside Mauritius and Morocco. Elsewhere, the first blue bond in Cabo Verde was listed in January 2023 and a local survey respondent said the country 'aims to be a point of reference for inclusive and sustainable development', which is 'conducive to private sector investment'.

These examples aside, ESG products remain relatively scarce in Africa as they are listed in just nine AFMI economies. But countries are looking to build their sustainable financial

markets. In June 2023, the World Bank approved a new financing deal for Rwanda, which will support the issuance of a sustainability-linked bond by the Development Bank of Rwanda. In Tanzania, CRBD Bank launched the Kijani bond – the largest green bond in sub-Saharan Africa – which will be listed on the Dar es Salaam Stock Exchange later this year. Similarly, a survey participant in Eswatini mentioned they hope for a sustainable product listing by the end of 2023 following the introduction of ESG market guidelines. As shown in Pillar 3, most index countries have now implemented market standards to issue ESG assets, suggesting policy-makers see this as an opportunity to attract fresh investment.

Developing market infrastructure

For most AFMI countries, there is clear scope to improve financial market infrastructure. That is especially the case in markets that are in relatively early stages of development such as the DRC, Madagascar and Ethiopia, which are yet to establish a securities exchange. In the latter, there have been positive steps over the past year. The government established a Capital Markets Authority and the Ethiopian Securities Exchange Project Office in 2022, tasked with setting up an exchange. A survey respondent from Ethiopia mentioned the ESX Project Office is now in the process of finalising an electronic trading platform and a rule book.

For countries that already have securities exchanges, there are some market features that remain underdeveloped. On a positive note, most index countries have primary dealers, which allow for more efficient debt issuance. But horizontal repurchase agreements (short- →

ESG products remain relatively scarce in Africa as they are listed in just nine AFMI economies. But countries are looking to build their sustainable financial markets.



Pictured: Farming red soil in Angola

term loans between commercial banks) are low across AFMI countries, with the exceptions of South Africa and Morocco, which rank as the top two in Pillar 1. Use of these instruments is closely tied to the adoption of Global Master Repurchase Agreements (considered in Pillar 6) and the efficient operation of central securities depositories, which can foster activity in the fixed income market. Meanwhile, half of index countries also lack market makers in secondary markets for bonds, though survey participants in Rwanda and Malawi said they are due to be introduced, which should improve liquidity and pricing.

One common step African policy-makers have taken over the past year is to develop central securities depositories to improve efficiency, oversight and transparency. In September 2022, the Botswana Stock Exchange launched a new CSD system alongside an automated trading system. A local survey respondent mentioned this has 'improved settlement efficiency and compliance with the International Organization of Securities Commission's Principles for Financial Markets Infrastructures'. More recently, the Central Bank of Kenya introduced a new CSD called DhowCSD, which a survey participant said will 'enhance market liquidity, improve operational efficiency in the domestic debt market, promote market deepening and foster financial inclusion through expanded digital access'.

Elsewhere, the Namibian Stock Exchange is in the final stages of setting up a CSD that is expected in Q1 2024. A participant from Ethiopia said that 'A multi-asset CSD is being set up under the National Bank of Ethiopia, with the support of FSD Africa. This is an essential financial market infrastructure that is necessary for efficient post trade settlement.' Survey respondents in Ghana, Malawi, Seychelles, Uganda and Zambia all mentioned initiatives to upgrade their CSDs to improve information transparency and technological efficiency. These are encouraging developments to bolster market infrastructure across Africa.

Figure 1.3. Islamic financial products offered in eight countries
Availability of selected financial products on exchanges or over the counter

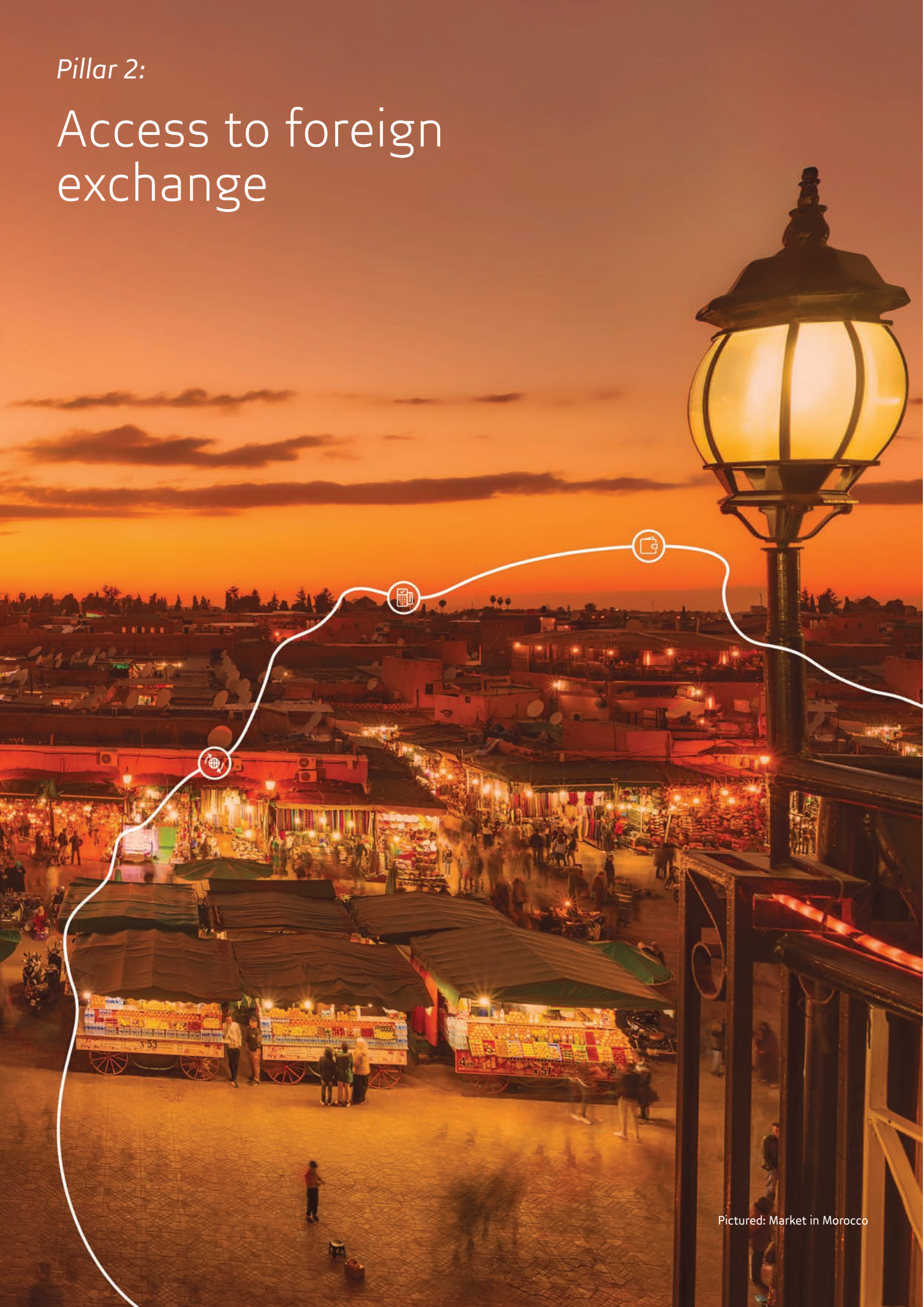
Country	Equities	Government bonds	Corporate bonds	Islamic financial products	ESG assets
Egypt	✓	✓	✓	✓	✓
Morocco	✓	✓	✓	✓	✓
Nigeria	✓	✓	✓	✓	✓
South Africa	✓	✓	✓	✓	✓
Tanzania	✓	✓	✓	✓	✓
Côte d'Ivoire	✓	✓	✓	✓	
Senegal	✓	✓	✓	✓	
Tunisia	✓	✓	✓	✓	
Kenya	✓	✓	✓		✓
Mauritius	✓	✓	✓		✓
Namibia	✓	✓	✓		✓
Cabo Verde	✓	✓	✓		✓
Rwanda	✓	✓	✓		
Botswana	✓	✓	✓		
Cameroon	✓	✓	✓		
Eswatini	✓	✓	✓		
Ghana	✓	✓	✓		
Mozambique	✓	✓	✓		
Seychelles	✓	✓	✓		
Uganda	✓	✓	✓		
Zimbabwe	✓	✓	✓		
Angola	✓	✓			
Lesotho	✓	✓			
Malawi	✓	✓			
Zambia	✓	✓			

Source: AFMI 2023 survey

Note: Excludes the DRC, Ethiopia and Madagascar, which are yet to establish securities exchanges.

Pillar 2:

Access to foreign exchange



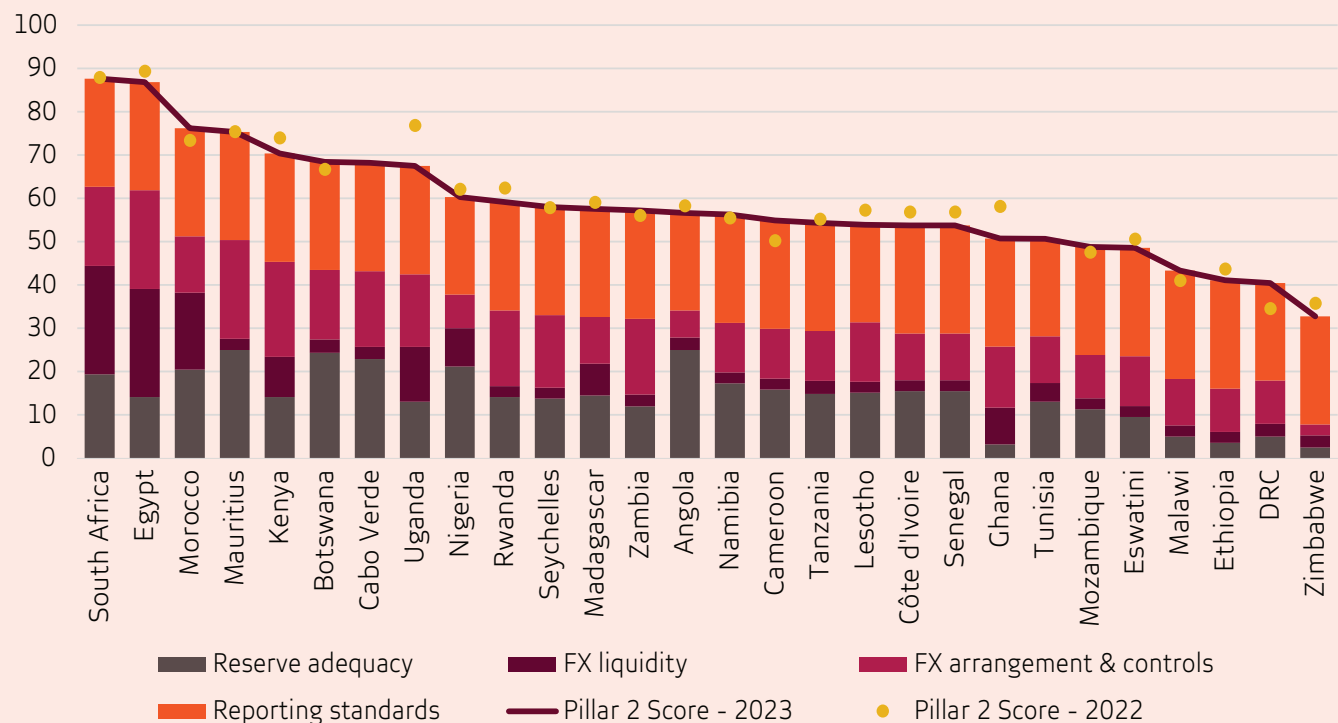
Pillar 2 examines the ability of international investors to easily deploy and repatriate capital, and the capacity of central banks to manage volatility from foreign capital flows.

Key findings:

1. Pillar 2 scores fell for the majority of economies, mainly due to the deterioration in foreign exchange reserves adequacy.
2. A jump in interbank FX liquidity lifts Morocco into the top three, behind South Africa and Egypt.
3. Countries score well for their daily reporting of exchange rates but transparency can be improved through more widespread adoption of the FX Global Code.

Figure 2.1. Weaker reserves adequacy constrains scores

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



Sources: AFMI 2023 survey, IMF, national central banks

Note: the overall Pillar 2 score represents the average harmonised score of all Pillar 2 indicators. Scores from 2022 are updated to incorporate any revisions and may not reflect those published in AFMI 2022. More information about revisions can be found on pp.42-43.

Pillar 2 considers how conducive AFMI economies are to foreign investment. It includes indicators for capital control stringency, flexibility of exchange rate regimes and level of interbank foreign exchange liquidity. The reporting of FX data is considered as a measure of transparency. This pillar also assesses the ability of central banks to manage the potential volatility from capital flows through the adequacy of FX reserves.

FX reserves under pressure

Scores declined for the majority of AFMI countries in Pillar 2, largely due to the fall in FX reserves adequacy – measured in months of imports. Rising interest rates in advanced economies and a flight to safety amid the Russia-Ukraine war have led to capital outflows for much of Africa. For commodity importers, the deterioration in the terms of trade due to higher food and fuel prices has also contributed to a reduction in international reserves. Aggregate FX reserves among AFMI countries dropped by \$35bn in 2022, equivalent to a 10% fall.

Overall, 21 index economies experienced a decline in reserves adequacy. A decrease in reserves was coupled with a rise in imports in

10 of these cases, such as in Egypt. Reserves there fell to 3.7 months of imports in 2022, from 4.6 in 2021. This led to Egypt slipping to second place in Pillar 2 behind South Africa, where reserves coverage has held up well at above 5 months of imports.

Ghana, like Egypt, has been vulnerable to the surge in commodity prices. There were also capital outflows due to concerns about public debt sustainability ahead of the sovereign default in late 2022. Ghana's FX reserves fell to just 0.6 months of imports in 2022, from 2.4 in 2021 (Figure 2.2). This led to the country falling by 7 points, to 51, in Pillar 2.

Ghana and Egypt are among the many index countries which have agreed an International Monetary Fund deal to bolster their FX reserves. In the first half of 2023, 12 AFMI economies have received financing from the Fund worth over a cumulative \$2.5bn. Partly due to IMF support, the latest data show that the level of reserves has generally stabilised across the continent this year.

However, more than 10 survey respondents mentioned that limited access to FX remains a key challenge to their market development. And one participant from Uganda stated 'further rate hikes in advanced

economies could potentially cause exiting of FX flows'. These challenging external conditions may constrain the ability of central banks across Africa to rebuild their reserves in the near term.

Tighter FX liquidity

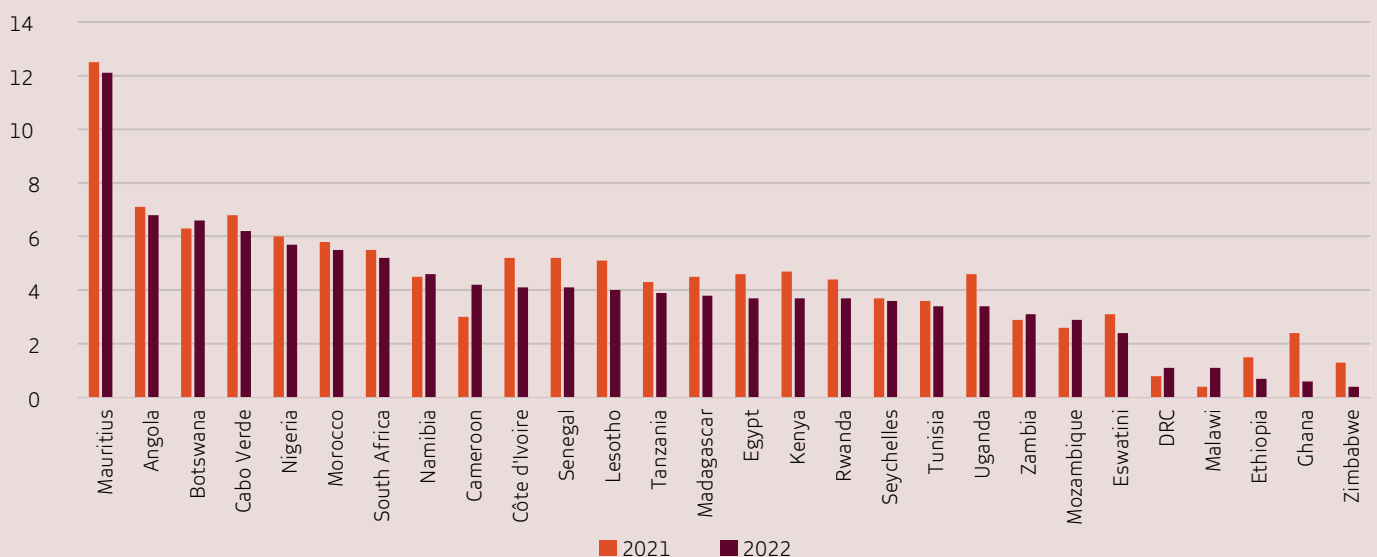
Access to FX relies on a well-developed banking system to provide liquidity to market participants and allow for more accurate pass-through of official exchange rates to the domestic economy. South Africa and Egypt continue to score highest as their interbank FX liquidity remains much higher than elsewhere in Africa.

Morocco rises to third on this metric and in Pillar 2 overall. Bank Al-Maghrib's 2022 annual report notes that 'The average monthly volume of foreign currency traded against the dirham on the interbank market increased by 140% to Mad36bn.' This is equivalent to approximately \$42.5bn annually. The central bank stated this sharp increase was due to 'ongoing deepening of the interbank FX market and an increase in the use of hedging instruments'.

However, Morocco was the exception as many other countries experienced a decline in interbank FX turnover last year. One bank in Tanzania explained in their survey that 'The market has

Figure 2.2. Widespread fall in FX reserve coverage

Total foreign exchange reserves in months of imports



Source: IMF, OMFIF analysis

witnessed increased tightening of dollar liquidity as demand for dollars exceeds supply.' In Uganda, which was previously third highest on this measure, annual interbank FX turnover edged lower to \$28.3bn. It also declined in Ghana, Nigeria and Kenya where survey respondents mentioned growing concerns about a shortage of FX.

Note that scores across AFMI are assigned on a relative, rather than absolute, basis so the dramatic improvement in Morocco contributed to a steep fall in Pillar 2 scores for Uganda, Ghana, Nigeria and Kenya. Interbank FX liquidity remains limited, or negligible, for other economies in AFMI.

FX controls

Alongside having adequate reserves and a developed interbank market, having few restrictions to international capital flows is key to improving access to FX. This year, we have introduced a more robust measure of the stringency of capital controls. Having previously inferred this from survey responses, we now use a standardised measure by totalling the number of controls on capital transactions using data from the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions. Pillar 2 scores from 2022 have been adjusted to take account of this new measure.

Cabo Verde scores highest on this front due to its open capital account. The IMF notes that 'Legislative Decree No. 3/2018 of June 22, 2018, decreed the full liberalisation of all economic and financial relations with the outside world, especially capital movements.' Rwanda, Uganda and Botswana also score highly for their relatively relaxed capital controls. Elsewhere, Angola improves its score on this measure as authorities have loosened regulations on the purchase of foreign currency for purposes abroad, including investments.

But, in general, there remain significant barriers to capital flows across the continent and the average score on this measure is just 44 out of 100 across the AFMI sample.

Ethiopia, Mozambique and Zimbabwe remain the lowest scorers due to their broad-based and stringent capital restrictions.

FX systems and transparency

As well as capital controls, another possible hurdle for international investors is distortionary exchange rate regimes. Almost all AFMI economies have unitary exchange rates, although the existence of multiple exchange rates in Zimbabwe and Nigeria, which can lead to inefficiencies and misallocation of resources, weighs on their Pillar 2 scores. A survey participant mentioned 'Nigeria's FX management system has led to a scarcity of FX, which has negatively impacted foreign investors.' That said, the Central Bank of Nigeria has taken steps this year to improve the situation. It harmonised the multiple segments of the FX market into the investors and exporters window. Another survey participant from the country stated this move 'is primed to result in improved foreign portfolio inflows'.

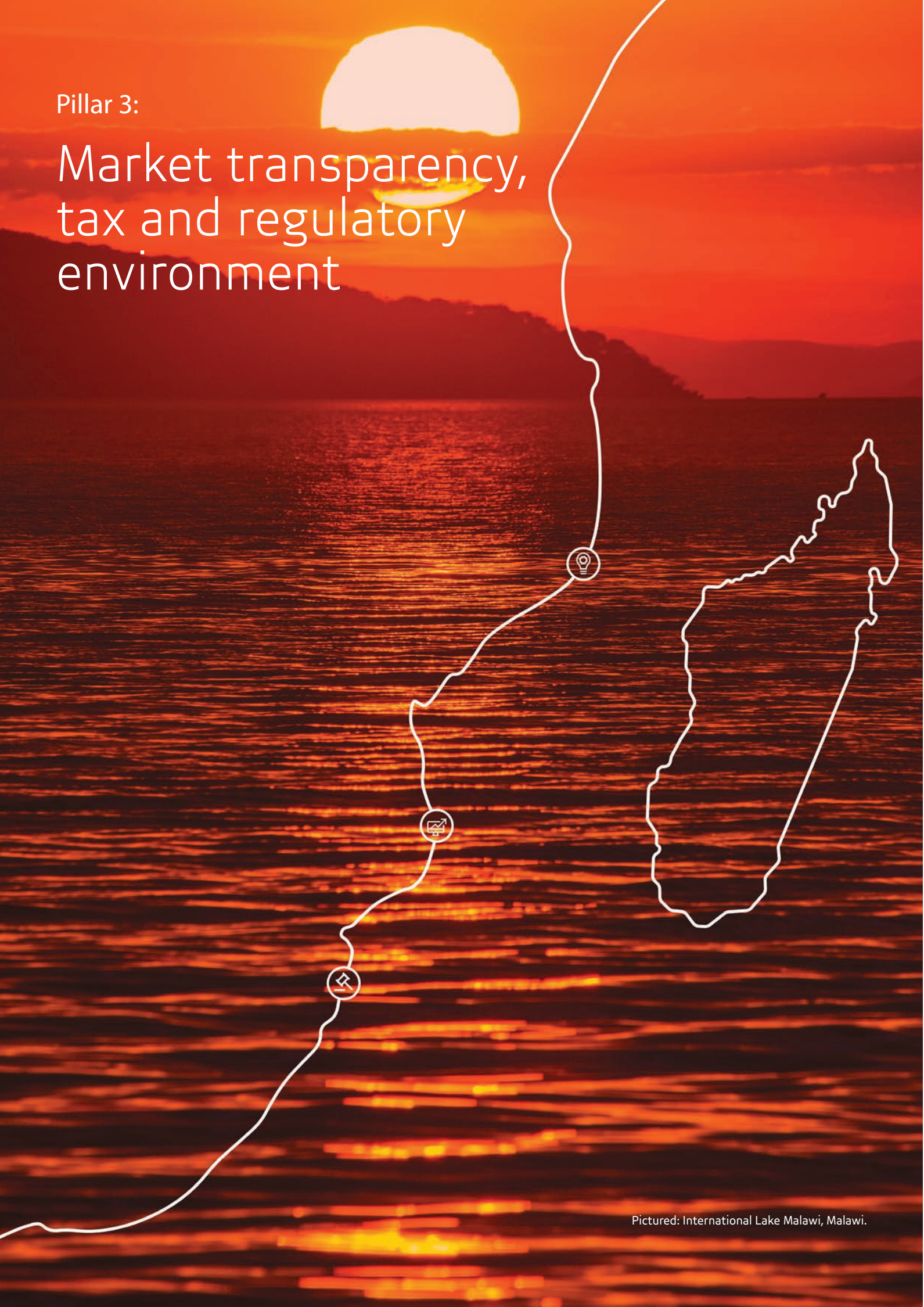
Pillar 2 also considers the transparency of FX markets. All countries score well for the daily reporting of exchange rates by central banks. However, there is limited adoption of the FX Global Code in index countries. This is a set of best practice principles to ensure a transparent FX market, which underpins greater confidence for market participants to transact.

South Africa, Egypt and Mauritius continue to score highly on this measure for their widespread use of the FX Global Code (or local equivalent). Kenya's score improved this year as the Central Bank of Kenya became a signatory of it and published the Kenya Foreign Exchange Code in March 2023, which draws on principles from the FX Global Code, to strengthen the functioning of the local market. A survey participant from Tanzania mentioned that the adoption of the Global FX Code is planned for later this year.

There remain significant barriers to capital flows across the continent and the average score on this measure is just 44 out of 100 across the AFMI sample.

Pillar 3:

Market transparency, tax and regulatory environment



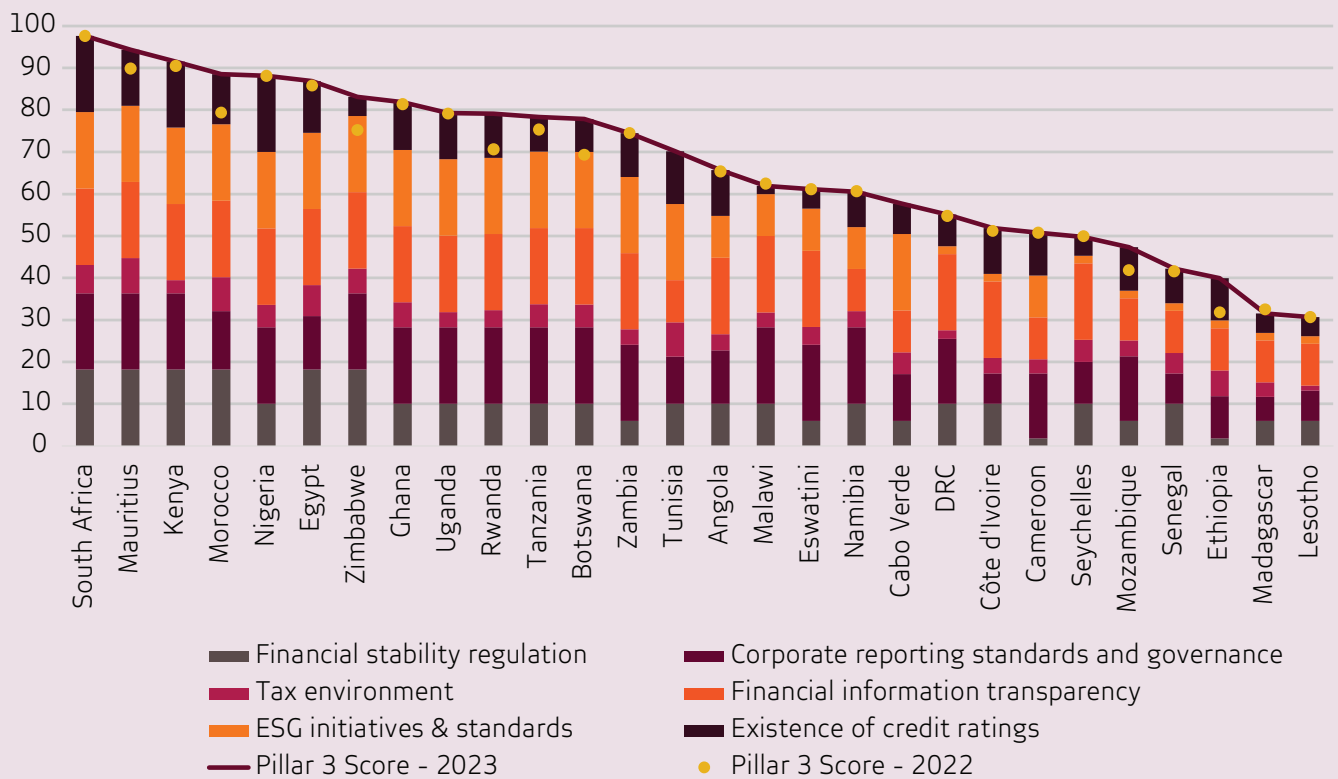
Pillar 3 examines tax systems, regulation and information availability, alongside sustainable financial market frameworks.

Key findings:

1. Pillar 3 scores rise in 18 countries, largely driven by increases in the number of credit ratings.
2. There is continued progress on measures that incorporate sustainability into financial market frameworks and/or regulation, which are now implemented in 20 AFMI countries.
3. Many tax regimes in AFMI economies are becoming more challenging for investors.

Figure 3.1. South Africa, Mauritius and Kenya remain in the top three

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



Sources: AFMI 2023 survey, Bank for International Settlements, International Financial Reporting Standards, Deloitte, PricewaterhouseCoopers, Refinitiv, GCR Ratings

Note: The overall Pillar 3 score represents the average harmonised score across all Pillar 3 indicators. Scores from 2022 are updated to incorporate any revisions, newly available data and/or improved data collection methods and may not reflect those published in AFMI 2022. More information on pp.42-43

20 of the 28 AFMI countries now implement some form of ESG initiatives (71%), up from 13 of the 23 countries covered in AFMI 2021 (57%).

Pillar 3 considers the framework that supports financial markets, including measures for regulation, tax regimes and market transparency. Since 2021, this pillar has also considered environmental, social and governance frameworks as sustainability is becoming increasingly important to global investors.

South Africa, Mauritius and Kenya continue to rank as the top three in this pillar. They have transparent financial reporting standards, a high number of credit ratings and widespread ESG initiatives. These three countries are also among the few that have implemented climate stress-testing frameworks. Morocco and Zimbabwe are now doing the

same. Bank Al-Maghrib partnered with the World Bank to carry out climate stress-test exercises while the Reserve Bank of Zimbabwe issued a climate risk management guideline in March 2023 that requires banks to conduct scenario analysis and report their results. These new initiatives contribute to Morocco and Zimbabwe rising by three places in Pillar 3 to fourth and seventh, respectively.

More broadly, 20 of the 28 AFMI countries now implement some form of ESG initiatives (71%), up from 13 of the 23 countries covered in AFMI 2021 (57%). The most common policies for promoting sustainable financial markets have been to implement market standards

Figure 3.2. ESG policies now exist in 20 AFMI countries

Existence of sustainability-focused policies

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

Source: AFMI 2023 survey

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

regarding the issuance of ESG assets. Cabo Verde passed regulation on blue bond issuance in October 2022. These rules paved the way for the first blue bond listing on Blu-X, the Bolsa de Valores de Cabo Verde's regional blue finance platform, in January 2023. In Rwanda, the government is working with a range of multilateral organisations to bolster climate-related financing and was the first sub-Saharan Africa country to access the IMF's Resilience and Sustainability Facility arrangement last year. Moreover, the new Ireme Invest programme aims to scale up private sector green investments in Rwanda based on common criteria for governance and reporting. The country rises by two places into the top 10 for Pillar 3.

Meanwhile, the Ghana Stock Exchange and Eswatini Stock Exchange both published ESG disclosure guidelines in late 2022. Furthermore, a recent amendment to Egypt's Capital Market Law allows the introduction of five new assets: sustainable development bonds, ESG bonds, social bonds,

women's empowerment bonds and climate bonds.

That said, introducing market standards alone may not be enough to successfully promote the issuance of ESG assets. While 20 AFMI countries have sustainability-related financial policies, only nine have ESG assets listed on their domestic exchanges. Specific measures for incentivising the issuance of sustainable financial products can play an important role in bridging this gap.

Botswana's Pillar 3 score rises by 9 points this year as it implemented new measures on this front. In July 2023, the Botswana Stock Exchange approved a 25% discount on initial listing fees for sustainable bonds. This is similar to the Bourse de Tunis' tax exemption on interest for green or ESG bonds of up to Tnd10,000 per year. Mauritius, which already implements a variety of ESG initiatives, went further and introduced a tax exemption on interest income from bonds of all sustainable projects. This previously

applied to renewable energy projects only.

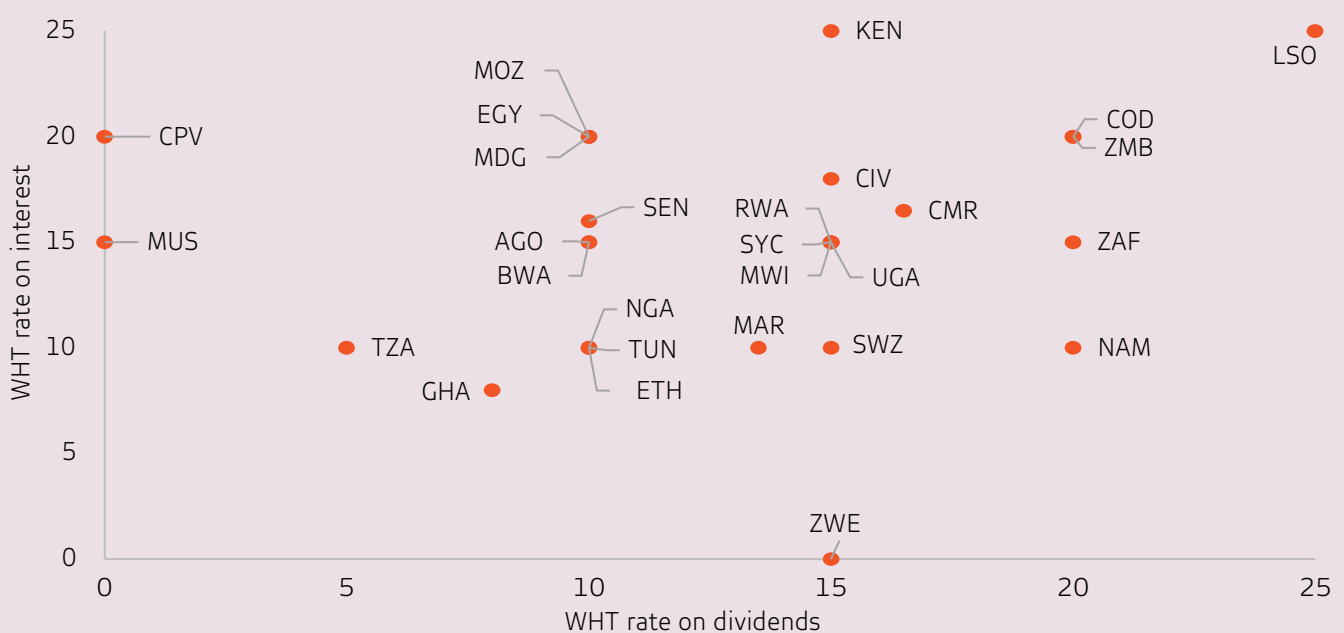
Challenging tax environments

Aside from measures to incorporate ESG factors, tax systems are important for attracting investment. Mauritius continues to score the highest on its conducive tax regime, followed by Tunisia. These countries both have low withholding tax rates on interest and dividends, and over 40 double-taxation treaties. These agreements are important as they offer exemptions to foreign investors and therefore incentivise greater portfolio inflows. In Tunisia, there are also regulations that offer a tax exemption for small- and medium-sized enterprises that join an alternative market segment.

In Tanzania, the tax environment has become more favourable to investors in the past year as coupon payments for listed corporate bonds have been made exempt from WHT. However, many tax systems in AFMI jurisdictions remain unfavourable to investors. While high taxes may

Figure 3.3. Relatively high tax rates in Lesotho

Withholding tax rates, %



Source: Deloitte, PwC, OMFIF analysis

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

ESG developments in finance

ESG practices continue to advance among AFMI countries, enhancing their financial markets by addressing climate risks, promoting transparency and supporting sustainability.

ADVANCEMENTS IN REGULATION

CLIMATE STRESS TESTING

With the effects of climate change on Africa becoming more apparent, climate stress testing is an increasingly important tool for policy-makers to assess the resilience of their financial systems to these risks.

- Bank Al-Maghrib, with the World Bank's support, carried out a climate stress-testing exercise of Moroccan banks' exposures to physical and transitional climate risks.
- The Central Bank of Kenya, Bank of Mauritius and Reserve Bank of Zimbabwe have issued climate risk management guidelines requiring banks to conduct and report scenario analysis for climate change.
- The Central Bank of Egypt conducted stress tests, using scenarios from the Network for Greening the Financial System, to measure the impact of physical and transition climate risks on the banking sector's solvency and liquidity.
- In 2021 the South African Reserve Bank added climate change to its common scenario stress tests and will include climate factors in stress tests of insurers and systemically important banks in the next year.

REPORTING, DISCLOSURE AND ISSUANCE GUIDELINES

As sustainability becomes increasingly important to global investors, there is a pressing need for central banks, exchanges and regulators to provide guidelines for ESG reporting, disclosure and asset issuance to ensure transparency and compliance for companies' ESG activities.

- Stock exchanges in Botswana, Eswatini, Ghana, Morocco, Nigeria, South Africa, Tanzania and Tunisia have issued guidelines for listed companies to disclose on ESG indicators.
- Regulators in Kenya, Morocco, Namibia and Nigeria have specific recommendations for good corporate governance that include ESG standards.
- Mauritius, Nigeria, Zambia and Morocco have guidelines for issuing green assets, while South Africa published its first green finance taxonomy in March 2022.
- The Banco de Cabo Verde released guidelines for blue bonds issuance in October 2022.
- The Moroccan Capital Market Authority also released gender bond guidelines in 2021, the first gender-specific guidelines among emerging markets.
- An amendment to Egypt's Capital Market Law introduces five new bond types: sustainable development bonds, ESG bonds, social bonds, women's empowerment bonds and climate bonds.
- Tanzania and Uganda are working to develop their own guidelines for issuing green and sustainable assets, while the Zimbabwe Stock Exchange published a draft version of its green and social bonds principles.

DEVELOPMENTS IN ESG ASSETS

ASSETS ISSUANCE

ESG assets are a key tool for encouraging sustainable investment in companies and attracting responsible investors. These countries are aligning their financial markets with ESG investing to remain competitive in the global economy and attract foreign investment.

- Nine AFMI countries have issued ESG assets on their domestic exchange.
- Barloworld issued the continent's first gender-linked bond on the Johannesburg Stock Exchange in August 2022, with rates linked to gender diversity in leadership and growing the proportion of black women-owned businesses in their supply chain.
- Cabo Verde issued its first blue bond in January 2023.
- Student accommodation developer Acorn Holdings issued a real estate investment trust on the Nairobi Securities Exchange that received Global Real Estate Sustainability Benchmark accreditation for being ESG compliant.
- The World Bank approved the first sustainability-linked bond for Rwanda, which will be issued by the Development Bank of Rwanda.
- In 2021, Banque Centrale Populaire issued the African continent's first gender bond in Morocco, while Tanzania's NMB Bank listed sub-Saharan Africa's first gender bond last year.

CARBON CREDITS

The global voluntary carbon credits market is worth an estimated \$2bn a year, which involves companies buying credits from emissions-reducing projects to offset their own emissions. In Africa, there are some early players in this space.

- Nairobi-based CYNK, the first African offsets platform, traded 2m credits in its first transaction. The credits will be produced by Tamuwa, Kenya's largest biomass company.
- Zimbabwe's government launched a carbon credits framework in May 2023, which encompasses the implementation of a national climate fund.
- Namibia formally adopted a carbon markets framework in June 2023.
- The Stock Exchange of Mauritius and the Central Depository and Settlement Co. are holding discussions with a carbon credit exchange to introduce voluntary carbon credit trading in the country through the SEM.
- The Nigerian Exchange Group is developing a framework for certifications in carbon credits trading, while Mozambique and Malawi plan to introduce regulations for carbon credit projects in 2024.

be implemented by governments to address their fiscal positions, they can be detrimental to their capital market development. A survey respondent from Lesotho mentioned its unfavourable tax regime is a 'deterrent to foreign investors' participation'. The country has the highest WHT rates among AFMI countries at 25% for both interest and dividends (Figure 3.3), contributing to its low score of 31 in Pillar 3.

Elsewhere, survey participants are concerned about new tax hikes. One respondent from Egypt commented that the introduction of capital gains tax is a significant challenge to the country's capital markets. Meanwhile, the increase of CGT in Zimbabwe to 40% from 20% has 'adversely affected trading on the stock market', according to one survey participant. Another is concerned about the tax regime in Uganda. The Uganda Revenue Authority has interpreted the Collective Investment Scheme – an investment vehicle that pools funds from local savers – as a company. This decision 'implies that the returns shall be subject to a 15% withholding tax' which may 'stifle and reduce the exponential growth of the sector', said one local survey respondent.

Complicated and fragmented tax regimes are another barrier to investment in parts of Africa. A survey participant from Nigeria described the country's tax environment as a 'complex system', while another mentioned a key challenge in countries within the Economic and Monetary Community of Central Africa is the 'lack of harmonisation of the tax framework for financial market operations'.

Credit ratings rising

Credit ratings are an important component of market transparency as they can provide investors with insights on the risks associated with sovereign or corporate debt issuers.

The majority of AFMI countries improved their score on this measure as credit ratings have generally risen in the past year. Mauritius is the most improved with an additional

There were significant improvements for GCR credit ratings, rising to 662 across the AFMI sample from 597 last year.

international sovereign rating from S&P, as well as six new corporate credit ratings from one of the major international ratings agencies (S&P, Moody's and Fitch), bringing the total to 27. These improvements contributed to Mauritius moving up one place to second in Pillar 3. Egypt, Kenya, the DRC and Tanzania also improved their scores due to higher international corporate ratings. The total among AFMI countries rose to 203 from 200 the year before.

Local and regional credit agencies also help to provide coverage on corporate credit ratings. This pillar counts ratings from the Johannesburg-based agency, GCR. There were more significant improvements for GCR ratings, rising to 662 across the AFMI sample this year from 597 last year. Côte d'Ivoire and Senegal both gained 10 GCR ratings, bringing their total up to 11. Additionally, South Africa and Nigeria had double digit increases in local ratings, while Kenya, Botswana and Ghana saw smaller increases.

Despite broad-based improvements, some AFMI countries continue to score poorly on this metric. Malawi and Zimbabwe do not have sovereign credit ratings from international agencies. Ten AFMI countries also lack international corporate ratings and seven have not received any GCR ratings. This suggests that there is scope to improve transparency across index countries, particularly in the corporate sector.

Improvements to reporting

Besides credit ratings, the availability and timeliness of financial information is also important for transparency and encouraging investor confidence. Most AFMI countries continue to score highly on this measure. All

countries in the index have fixed times for financial reporting and two thirds of this year's AFMI countries also offer data on the domestic and foreign ownership of financial assets.

International Financial Reporting Standards have been widely adopted across index countries too. This establishes common standards for disclosure which strengthens accountability and encourages greater investor confidence.

Ethiopia's score improves on this measure. Previously, IFRS were only required for public domestic companies, but Ethiopia's new Capital Markets Authority will now require foreign companies to report in accordance with these standards, in addition to SMEs and public companies. An Ethiopian survey participant noted that reporting standards of other large corporate companies 'are expected to gradually improve over the next few years' and that 'having a capital market in place should speed up the adoption of IFRS by non-financial sector players over the next couple of years.' This change boosts Ethiopia's score by 8 points in Pillar 3.

AFMI countries with lower scores in this metric recognise the importance of following the IFRS and are taking steps to improve their reporting standards. A survey respondent from Tunisia stated that they intend to 'transition to IFRS, scheduled to come into force in January 2024'. Although Angola only requires IFRS reporting for public companies, there is an 'emerging programme' to 'prepare SMEs in matters of financial reporting, corporate governance and business strategy to be able to attract financing through the capital market,' according to a survey respondent from the country.

Pillar 4:

Capacity of local investors



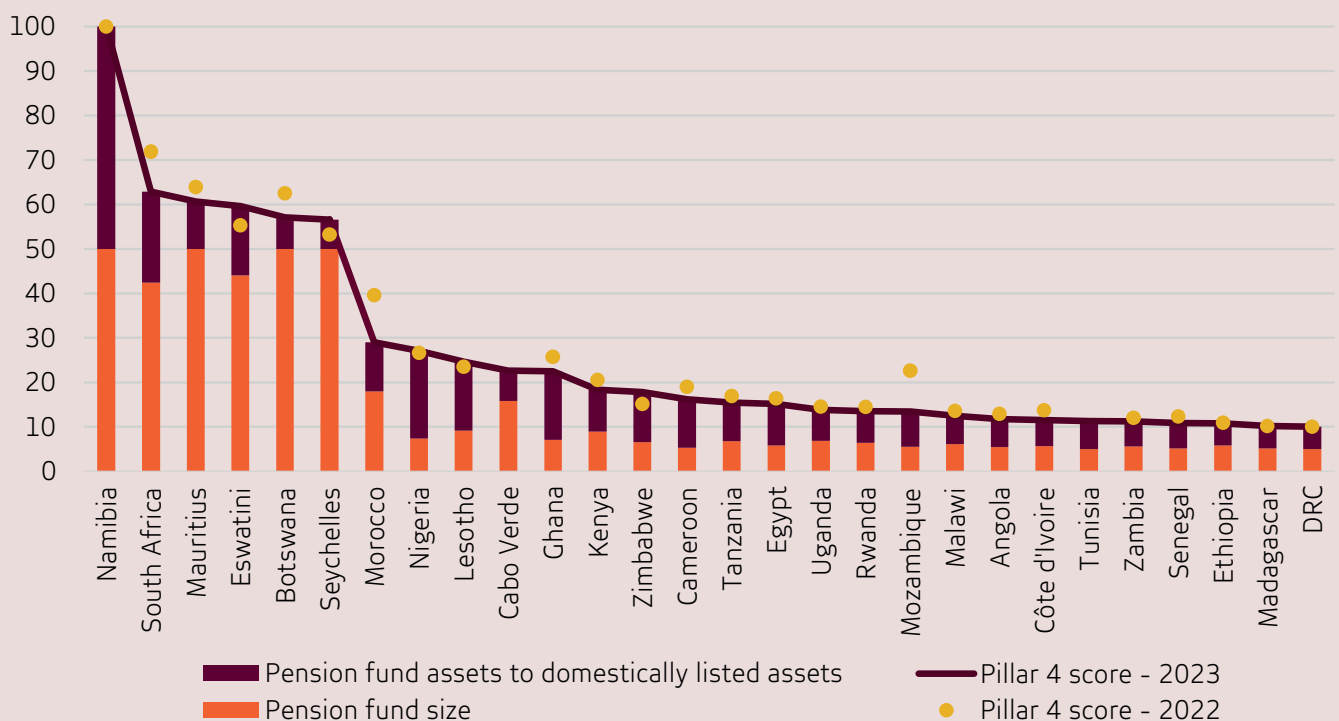
Pillar 4 evaluates the potential for institutional investors to drive capital market growth based on the size of pension fund markets, both in per capita terms and relative to local listed securities.

Key findings:

1. The median value of pension fund assets per capita in AFMI countries fell by 16% in dollar terms owing to adverse market conditions and foreign exchange effects.
2. Namibia retains its top position for the fourth consecutive year, and other countries in southern Africa score highly from their developed pension systems.
3. Financial inclusion initiatives are a key priority for improving investor capacity, with most countries implementing programmes to address financial education, digital payments and retail trading platforms.

Figure 4.1. Namibia retains top spot

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



Sources: AFMI 2023 survey, Organisation for Economic Co-operation and Development, national central banks, national stock exchanges, IMF

Note: the overall Pillar 4 score represents the average harmonised score of both Pillar 4 indicators. Scores from 2022 are updated to incorporate any revisions and may not reflect those published in AFMI 2022. More information about revisions can be found on pp.42-43.

Pillar scores decreased in 19 countries this year, primarily due to a decline in pension fund assets per capita (in dollar terms).

Pillar 4 focuses on local investor capacity by assessing the development of pension systems. Pension funds have the potential to drive capital market development owing to their extended investment horizons and ability to diversify across a wide range of asset classes, such as listed equities, corporate bonds and private markets. The Pillar 4 score is based on two components: pension fund assets in per capita terms to assess their size, and pension fund assets relative to domestically listed securities to gauge their support of local capital markets.

Pillar scores decreased in 19 countries this year, primarily due to a decline in pension fund assets per capita (in dollar terms). The median value for AFMI countries fell by 16% compared to a year before, owing to adverse market conditions and detrimental foreign exchange effects.

The steepest declines came in Zimbabwe and Egypt, with pension funds per capita falling by more than 20% in dollar terms due to currency depreciation in both countries in 2022 (Figure 4.2). Meanwhile, Morocco and South Africa suffered falls of 16% and 10%, respectively. In the former, the central bank's financial stability report pinned this on the 'challenging macroeconomic environment' and the 'influence of foreign exchange fluctuations'. In South Africa the

fall was almost entirely due to the depreciation of the rand against the dollar as total official retirement fund assets were virtually unchanged in local currency terms. The reduced size of pension assets per capita in dollar terms caused Morocco and South Africa's Pillar 4 scores to decrease by 10 and 9 points, respectively.

While the majority of countries witnessed a decline in pension assets per capita, there were notable exceptions. In Namibia, it stabilised at \$4,644, which is the highest among AFMI economies. The country continues to rank first in Pillar 4 for the fourth successive year.

Elsewhere, Seychelles experienced a sharp increase in pension fund assets per capita, growing by 35%, following a 27% increase the year before. According to the annual report of Seychelles Pension Fund, this growth was driven by the listing of 'Cable & Wireless Seychelles on the Merj Exchange,' which 'resulted in a significant capital gain of Scr366m or 124% for the asset holding and also increased the overall liquidity of SPF's investment portfolio'. This contributed to a 3-point increase in the country's Pillar 4 score to 57.

Pension assets per capita also rose strongly in Eswatini, Lesotho and Mauritius. In Mauritius, a survey respondent attributed this to the recovery of asset prices following the Covid-19 pandemic. They stated that there was an 'increase of around 22%-23% in the assets of the Private Pension Schemes and the National Pensions Fund'. This helped to keep Mauritius in the top three in Pillar 4.

It remains clear that southern African countries have the most established pension systems having benefitted from early establishment and close links to South Africa – the largest financial market in Africa. But 13 countries in the index have pension assets per capita lower than \$100, signalling limited local investor capacity.

Encouragingly, some countries and financial institutions are taking proactive steps to address this issue. A survey respondent from Madagascar

Figure 4.2. Pension fund assets per capita fall in most countries

Annual change in pension assets per capita (\$ terms), %



Source: AFMI 2022-23 survey, OECD, national central banks, national stock exchanges, IMF

noted the untapped savings potential within the country and the possibility to mobilise and channel them towards productive sectors. Referencing the favourable demographic trends, a respondent from Nigeria noted that ‘the capital market may see more involvement and expansion as the younger generation grows more financially knowledgeable and aware of investment opportunities’.

Localisation and diversification

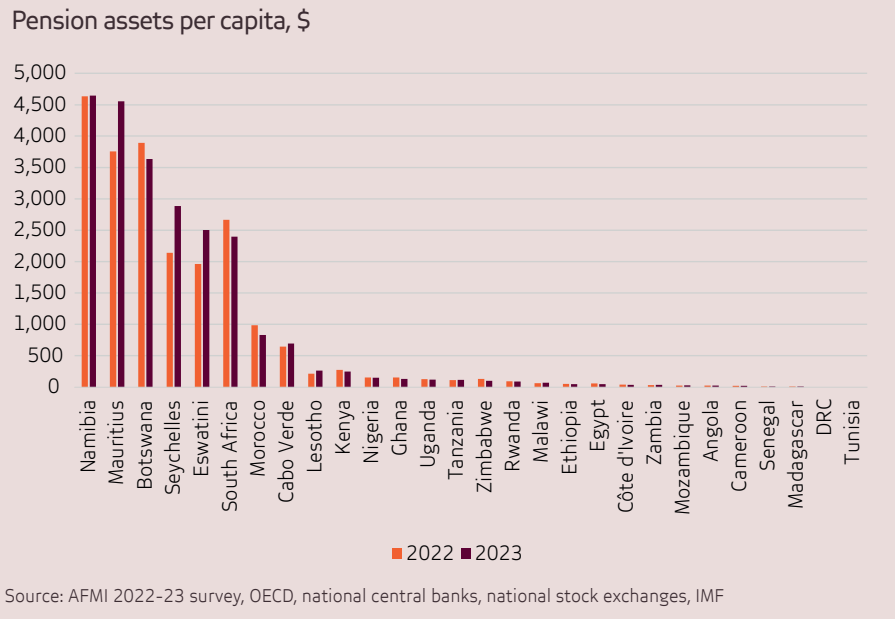
The pillar also includes a score for pension fund assets relative to their domestically listed assets. Market liquidity is included in this component to attribute higher scores for countries where pension funds seem to engage in greater domestic trading. Scores increased marginally for Zimbabwe, Nigeria and Lesotho on this front, although this has limited bearing on their overall ranks in Pillar 4.

Policy-makers are making a concerted effort to ensure pension systems support domestic market growth. In Namibia, the regulator Namfisa introduced legislation in 2017 to increase minimum domestic investment to 45%. 2022 was the first year this threshold was met by local pension funds and, this year, 49% of pension fund assets have been invested domestically. The Retirement Funds Act, introduced in 2022 in Botswana, included similar requirements for pension funds to invest 50% of their assets domestically. According to a survey respondent from the country following this legislation, ‘over Bwp13bn (\$953m) is expected to move back to Botswana and into listed instruments, and possibly support innovative products such as exchange-traded funds, depository receipts as well as existing traditional assets’.

Financial inclusion

Policies that support financial inclusion and encourage long-term savings are crucial to bolster local investment capacity. There is extensive work being done in this area to improve financial literacy and access to bank accounts and financial markets more broadly. Although these efforts do not directly influence the scores of Pillar 4, they exemplify how countries can leverage

Figure 4.3. Largest pension assets in southern Africa



innovation to expand financial access and participation over the long term.

Survey participants across the continent highlighted various initiatives for improving financial education. In Uganda, an investor education programme was implemented to enhance knowledge and understanding of capital markets products and services among individuals and communities. This initiative aims to improve financial literacy, encourage savings and create awareness about capital markets to drive market activity through the Collective Investment Scheme.

Many other countries in the index have introduced financial inclusion strategies in recent years. This is a key focus for the countries in northern Africa that are included in the index – Egypt, Morocco and Tunisia have introduced financial inclusion strategies that include literacy and education campaigns. Bank of Mauritius also launched a financial literacy strategy in early 2022, with a specific focus on the topic in the digital era.

In Nigeria, stakeholders have come together at events and webinars to highlight the importance of leveraging digital tools to enhance financial inclusion among underrepresented groups. The Central Bank of Nigeria also issued operational guidelines for

open banking, which is widely expected to be a ‘boon to the drive for increased financial inclusion’ according to a survey respondent.

To improve access to financial services, Angola also introduced bankita accounts, which are a minimum services account provided by private banks and regulated by the central bank. A new directive requires banks to provide financial services in every municipality by means of a branch or banking agents. This initiative could bring about more financial inclusion in rural parts of the country.

Other countries in the index have continued to develop mobile and digital platforms to improve their domestic investor capacity. Mozambique stock exchange has released its Dashboard mobile application and BVM investor portal. Mauritius continued to develop its mySEM application to educate retail investors. The Capital Markets Authority in Kenya, with the support and endorsement of other financial institutions in the country, launched the Dosikaa app to boost retail participation. The app offers portfolio-tracking tools and allows trading of stocks listed at the Nairobi Securities Exchange. Seychelles, Uganda, Zambia, Zimbabwe, Eswatini, Botswana and Nigeria also have mobile apps to provide data and enable online trading.

Pillar 5:

Macroeconomic environment and transparency



Pictured: The Valley of the Kings, Egypt.

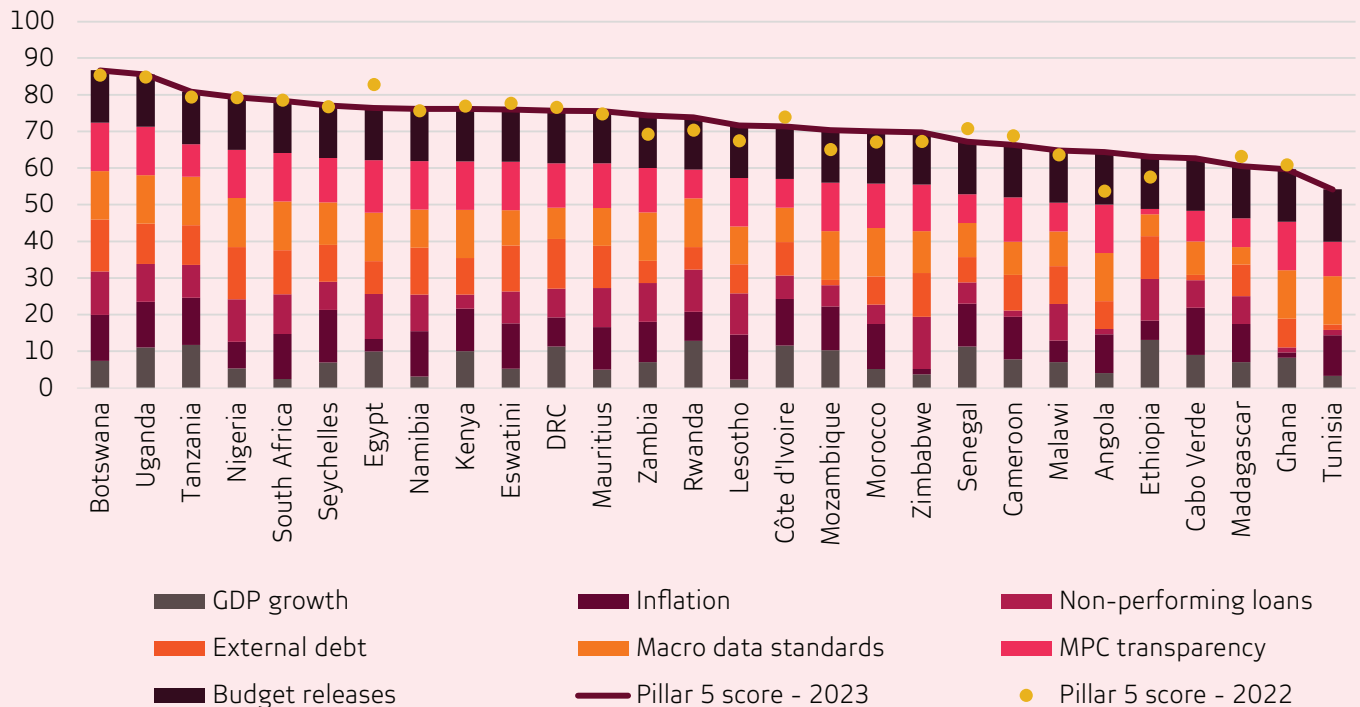
Pillar 5 considers countries' macroeconomic environments and the transparency of economic data and policy decisions.

Key findings:

1. Scores rose in the majority of countries as economies started to stabilise following recent external shocks.
2. Most countries scored higher due to inflation falling, though notable exceptions include Egypt, Côte d'Ivoire and Senegal.
3. Almost all countries scored highly for the timeliness and transparency of their economic data and policy decisions.

Figure 5.1. Improving macro outlook boosts scores for most countries

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



Sources: IMF, Refinitiv, national central banks, national finance ministries, OMFIF analysis

Note: The overall Pillar 5 score represents the average harmonised score of all Pillar 5 indicators. Scores from 2022 are updated to incorporate any revisions and may not reflect those published in AFMI 2022. More information about revisions can be found on pp.42-43.

This pillar considers the stability of the macroeconomic environment as well as measures of economic data and policy transparency that offer investors clarity. Pillar 5 scores have edged higher in the majority of AFMI countries this year as economies have generally stabilised, having been previously rocked by the pandemic and spillovers from the Russia-Ukraine conflict.

Diverging inflation outlooks

Botswana and Uganda continue to lead in Pillar 5 with scores of 87 and 86, respectively, up 1 point from 2022. Both countries score highly on their transparent fiscal and monetary policy decisions, as well as timely data releases for key macroeconomic variables. These countries also have relatively low ratios for non-performing loans and external debt, particularly Botswana where external debt is just 10% of gross domestic product.

The inflation outlook has improved in Botswana and Uganda in the 12 months to June. While inflation had been in double-digit territory in 2022, it has since fallen below 5% in both economies – within their central bank targets. Recent communications from the Bank of Botswana and Bank of Uganda pin this decrease on lower food and fuel inflation and, in the latter, on recent policy tightening.

The trend of disinflation has been widespread. The headline rate has declined in 16 AFMI countries over the past year, most notably in Angola. Inflation there dropped to 11.3% in June, from 23.0% a year earlier, owing to earlier monetary tightening and the appreciation of the kwacha for much of 2022. This boosts Angola's score on inflation by 3 points within Pillar 5.

However, inflation is still a concern for many in Africa. Over 20 survey participants listed it as a key challenge to their capital market development and it has accelerated in 12 countries over the past year. The divergence is shown by the historically large interquartile range of inflation outcomes among AFMI economies (Figure 5.2).

Eight countries, including Ghana, Nigeria and Egypt, have inflation running above 20%, which weighs

on their Pillar 5 scores. These three countries have eased, or removed, fuel subsidies and have experienced significant exchange rate devaluations in the past year. In Egypt, the surge in inflation to 35.7% in June contributes to the country falling by 6 points and ranking seventh in Pillar 5, from third position last year.

Growth opportunities amid global shocks

The fall in Egypt's overall ranking lifts South Africa into the top five in this pillar despite its relatively gloomy economic outlook. The IMF projects that South Africa's average annual GDP growth will be just over 1% over the next five years – weaker than that of any other AFMI economy. This is linked to the struggles in its power supply and transport infrastructure.

One survey respondent from South Africa noted that the country's weak GDP growth is 'affecting capital markets and ultimately influencing the increase in de-listings'. Nonetheless, South Africa scores well on other indicators in Pillar 5 such as its economic information and data transparency and low external debt.

Across AFMI economies, with the detrimental impact of the pandemic unwinding, average annual growth is expected to rise to 4.5% over the next five years, from 2.9% over the last five years. The IMF projects that growth will

be strongest, at over 7% annually, in Mozambique (Figure 5.3). This is due to the economic boost from an offshore liquified natural gas platform that started operations in October 2022 and forecasts for two further projects to start production later this decade. The improving growth prospects in Mozambique contribute to its 5-point increase, to 70, in this pillar.

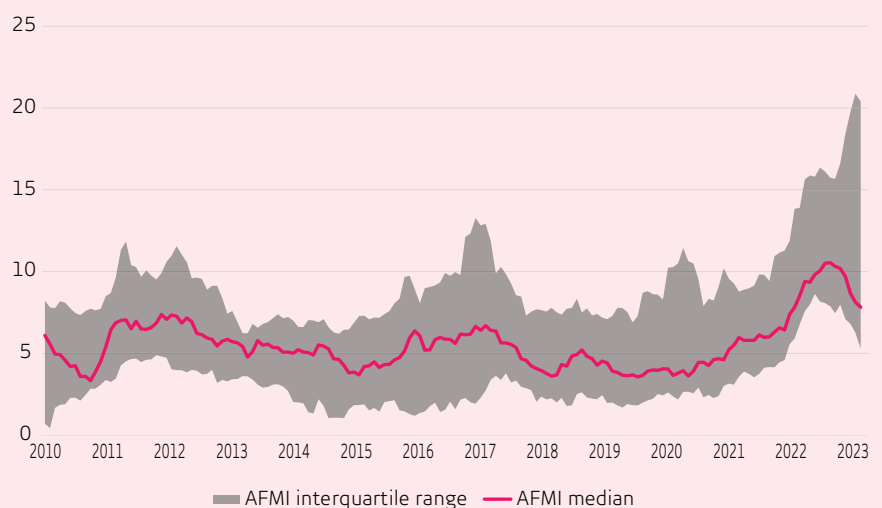
More generally, there is a clear focus on natural resource sectors to drive growth across the continent. Survey participants in 17 AFMI countries mentioned that agriculture, mining and/or oil industries provide one of the main opportunities for their economies. There is some optimism in Uganda on this front as, earlier this year, the Petroleum Authority of Uganda launched its first oil-drilling programme and the country is targeting its first oil output in 2025. Alternatively, survey respondents in Cabo Verde, Mauritius, Namibia, Seychelles, Tanzania and Tunisia mentioned the opportunities presented by renewable energy industries for boosting their economic growth and financial market development.

Banking and debt indicators

One factor that threatens to cloud the outlook in some countries is high external debt. Ghana defaulted on its debt obligations in late 2022 and is pursuing a debt restructuring deal with

Figure 5.2. Inflation generally falling but wide divergence

Consumer price indices, AFMI median and interquartile range, % year on year



Source: Refinitiv, national central banks, OMFIF analysis

creditors, including for domestic debt. It is one of five AFMI countries currently in debt distress, as defined by the IMF, with a further three at high risk.

As a share of GDP, external debt increased in 15 AFMI economies in 2022. External debt ratios are highest at over 90% in Tunisia and Cabo Verde, which drags down their Pillar 5 scores. The median for the AFMI sample rose to 32.4% of GDP in 2022 and IMF projections point to a further increase in the coming years to the highest since 2005 (Figure 5.4). The Fund explained this is due to rising borrowing costs from the tightening of financial conditions globally, the

reduction in aid budgets to Africa and weaker inflows from China. In this environment, the IMF has advocated for the consolidation of public finances across Africa, though this may weaken growth prospects in the near term.

The outlook on this front is improving in a handful of countries. Zambia improves its score by 5 points in this pillar, linked to the decline in its external debt. After defaulting in 2020, this year Zambia's government reached an agreement with lenders to restructure \$6.3bn of debt, which paved the way for a new IMF deal. One survey participant mentioned 'progress made on the debt restructuring front

stands to support positive market sentiments going forward'.

In Angola, external debt fell sharply to 44.2% of GDP in 2022, from 68.9% in 2021, largely owing to strong nominal GDP growth and aided by prepayment of external creditors using oil revenues. This, alongside the fall in inflation, boosts Angola's score by 10 points to 64 in Pillar 5. However, one lingering issue in Angola is its banking sector. Non-performing loans rose above 15% of gross loans in 2022, the highest among AFMI countries, and the Angolan authorities are working to restructure the fragile banking sector to resolve the issue.

Elsewhere, NPL ratios fell in the majority of AFMI countries in 2022 as banking sectors continued to recover from pandemic-linked disruption. Eswatini and Senegal recorded the biggest improvements on this measure, which bolsters their Pillar 5 scores.

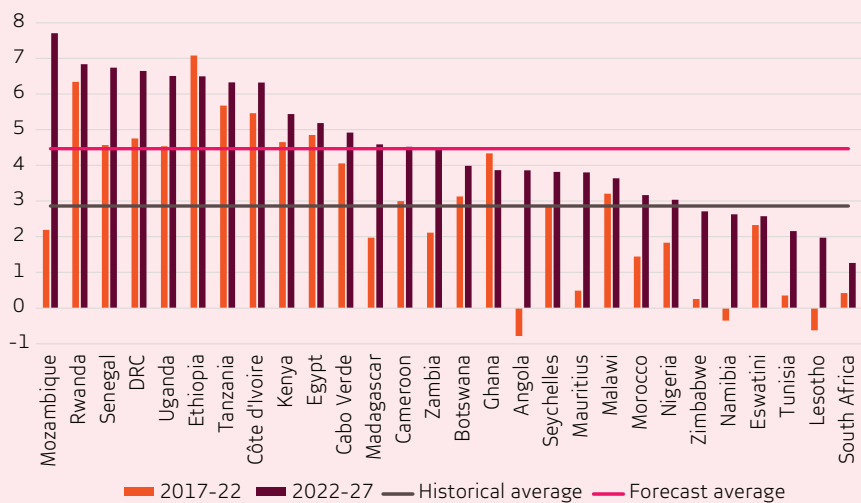
High scores for data transparency

Most countries score highly from their transparent fiscal budgets and monetary policy decisions. The DRC improved its score on this front as, at the start of the year, the Bank of Congo published a schedule of its quarterly monetary policy committee meetings. In total, central banks in 20 AFMI countries release a calendar of meetings which provides market participants with clarity over key policy decisions.

The DRC also scores well from the weekly publication of its inflation data, whereas central banks and statistics agencies in AFMI publish this on a monthly basis. That said, the DRC is one of four economies which produce annual rather than quarterly GDP data, suggesting there is scope for improvement on its data reporting. Overall, among the 28 countries in AFMI, the average score for the macroeconomic data standards is 79 out of 100. This suggests there is generally regular and timely data releases across the continent. This allows policy-makers and investors to make more informed decisions, which should improve confidence in financial markets.

Figure 5.3. Mozambique expected to be a growth star

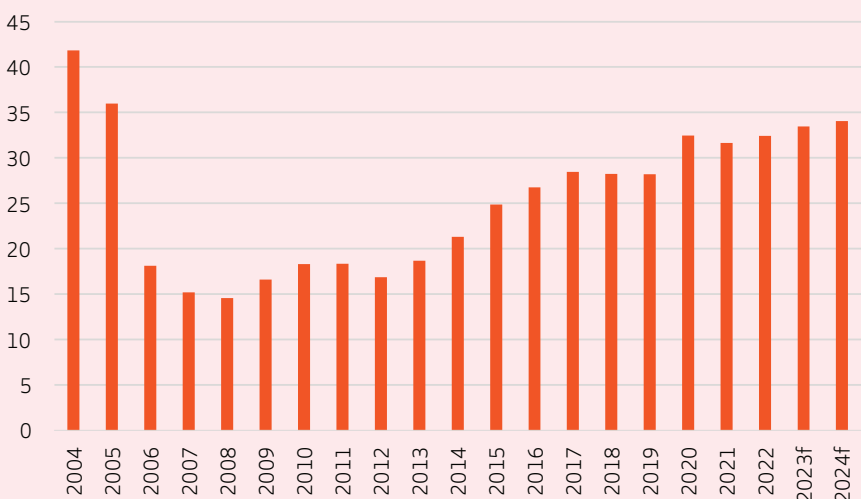
Compound annual GDP growth rate, five-year historical and forecast average, %



Source: IMF, OMFIF analysis

Figure 5.4. AFMI external debt highest in over a decade

AFMI median external official debt, % of GDP



Source: IMF, OMFIF analysis

Note: 2023 and 2024 figures based on IMF forecasts.

Pillar 6:

Legal standards and enforceability



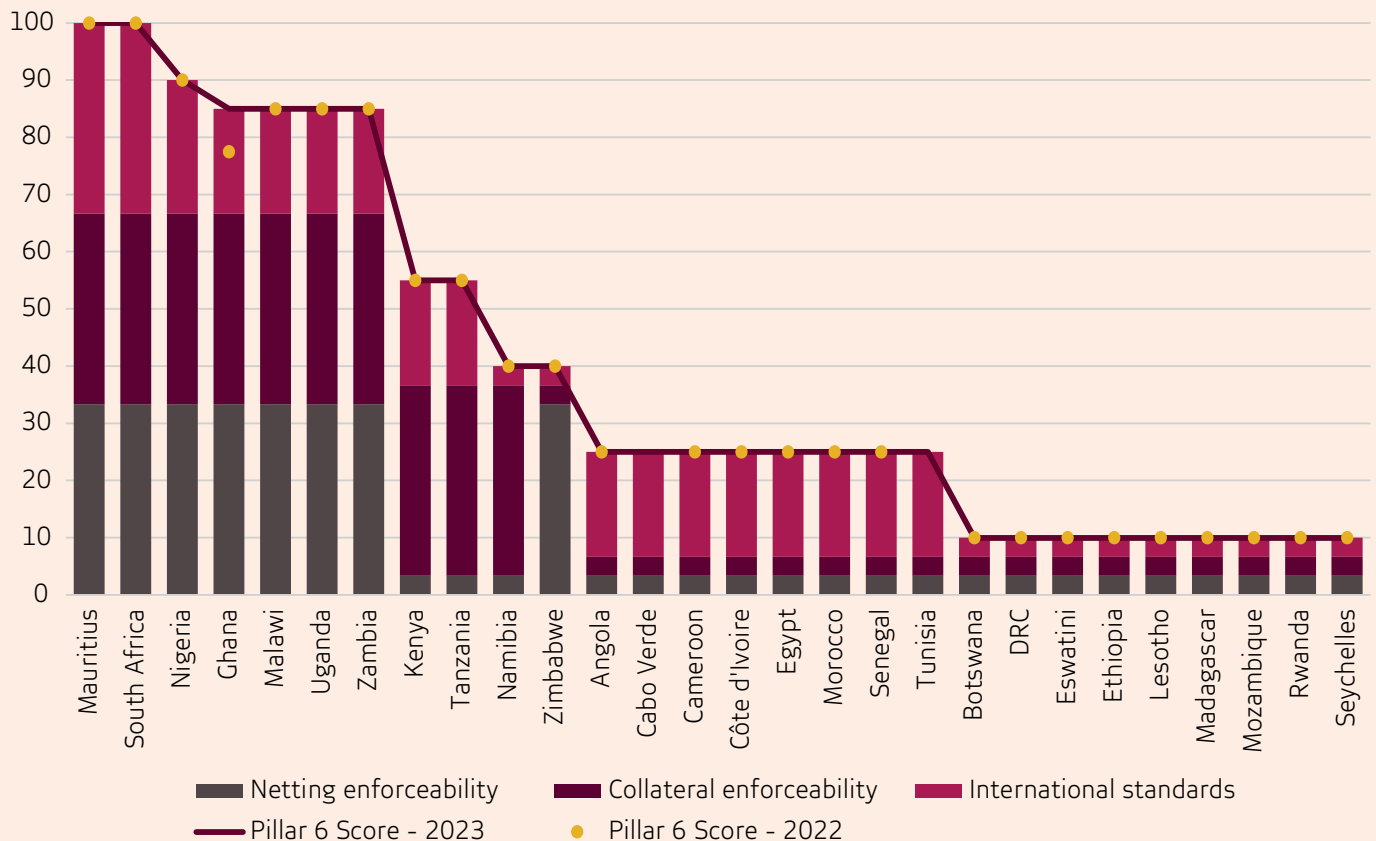
Pillar 6 considers countries' alignment with international legal and contractual standards for financial markets, centred around the enforceability of standard master agreements.

Key findings:

1. Mauritius and South Africa continue to score highest as the only index countries to receive clean legal opinions from three major international bodies.
2. Ghana's score rose by 8 points as its Securities and Exchanges Commission became a signatory of the International Organization of Securities Commissions' multilateral memorandum of understanding.
3. Survey participants highlighted superseding domestic laws, low awareness and underdeveloped markets as the main barriers to the use of standard master agreements.

Figure 6.1. Disparity on legal frameworks remain

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



Sources: AFMI 2023 survey, International Swaps and Derivatives Association, Frontclear, International Organization of Securities Commissions

Note: The overall Pillar 6 score represents the average harmonised score across all Pillar 6 indicators. Scores from 2022 are updated to incorporate any revisions and may not reflect those published in AFMI 2022. More information about revisions can be found on pp.42-43.

Gaps in existing legislation can undermine confidence in enforceability. Superseding bankruptcy laws is an issue in some jurisdictions as it can lead to inconsistent results.

Pillar 6 primarily examines the legal enforceability of standard master agreements. The three main contracts considered are the International Swaps and Derivatives Association Master Agreement, the Global Master Repurchase Agreement and Global Master Securities Lending Agreement. These agreements govern over-the-counter derivatives, repurchase agreements and securities lending transactions.

The close-out netting and financial collateral arrangements within these agreements allow financial institutions and businesses to consolidate several transactions into one obligation. Together, these mechanisms help to minimise counterparty credit risk and facilitate more efficient use of capital.

One important consideration is the legal certainty that these agreements will be upheld in the event of a contract termination, such as insolvency. This clarity encourages transactions under these agreements and the participation of counterparties overseas. This can

enhance greater financial stability and the development of domestic markets.

In this year’s report, we use a more robust measure for the strength of legal framework by considering clean legal opinions from three global trade associations – ISDA, the International Capital Markets Association and International Securities Lending Association – which oversee the respective standard master agreements. These external opinions provide a strong signal that the provisions contained in each master agreement are truly enforceable and that local laws do not conflict with close-out netting provisions.

This ‘international standards’ measure replaces the previously used ‘use of standard master agreements’ indicator, which was inferred by survey responses. Note that 2022 results have been adjusted to take account of this new methodology, so Pillar 6 scores from last year may not reflect those published in AFMI 2022.

Mauritius and South Africa continue to attain the maximum score in this

Figure 6.2. Netting legislation present in seven AFMI countries
Status of netting legislation and legal opinions from international trade bodies

Country	Netting legislation status	Legal opinions
Mauritius	Adopted	ISDA, GMRA, GMSLA
South Africa	Adopted	ISDA, GMRA, GMSLA
Nigeria	Adopted	ISDA
Ghana	Adopted	
Uganda	Adopted	
Zambia	Adopted	
Zimbabwe	Adopted	
Egypt	Under consideration	
Ethiopia	Under consideration	
Morocco	Under consideration	
Seychelles	Under consideration	
Tunisia	Under consideration	

Source: ISDA, ICMA, ISLA, OMFIF analysis

Note: Netting legislation is based on data available from ISDA.

pillar. These countries are the only ones to have received clean legal opinions from each of ISDA, ICMA and ISLA (Figure 6.2). Nigeria also scores highly having attained a clean legal opinion from ISDA in 2022. This came after dual legislation – in the Companies and Allied Matters Act 2022 and Banks and Other Financial Institutions Act 2020 – provided legal support for the enforceability of close-out netting and title transfer collateral arrangements.

However, these netting statutes have yet to be tested in a court setting. A survey participant suggested that ‘there is a need for enshrining the enforceability of netting provisions for banks and other financial institutions governed by BOFIA’, to strengthen close-out netting enforceability. Doing so could help to alleviate any doubts as to whether sector-specific laws may impede contractual provisions in the event that one counterparty defaults, and could also grant Nigeria clean opinions from other bodies.

The absence of a legal opinion does not necessarily mean that netting legislation is not in place, or that netting and collateral provisions are not enforceable. In Uganda, the Financial Institutions Regulations 2023 bill was passed in April. It seeks to encourage wider adoption of standard master agreements by strengthening the enforceability of close-out netting provisions. Uganda is now one of the seven economies in the index to have adopted netting legislation according to ISDA, though has yet to receive a clean opinion.

Early benefits are already starting to show in repo markets. As observed

by one survey participant, in the year to June, transaction volumes of horizontal repos under the GMRA rose by more than a third compared to the previous year, with 44% of this annual sum coming in the three months following the law’s passage. To foster further confidence among market participants, a survey participant from the country mentioned that ‘the process for Uganda to be affirmed as a clean netting jurisdiction’ is underway through the drafting of a bespoke netting bill.

Progress to reform legal frameworks

While there have been minimal changes to the scoring in the past 12 months, incremental progress has been noted in several jurisdictions. A survey respondent from Egypt stated they are ‘paving the way for the introduction of derivatives products to the domestic market by drafting a netting law,’ which is currently in its final stages. Similar efforts to reform derivatives laws are underway in Morocco and Tunisia – where netting legislation is also under consideration by ISDA, with the latter using technical assistance from the European Bank for Reconstruction and Development.

In Rwanda, authorities are consulting with international organisations to adapt their legislation regarding the holding and circulation of securities. A local respondent mentioned this process will help towards ‘the implementation of GMRA and ISDA standards’. It’s a similar situation in Botswana. Authorities there amended the Banking Act, which includes sections to support close out netting.

This serves as a precursor to wider reforms, and a survey participant from Botswana said they are working with Frontclear – a development finance organisation – ‘to address the constraints to money and capital markets development in Botswana,’ including the enforceability of standard master agreements.

Alongside multilateral bodies such as the International Finance Corporation, International Monetary Fund and World Bank, Frontclear is providing technical assistance in other AFMI countries such as Madagascar and Tanzania. With the United Nations Economic Commission for Africa, it has also made progress towards establishing bespoke umbrella guarantee facilities that promote interbank transactions underpinned by ISDA and GMRA standards. The first was set up in Uganda last year, with more than half of eligible local banks currently participating. A second facility launched in Tanzania in July and an initiative with Zambia is in the pipeline. Elsewhere, Kenya’s new central securities depository system, DhowCSD, secures full title transfer of collateral as required by the GMRA, which could provoke wider adoption of master agreements.

Confronting barriers to adoption

Survey respondents identified several common challenges in promoting the use of standard master agreements. For those in the earlier stages of financial market development, the most pressing is the nascent state of derivatives and repo markets. As highlighted by a survey participant from Mauritius, ‘the market governs the use of master agreements,’ so low volumes of transactions can be a major constraint in underdeveloped markets.

Otherwise, gaps in existing legislation can undermine confidence in enforceability. Superseding bankruptcy laws is an issue in some jurisdictions as it can lead to inconsistent results. A survey respondent from Seychelles pointed out issues regarding the Insolvency Act 2013 as one provision allows the



Uganda is now one of the seven economies in the index to have adopted netting legislation according to ISDA.

liquidator to ‘cherry pick contracts and only honour those in favour of the insolvent company’. Close-out netting legislation can help to remove grey areas, though there are issues on this front in some countries. A survey participant in Tunisia mentioned a ‘main obstacle is national law, mainly relating to netting and close-out netting clauses’. This concern is shared by a respondent in Namibia who said the country has an outdated insolvency law that ‘does not make provision for netting-off in the event of insolvency between of the counter parties’. While a new Financial Institutions and Markets Act that addresses these flaws was due to be enacted last year, it has since been postponed.

Even if legal challenges are overcome, another barrier is the lack of understanding among market participants. A survey participant in Ghana mentioned ‘market participants are accustomed to using non-standardised or legacy agreements,’ which is hindering adoption of GMRA and impeding access for international investors. To counter this, various survey respondents said they have conducted workshops and, in some cases, regulators have published guidelines for specific contracts. As summarised by a Nigerian respondent, authorities hope that ‘The more market participants are taught about the standard master agreements, and their usage, the greater and more likely the adoption rate.’

Ghana boosted by IOSCO commitment

Beyond legal opinions for standard master agreements, another indicator considered under international standards in Pillar 6 this year is a country’s signatory status to the International Organization of Securities Commission’s multilateral memorandum of understanding. The IOSCO MMoU provides a benchmark for international co-operation and transparency in securities and derivatives law enforcement, which can bolster investor confidence.

Ghana’s score in Pillar 6 rose to 85 this year, from 78, as its Securities

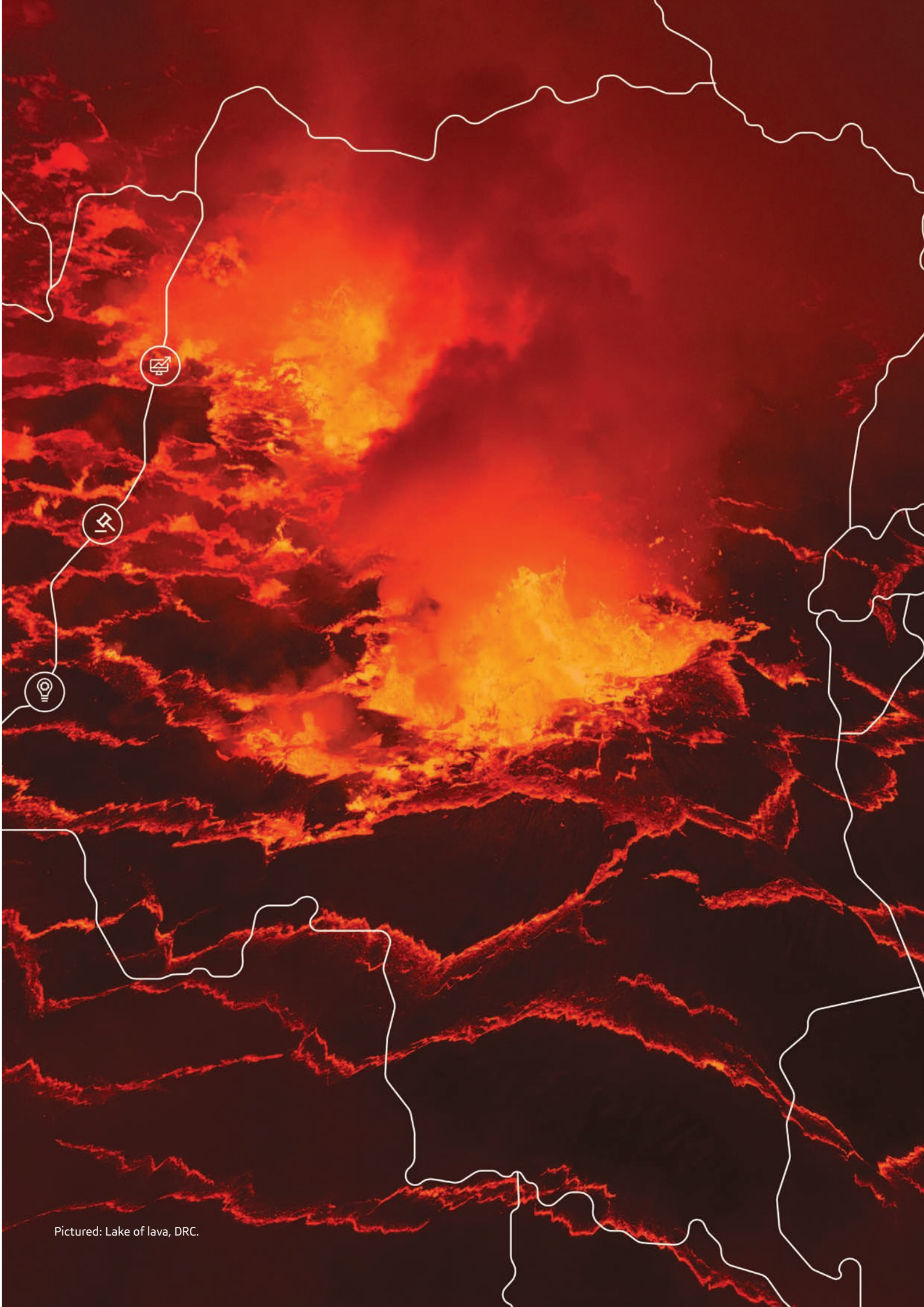
and Exchange Commission became a signatory to Appendix A in September 2022. It is the 17th AFMI jurisdiction where these standards have been signed (Figure 6.3). Previously, Ghana had been an Appendix B signatory, pledging to become a full signatory once legally authorised. Elsewhere, in Seychelles, a respondent noted that they are ‘undertaking application for membership of IOSCO’ as this would increase ‘confidence of investors that the securities industry is regulated in the same manner and abides to international standards of capital market regulations’.

The IOSCO MMoU provides a benchmark for international co-operation and transparency in securities and derivatives law enforcement, which can bolster investor confidence.

Figure 6.3. Most AFMI countries are IOSCO MMoU signatories
IOSCO MMoU Appendix A signatories

Country	Year signed	Regulator
Ghana	2022	Securities and Exchange Commission
Cabo Verde	2019	Auditoria Geral do Mercado de Valores Mobiliários, Banco Central of Cabo Verde
Zambia	2018	Securities and Exchange Commission
Angola	2017	Comissão do Mercado de Capitais
Egypt	2017	Financial Regulatory Authority
Uganda	2017	Capital Markets Authority
Cameroon	2015	Commission de Surveillance du Marché Financier de l’Afrique Centrale
Malawi	2013	Reserve Bank of Malawi
Mauritius	2012	Financial Services Commission
Tanzania	2011	Capital Markets and Securities Authority
Tunisia	2009	Conseil du Marché Financier
Côte d’Ivoire Senegal	2009	Autorité des Marchés Financiers de l’UMOA
Kenya	2009	Capital Markets Authority
Morocco	2007	Autorité Marocaine du Marché des Capitaux
Nigeria	2006	Securities and Exchange Commission
South Africa	2003	Financial Sector Conduct Authority

Source: IOSCO



Pictured: Lake of lava, DRC.

Africa Financial Markets Index – Indicators

Using a variety of qualitative and quantitative data, the Absa Africa Financial Markets Index records the openness and attractiveness of financial markets in 28 African countries. Countries are scored on a scale of 10-100 based on six pillars comprised of over 40 indicators.

Pillar 1: Market depth

Size of market

Domestic equity market capitalisation, sovereign bonds and corporate bonds outstanding, all as a share of GDP

Liquidity

Total turnover of domestically listed sovereign bonds, corporate bonds and equities as a share of bonds outstanding and market capitalisation, respectively

Product diversity

Financial asset classes available, including sustainable finance and hedging products

Currency availability of stock exchange products

Depth

Ability to clear local currency government securities in international markets

Existence of secondary market makers for bonds

Existence of closing auctions for fair tradeable market prices

Primary dealer system

Existence of primary dealer system

Average daily horizontal repo turnover

Pillar 2: Access to foreign exchange

FX reserves adequacy

Foreign exchange reserves in months of import coverage

FX liquidity

Annual interbank market foreign exchange turnover

Capital restrictions

Restrictions on capital transactions

Existence of multiple, dual or unified exchange rate

Adoption of FX Global Code

Official exchange rate reporting

Frequency of reporting and publishing exchange rate data

Pillar 3: Market transparency, tax and regulatory environment

Financial stability regulation

Basel Accords implementation stage

Climate stress testing

Corporate reporting standards and governance

Use of international accounting and reporting standards (IFRS)

Existence of corporate action governance structure

Tax environment

Level of withholding taxes on interest and dividends

Number of double taxation 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

ESG initiatives and standards

Incentives for issuing sustainable finance products

Initiatives integrating ESG into financial market standards

Existence of credit ratings

Existence of international sovereign credit rating (Fitch, Moody's, S&P)

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

Pillar 4: Capacity of local investors

Pension fund size

Value of pension assets per capita

Pension fund assets to domestically listed assets

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

Pillar 5: Macroeconomic environment and transparency

GDP growth

Five-year average annual GDP growth, historical and projected

Inflation

Year-on-year change in consumer price index

Non-performing loans

Non-performing loans as a share of gross loans

External debt

External debt as a share of GDP

Macroeconomic data standards

Publication and frequency of GDP, inflation and interest rate data

Monetary policy committee transparency

Publication and frequency of MPC decisions and meeting schedules

Budget release

Publication of annual fiscal budget

Pillar 6: Legal standards and enforceability

Enforceability of netting and collateral positions

Existence of legislation for close-out netting and financial collateral positions

International standards

Clean legal opinions for ISDA, GMRA and GMSLA master agreements
IOSCO multilateral memorandum of understanding signatory

Methodology

Data and survey

The data informing the scores for each pillar and their indicators stem from a mixture of quantitative and qualitative analysis. The quantitative data collected are from the latest year available. For full year statistics (e.g. external debt, pension fund assets, non-performing loan ratio) this is 2022 data. For statistics covering the previous 12 months (e.g. market liquidity) this is July 2022 to June 2023. 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 June 2023.

Quantitative data were collected using Refinitiv and publicly available sources, including websites of central banks and securities exchanges, as well as survey responses. Where no such official data are available, OMFIF uses reliable sources from the financial industry and research community.

The survey was conducted between June and September 2023, covering more than 50 organisations operating throughout Africa. Participants included central banks, securities exchanges, regulators, international organisations, banking associations and accounting firms.

Scoring

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

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

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

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

Changes to indicators

This year, adjustments have been made to indicators included in Pillars 1, 2, 3 and 6. In most cases, this was to improve the robustness of results by including standardised measures and reducing reliance on survey respondents.

In Pillar 1, given its growing importance in global finance, the existence of Islamic financial products on domestic exchanges is incorporated in the measure for product diversity.

In Pillar 2, the measure for the stringency of capital controls now is taken by totalling the number of controls on capital transactions using data from the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions. This metric

was previously inferred from survey responses.

In Pillar 3, an indicator regarding the effectiveness of capital market development policies was removed. This had previously been informed from surveys.

In Pillar 6, a measure of international standards has been introduced to replace a previous indicator regarding the use of standard master agreements, which had been informed by survey responses. The new metric accounts for signatories to the International Organization of Securities Commissions' multilateral memorandum of understanding, as well as clean legal opinions by three global trade associations – International Swaps and Derivatives Association, the International Capital Markets Association and International Securities Lending Association.

2022 scores

Scores for 2022 may not correspond with those published in last year's AFMI report. Changes to the indicators mentioned above in Pillars 2, 3 and 6 were applied to 2021 data to neutralise the impact of methodological changes, thus allowing for accurate year-on-year comparisons.

Moreover, 2022 data were adjusted to take account of any revisions, newly available data and/or improved data collection methods. This includes:

- **Botswana:** this year's survey confirmed that provisions for financial collateral provisions are not enforceable under domestic law (Pillar 6). This was previously marked as yes.
- **Cameroon:** this year's survey responses verified the prior existence of corporate action governance rules and ESG market standards (Pillar 3). This was previously marked as not in effect.
- **Ghana:** the value for corporate bonds outstanding (Pillar 1) was adjusted to \$1,539 using published data from the Ghana Fixed Income Market. It was previously recorded as \$3,491 using data from survey respondents.
- **Mauritius:** Survey respondents amended the figure for 2022 pension fund assets to \$4.75bn, from \$4bn (Pillar 4).
- **Namibia:** The Namibian Stock Exchange directive for NamCode subscribers to appoint a social, ethnics and sustainability committee is now considered in the measure for ESG market standards but was previous marked under incentives for ESG issuance (Pillar 3).
- **South Africa:** The value to 2022 pension fund assets was amended to \$160.3bn using data from the South African Reserve Bank for total official retirement funds (Pillar 4). This was previously marked as \$167.2bn using data from survey respondents.
- **Zimbabwe:** Survey respondents verified that the securities exchange does not have closing auctions for fair prices, which was previously noted as yes (Pillar 1). Annual interbank FX liquidity in the previous period was amended to \$453.3m, from \$15.1bn (Pillar 2).
- **All countries:** The latest IMF data include revisions to 2022 data for foreign exchange reserve adequacy (Pillar 2), as well as non-performing loans, external debt and GDP growth (Pillar 5).

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