

FINANCE IN AFRICA

Unlocking investment in an era
of digital transformation and climate transition



European
Investment Bank

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About the EIB Economics Department

The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The department and its team of economists is headed by Debora Revoltella, director of economics.

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About the report

The Finance in Africa report is a product of the EIB Economics Department, providing an analysis of recent developments in the African financial sector and specific structural topics of relevance. It combines in-house research with contributions from leading market experts from commercial banks operating in the region, international finance institutions and other institutions. This report was prepared on the basis of data available in June 2024.

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Foreword

Africa has the potential to become a catalyst for global change. With its vast landscapes, a youthful population and a wealth of untapped resources, it could be the continent that drives the global green transition of the 21st century. With the right investments – in infrastructure, education, health and climate – Africa will be able to overcome the challenges it faces. The European Investment Bank remains the ideal partner for supporting these much-needed investments.

Our commitment to closing investment gaps extends well beyond Europe's borders. The European Investment Bank is a key contributor to Global Gateway, the EU strategy for narrowing global investment gaps for vital infrastructure. Our reach is truly global, with operations in more than 140 countries beyond Europe – and in almost all African countries – building on decades of development experience. We have been investing in Africa since 1963, financing a wide range of projects that support sustainable economic development.

Partnership is at the core of the European Investment Bank's work. We deliver all our investments through partnerships, which enable us to expand our reach, maximise our impact and transform lives. For example, the Bank supported the supply of COVID-19 vaccines for low- and middle-income countries as part of COVAX, a historic multilateral effort to battle the pandemic, of which many African countries were beneficiaries.

Our projects in Africa across a range of sectors are producing tangible results. The Bank signed operations worth more than €3 billion across the continent in 2023. These projects are expected to provide safe drinking water to 1.7 million people, create 115 800 new connections to electricity networks and sustain 614 000 jobs in small firms and mid-caps.

Africa is still recovering from the global shocks of recent years, but growth is picking up, economic imbalances are diminishing and access to financial markets is improving. The banking sector's continued resilience to recent shocks has helped the continent respond to challenges, but more efforts are needed to improve the availability of finance.

Our actions reverberate globally. This report highlights some of the remarkable achievements of the African financial sector and shows the way forward in new areas of partnership, which can drive further positive change for the people of Africa.



Debora Revoltella
Director, Economics Department
European Investment Bank

Executive summary

The world is changing, and economic relationships increasingly follow geopolitical fault lines. The European Union's partnership with Africa has long been crucial, and bringing the two continents even closer together is key to the global promotion of European economic and security priorities – one of four cornerstones of the EU strategic agenda. The joint European Union-Africa strategy focuses on various priorities, including sustainable growth and human development.¹ This strategy is consistent with the priorities of [Global Gateway](#), an EU investment vehicle aiming to tackle critical investment gaps across the world. The inaugural milestone of the Global Gateway was the Africa-Europe Investment Package, with approximately €150 billion of investment dedicated to strengthening cooperation with African partners. The European Investment Bank (EIB) has been a key player in the Global Gateway, participating in 110 of the 168 [Team Europe initiatives](#).

Increased financing is needed on the African continent to reach development goals and climate targets, which will require enhanced domestic financial markets and more international financial flows. Africa needs additional financing of about \$194 billion a year to achieve the [UN Sustainable Development Goals](#) (SDGs) by 2030, equivalent to 7% of African gross domestic product (GDP).² However, this is against a background of declining global capital flows and weak development of domestic credit markets. Development banks play a vital role in growing domestic financial markets, providing international capital flows and catalysing greater private sector development. This report helps identify gaps and opportunities in the African financial sector.

Although economic challenges – particularly inflation – persist, 2024 will hopefully be a turning point for the economic and financial pressures facing African countries. Some problems undoubtedly still need resolving, with several African countries not reflecting the downward trend in inflation seen across the world (the 2024 rate might actually be marginally higher than the 17% observed in 2023³). This situation could delay or slow a loosening in monetary policy on the continent, which would affect private sector financing. Nonetheless, economic growth is expected to increase in Africa in 2024 and 2025, with growth in the five-year period between 2024 and 2028 potentially being the fastest on record since 2008-2012, as the drag on economic activity caused by recent global shocks begins to fade.⁴

The EIB financial conditions index points to a loosening in financial conditions following a severe tightening from mid-2021 to mid-2023. The financial conditions index initially covered four countries when it was introduced in last year's Finance in Africa report, but has now been expanded to ten countries across the continent. The index shows that the tightening in financial conditions was worse for some of the larger countries such as Nigeria, Kenya and Egypt, which faced significant macroeconomic difficulties during the period. There appears to be a loose relationship between changes in sovereign creditworthiness and the financial conditions index at the country level, and financial conditions in countries with better fundamentals are generally back to their pre-pandemic state. The loosening in our financial conditions index is mirrored by an improvement in sentiment on global capital markets, which – starting from late 2023 – has benefited the bond yields on African sovereigns, resulting in some countries (such as Benin and Côte d'Ivoire) regaining access to international bond markets. Declining bond yields also indicate that markets are less worried about a fresh wave of sovereign default in Africa.

Sovereign debt issuance may have been low in 2023, but sustainable debt issuance remained buoyant. Sustainable debt issuance involves various debt instruments, including green bonds, social bonds and sustainability-linked loans. Sustainable debt increased sharply in 2021, driven by a large increase in issuance in Southern Africa and continued activity by multilaterals. The government sector is the dominant issuer of this debt type, but financial firms have become increasingly active over time, especially since 2021.

1 [The Africa-EU Strategic Partnership](#).

2 AUC/OECD (2023). [Africa's Development Dynamics 2023: Investing in Sustainable Development](#). Addis Ababa: AUC/Paris: OECD Publishing.

3 African Development Bank (2024). [African Economic Outlook 2024](#).

4 [International Monetary Fund World Economic Outlook Database](#) (April 2024).

There is also evidence of a greenium (a green premium) in the issuance of green bonds by multilateral development banks in Africa, meaning yields are lower on green bonds than they are on non-green bonds. However, the greenium is relatively small and only evident for longer-maturity debt (more than three years in tenor). In advanced markets, there is evidence of a small greenium at shorter maturities.⁵

Despite encouraging trends in some financial markets, progress on some development metrics is slow in Africa and the lack of finance is an ongoing issue. Africa is a high-growth region – only developing Asia is typically able to outpace it in this area. However, at 3.1%, Africa’s share of global GDP has barely moved over the last 20 years and income convergence with developed countries is very slow. A factor frequently cited as restricting development in Africa is the relatively low level of industrialisation on the continent, while agriculture retains a very high share of GDP – something that has also not changed in 20 years. Africa’s low participation in global value chains is another factor linked to low industrialisation and slow private sector development.

Various bottlenecks – including a lack of infrastructure, a shortage of skilled workers and a lack of access to finance – are impeding development in Africa. Addressing these problems could unlock major development potential. Domestic and external sources of finance have dwindled over time. In recent years, Africa has experienced declines in foreign direct investment, overseas development aid, portfolio flows and cross-border bank flows. Domestically, government revenue as a share of GDP is 18%, which is well below that of other developing regions, further limiting the funds available for investment. Investment and private sector-led growth are also restricted by excessive bank lending to the public sector. Our severity of crowding out index (measuring the degree to which bank lending to sovereigns constrains bank lending to the private sector, and hence private sector investment and private sector-led growth) improved in 2024 but remains high. This is mirrored by a decline in private sector credit as a share of GDP, which fell to 37% in sub-Saharan Africa in 2022 from 56% in 2007. Meanwhile, growth in private capital stock (the productive base of the economy) in Africa has not kept pace with other regions. These findings highlight the need to support the financial sector in order to underpin private sector development. Moreover, if governments can mobilise additional domestic resources while simultaneously improving fiscal metrics, there is an opportunity to support domestic investment, plug infrastructure and skills gaps and potentially lower borrowing costs for the real economy.

Banks in sub-Saharan Africa have seen profits grow in recent years, driven by the high interest rate environment. The textbook explanation for this is that interest rates on loans re-price faster than interest rates on deposits. However, this is not the reason for the recent situation in Africa. The median spread between interest rates on private sector loans and deposits has narrowed in the last three years, but banks have changed their asset mix and grown their bond portfolios (predominantly government bonds) much more quickly than their loan portfolios. Meanwhile, the spread between yields on government bonds and interest rates on bank deposits has also widened. Interest income therefore remained a key driver of profitability, but the interest was from government bond holdings rather than loans.

According to the ninth annual EIB Banking in Africa survey, economic conditions are the main concern in sub-Saharan Africa this year (cited by 77% of the banks surveyed), followed by asset quality (53% of banks). Funding issues also persist, with about one-third of banks citing a lack of capital and the cost or availability of funding as a problem. Although the provision of credit to the private sector in Africa has grown at double-digit rates over the last three years, the rate of inflation means that growth in private credit as a share of GDP has been meagre in many countries. Following the aforementioned decline in credit as a share of GDP between 2007 and 2022, progress on expanding credit markets remains elusive. This underpins the critical role of the EIB in supporting credit markets in Africa, particularly for the sectors that banks are typically less keen to finance.

⁵ Robeco (2024). *The greenium in high-rated euro bonds*. White paper.

Banks in sub-Saharan Africa are increasing their focus on gender balance in lending. Our survey found that 72% of banks already had a gender strategy and another 17% were planning to introduce one, which is broadly in line with the findings from 2023. This means that nine out of ten banks could soon have a gender strategy in place. In addition, two-thirds of banks have financial services or products specifically targeting women. There is some evidence that loan size differs between genders: While 59% of banks reported no difference in the size of loans to women, 38% reported that loans to female-led businesses are smaller than those to male-led businesses. However, banks continue to report better loan performance among female-led firms, with nearly 70% of banks observing lower rates of non-performing loans for these businesses. This again highlights the advantage of lending to women.

The EIB has been analysing the digital financial services environment (fintech) in Africa since 2020. This environment has experienced moderate growth over the last two years after expanding rapidly between 2020 and 2022.⁶ As of January 2024, there were more than 1 263 active fintech companies in Africa, up from 1 049 in April 2022 and 450 in 2020. Payments and lending services remain the dominant fintech products, with 33% of fintech firms offering payment solutions and 19% offering lending products. Fintech firms are still heavily concentrated in Africa's largest economies: Nigeria, South Africa, Kenya and Egypt host about 70% of fintech operators in Africa and attract about 80% of fintech funding. Nigeria is the leading country in the fintech market, with 28% of all the fintech companies on the continent.

According to the EIB banking survey, the provision of digital services is now a core offering from traditional banks, particularly in conventional services such as money transfer and payments. As a result, while banks are increasingly competing with fintechs, partnerships between the two are also common. Banks see strong incentives to partner with fintech companies, with reasons including improving customer experience (100% of banks in our survey); gaining access to innovative technology (95%); expanding their customer base (91%) and achieving cost savings (87%). With the goal of accelerating the digitalisation of financial services, almost nine out of ten banks surveyed across sub-Saharan Africa are investing in improving the digital skills of staff and management via dedicated training programmes.

Climate change is increasingly affecting the daily life of people in Africa, and banks are reporting non-negligible impact from physical climate risk, particularly in relation to small and medium-sized enterprise portfolios. A global EIB study on the impact of climate change⁷ reports that nearly 90% of people in Africa believe that climate change is affecting their everyday lives, one of the highest shares for any region in the world. The EIB country climate risk model finds that sub-Saharan Africa and North Africa are among the regions that are most vulnerable to physical climate risks. Encouragingly however, only 7% of sub-Saharan African banks in our survey report damage to their physical assets due to climate risks. This likely reflects the type of physical climate risk facing Africa. African countries tend to experience chronic physical risks, related to higher temperatures, drought and sea level rise, which can have a large economic impact – particularly on agriculture and productivity more broadly – but do not tend to damage physical assets. In other regions, physical climate risk is due to extreme weather events and storms. About a third of responding banks in our survey report declines in asset quality due to climate, with the vast majority of banks (93%) identifying micro, small and medium enterprises as the most affected borrowers. However, the majority of banks (59%) say climate has not had a material impact on asset quality. This seemingly surprising result can be explained by the fact that banks tend to have low exposure to climate sensitive sectors, notably agriculture, in many countries. Despite many banks not yet seeing the effect of climate change on asset quality, a considerable share of banks plan to cut back their exposure to sectors vulnerable to climate risk.

Climate change remains a key strategic objective for most banks, with climate actions directly related to strategic ambitions. Two-thirds of banks see the climate transition as an opportunity and four-fifths have set strategic climate objectives. In the 2024 survey, banks are assigned one of four labels based

6 For developments of digital financial services in Africa in previous years, please see EIB Finance in Africa 2022, Chapter 4.

7 EIB (2023). The EIB Climate Survey – Africa and the Middle East.

on their attitude towards climate change: cautious, follower, leader or promoter.⁸ Followers are the largest group (38% of banks), but leaders and promoters (24% each) are the most engaged categories, showing that nearly half of the banks surveyed have a proactive attitude on climate matters. The banks in these more engaged categories are also more likely to offer green climate products and are less likely to identify internal constraints (such as a lack of technical climate expertise) as a barrier to providing climate products. These findings highlight how increasing engagement on climate topics is the first step in increasing climate finance.

The EIB has been active in Africa for over 60 years and will continue to promote EU policy there under the guidance of the Global Gateway. Africa is our neighbouring continent and our main client outside the European Union. It received more than a third of non-EU investments in 2023,⁹ helping to unlock huge economic potential in a sustainable way. The challenges are vast, but so are the opportunities. Working as part of Team Europe and in cooperation with other international development partners, the EIB will continue to provide innovative and flexible financing instruments combined with technical assistance to deliver life-changing projects.

⁸ The labels are explained in more detail in Chapter 6 and represent a spectrum of engagement from banks on climate change.

⁹ European Investment Bank (2024). [EIB Global Impact Report 2023/2024](#). Luxembourg: EIB.



Chapter 1 was authored by Colin Bermingham, Emmanouil Davradakis, Moses Nyangu, Ricardo Santos, and Daniella Seberini, all of the European Investment Bank.

Chapter 1

Financial markets and financing conditions

This opening chapter of the 2024 report provides an overview of financial markets and financing conditions in Africa. Stock markets, bond markets and private capital markets are examined at continent, regional and country levels. The second half of the chapter focuses on financing conditions in Africa, and describes the data obtained with an updated version of the financial conditions index for Africa, which was first introduced in last year's report.

Like elsewhere in the world in 2023, African financial markets felt the effects of tightened global financial conditions, a growth slowdown, heightened inflation, exchange rate depreciation and declining foreign exchange reserves. However, African stocks faced a more pronounced decline compared with those of emerging markets and developing economies, reflecting the greater risk aversion of global investors to Africa. The tightening of interest rates resulted in lower stock valuations and prices in Africa, with total returns (net of dividends) declining at the onset of the interest rate hiking cycle in 2021 until mid-2022 and oscillating around zero in 2023. The fall in stock prices was mirrored by a decrease in market capitalisation as a percentage of gross domestic product (GDP) across most regions, except for North Africa, where it marginally increased compared with the previous year.

Government bond issuance stagnated as yields rose significantly for more risky sovereigns in 2022 and 2023. As developed economies tightened their monetary policies, international investors assumed a more risk-averse stance and shunned debt securities from more indebted government debt issuers, especially in Africa. Consequently, Eurobond issuances by African sovereigns stagnated in 2023, except for Egypt and Morocco. Moreover, as governments became more indebted, yields started rising to reflect increased sovereign risk, and the pressure on yields was compounded by higher inflation expectations. The increase in yields was most pronounced in North and West Africa, followed by East, Central and Southern Africa. Nevertheless, with the easing of global financial conditions in 2024, four countries (Benin, Côte d'Ivoire, Kenya and Senegal) successfully tapped the international bond market after a hiatus of approximately two years, indicating that investor confidence in African economies is growing but at elevated interest rates.

African private capital markets had a resilient but difficult year in 2023. A surge in private capital fundraising in Africa, to \$3.7 billion in 2023 from \$2.5 billion in 2022, meant fundraising eclipsed the record of \$3.5 billion set in 2019. However, private capital investments fell by 24% to \$5 billion in 2023 from \$6.5 billion in 2022, making it the lowest amount of capital deployed since 2020. Among the asset classes, private equity (\$1.24 billion) and venture capital (\$1.14 billion) experienced annual declines of 39% and 59%, respectively, relative to 2022. Private credit fell by 70% to \$0.33 billion in 2023, while there was a sharp increase in infrastructure spending, which almost quadrupled from \$0.55 billion in 2022 to \$2.18 billion in 2023. Private capital investment has become more concentrated at the country level, with South Africa leading and accounting for half of all African investment in 2023 (20%), followed by Kenya (11%), Côte d'Ivoire (7%) and Morocco (6%). The renewables sector accounted for the largest share at 37% of investment, surpassing financial services, which had dominated in the previous year.

Financial integration increased across most African regions until the shocks caused by the COVID-19 pandemic and Russia's invasion of Ukraine stalled or even reversed the growth. From the latest available data for 2022, financial integration ranged from 84% of GDP in West Africa to 362% in Southern Africa, with values between 104% and 116% for the other African regions. In this 2024 edition of the Finance in Africa report, the sample for calculating the financial conditions index in Africa has been expanded to

ten countries from the four employed in 2023,¹ further enhancing the representativeness of the index. The financial conditions index reveals a severe tightening in financial conditions over the course of 2023, as in 2022, and this tightening is driven by policy rate increases, exchange rate depreciation and the fall in stock markets. The pressure exerted by these factors started decreasing around mid-2023, particularly for the stock market, but weaker private sector credit growth and wider lending spreads maintained tightening pressures.

African governments faced increasing financing needs as international investor appetite declined, strengthening the connection between governments and banks and increasing crowding-out effects (when banks channel their financial resources to sovereign instruments at the cost of limiting lending to the private sector). African bank holdings of domestic sovereign debt have increased sharply (to 17.5% in 2023 from 10.3% in 2010), raising the potential for bank losses in the event of a debt default or restructuring. At the same time, there is a decreasing trend in banks' private sector lending (to 38% in 2023 from 42% in 2010), posing concerns about the severity of crowding out. The severity of crowding out index reveals that before easing in 2024, crowding out significantly tightened to record levels in 2023, driven by higher public debt issuance and a rebound in private credit demand which created intense competition for banks' funding. Furthermore, the severity of crowding out was particularly high in 2023 in over half of the African countries examined, and regionally the highest levels of crowding out were seen in East, Southern and West Africa.

Financial markets in Africa

Stock markets

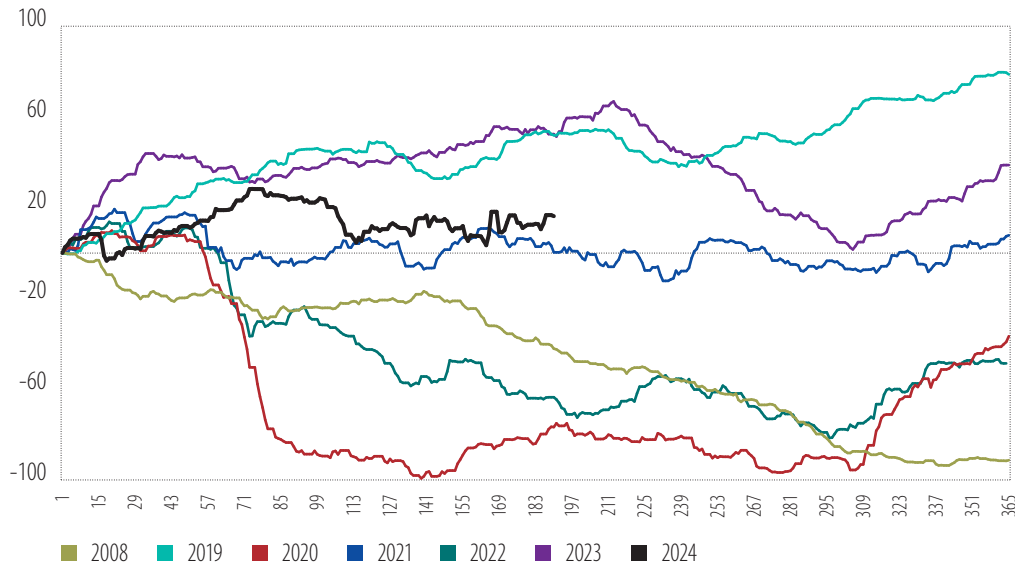
The tightening of monetary policy following the COVID-19 pandemic was the most synchronised in the past half a century. Higher inflation triggered by the COVID-19 pandemic and Russia's invasion of Ukraine was more persistent than initially expected. Higher prices that were at first limited to commodities such as food and energy spread to inflation and became more engrained and highly correlated globally. On the African continent, inflation increased to 13% in 2022 and 19.3% in 2023 from 9% in 2019, with the most pronounced increase in West Africa (to 17.1% in 2022 and 20.4% in 2023 from 8.2% in 2019). The ensuing global monetary tightening was the most synchronised in the past 50 years.

Higher interest rates triggered considerable portfolio outflows from emerging markets. As advanced economies raised interest rates, international investors shied away from the riskier assets of emerging markets, favouring the safer and higher quality assets offered by advanced economies. With 90% of central banks raising interest rates by the end of 2022, emerging market assets experienced portfolio outflows totalling \$49 billion in 2022, which was higher than the \$36 billion outflows seen during the first year of the COVID-19 pandemic in 2020 (Figure 1). Portfolio inflows resumed in 2023, and although net portfolio inflows were almost stagnating year-to-date by the third quarter of 2023, the year closed with net inflows of \$39 billion, backed by more accommodative monetary policies by central banks. However, net portfolio inflows in 2023 were half of those recorded in 2019, the year before the COVID-19 pandemic erupted. In 2024, the US Federal Reserve maintained its monetary policy tightening bias to support the US dollar, dragging inflows to emerging markets.

¹ Morocco, Côte d'Ivoire, Ghana, Tunisia, Senegal and Zambia are now included in the index in addition to the four countries (Egypt, Nigeria, Kenya and South Africa) employed in computing the financial conditions index in 2023. These ten countries now account for approximately 60% of the continental GDP as of the end of 2023.

Figure 1

Year-to-date portfolio flows to emerging markets (Y-axis: \$ billion; X-axis: Days passed since the beginning of the year)



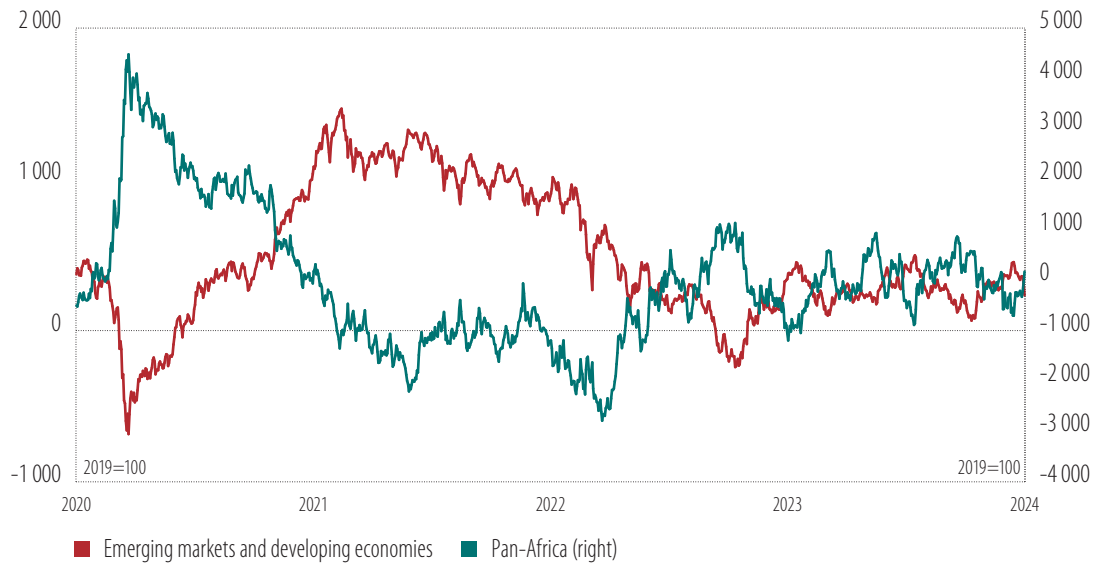
Source: Institute of International Finance and EIB staff calculations.

In response to monetary policy tightening, returns on African stocks declined more compared with those of emerging markets and developing economies. Higher interest drove lower stock prices globally, but the decline was more pronounced in Africa relative to emerging markets and developing economies. The authors of this chapter proxy the African stock market indices using the Standard and Poor's Pan Africa Benchmark Market Index (Bloomberg ticker: STEIPADP Index), which is a comprehensive benchmark including stocks from 12 African emerging and frontier markets.² We proxy stock prices in emerging markets and developing economies using the MSCI Emerging Markets Investable Market Index (Bloomberg ticker: MXEF Index), which captures large-, mid- and small-cap representation across 24 emerging markets. All stock market indices used are US dollar based. Pan Africa's total returns (net of dividends) started declining at the onset of the interest rate hiking cycle in 2021 until mid-2022, oscillating around zero thereafter (Figure 2). The drop in returns was more pronounced for Pan African stocks than for those of emerging markets and developing economies, reflecting the greater risk aversion of global investors to Africa. The returns for Pan Africa remained negative for most of the policy rate hiking cycle, whereas returns for emerging markets and developing economies were mostly positive during this period.

Utility and energy sectors outperformed the stock market in Africa. Figure 3 depicts the returns by sector and shows that the energy and utilities sectors followed by the materials sector performed better than the overall market. The materials sector had the third highest excess returns, relative to the market, in the Pan Africa and Africa Frontier stock market indices. These excess returns most likely stem from the marked increase in international commodity prices, including oil and construction material prices, recorded at the same time. For the other sectors, excess returns were either stagnant or negative.

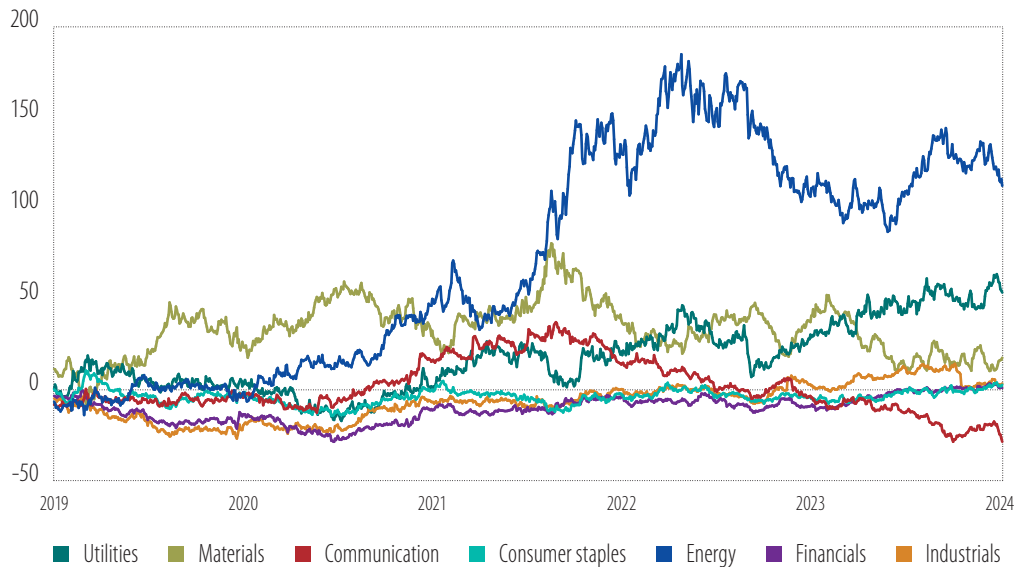
² Botswana, Côte d'Ivoire, Egypt, Ghana, Kenya, Mauritius, Morocco, Namibia, Nigeria, South Africa, Tunisia and Zambia.

Figure 2
Cumulative total return (net dividends) in emerging markets and developing economies and in Africa



Source: Bloomberg and EIB staff calculations.

Figure 3
Return indices of African stocks by industry minus pan-Africa (percentage points)



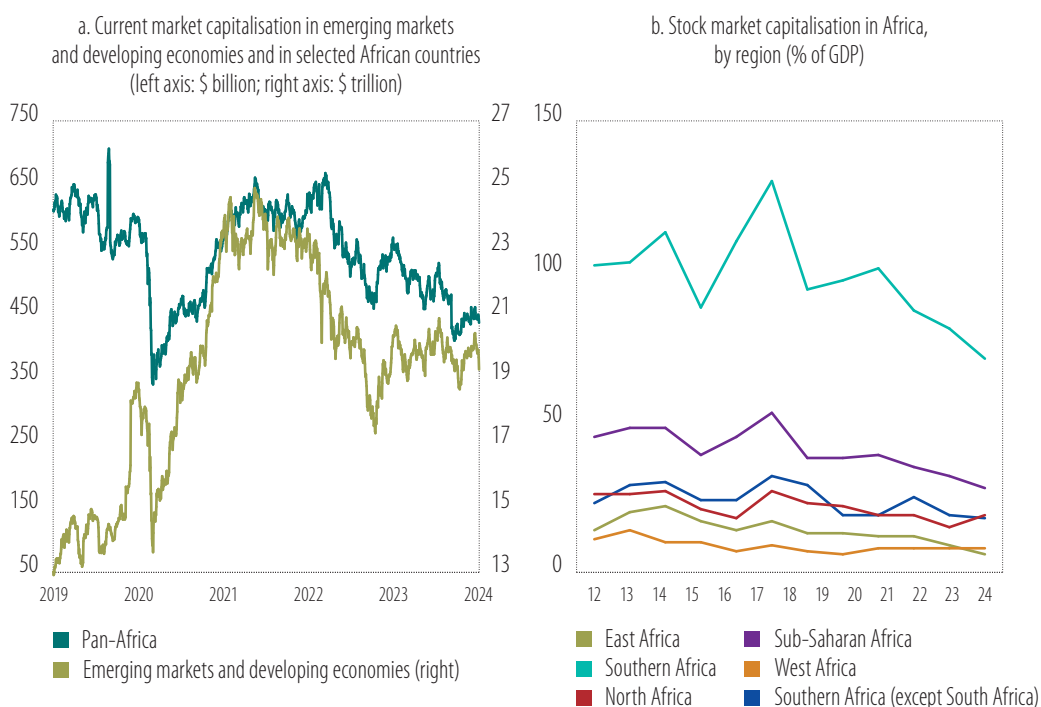
Source: Refinitiv and EIB staff calculations.

Note: >0: The return of the specific industry stock index outperforms that of the overall market.
<0: The return of the specific industry stock index underperforms that of the overall market.

Falling stock prices were also reflected in the fall in market capitalisation. Stock prices declined initially in 2020 due to the outbreak of COVID-19 but rebounded in 2021 as markets were buoyed through central bank support. However, when inflation became a problem, central banks reversed course and tightened

monetary policy, leading to a fresh decline in stocks. The market capitalisation of the stock price indices fell across the board from the start of the policy rate hiking cycle in 2021. Although this market capitalisation has been improving in emerging markets and developing economies since mid-2022, it is still falling in Pan Africa (Figure 4a). Currently, stock market capitalisation is highest in emerging markets and developing economies (\$19.3 trillion), overshadowing that in Pan Africa (\$437 billion). While Figure 4a shows that stock market capitalisation in Africa and emerging markets and developing economies followed the same trend in the two years after the pandemic, total returns experienced diverging trends during the same period (Figure 2), and this difference in behaviour is explained by the inclusion of dividends in total returns. By African region, stock market capitalisation as a percentage of GDP is falling across all regions except North Africa (Figure 4b), where it increased marginally in 2023 compared to the previous year. Southern Africa has the largest stock market capitalisation followed by North Africa, while stock market capitalisation in West Africa and East Africa are similar.

Figure 4
Stock market capitalisation



Source: Bloomberg and EIB staff calculations.
 Note: **Country aggregations:** **Central Africa:** Cameroon; Central African Republic; Chad; Democratic Republic of the Congo; Equatorial Guinea; Gabon; Congo; and São Tomé and Príncipe; **East Africa:** Burundi; Djibouti; Ethiopia; Kenya; Rwanda; Tanzania; and Uganda; **North Africa:** Algeria; Egypt; Morocco; and Tunisia; **Southern Africa:** Angola; Botswana; Comoros; Eswatini; Lesotho; Madagascar; Malawi; Mauritius; Mozambique; Namibia; Seychelles; South Africa; Zambia; and Zimbabwe; **West Africa:** Benin; Burkina Faso; Cabo Verde; Côte d'Ivoire; Ghana; Guinea; Guinea-Bissau; Liberia; Mali; Mauritania; Niger; Nigeria; Senegal; Sierra Leone; The Gambia; and Togo.

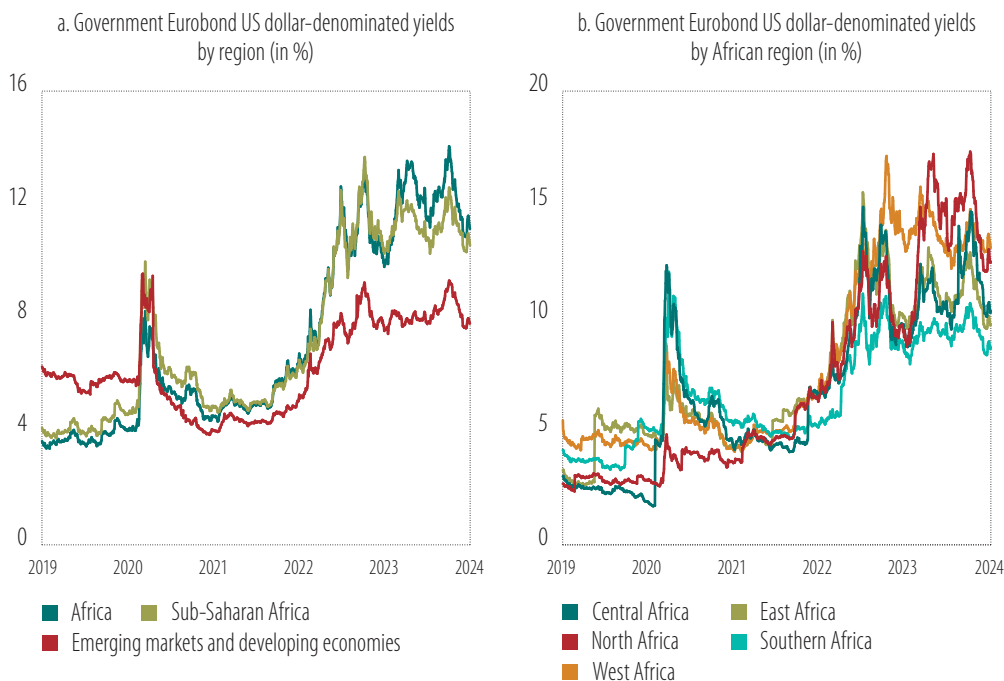
Bond markets

Africa's indebtedness has increased significantly in the last decade. The mix of ample liquidity available after the 2008 global financial crisis and governments' resorting to bilateral and market-based lending fuelled indebtedness in sub-Saharan Africa. The upward trend in indebtedness steepened as governments had to incur considerable fiscal spending to support economic activity and the health system during the COVID-19 pandemic. According to the World Bank (2023), the stock of sub-Saharan Africa's (sub-Saharan Africa excluding high-income countries in the region) external debt more than doubled to \$833 billion

in 2022 from \$340 billion in 2010 (+145%), and a similar trend was observed in North Africa, with an increase to \$275 billion from \$105 billion (+162%) over the same period. For comparison, the stock of debt in emerging markets and developing economies (low- and middle-income economies) increased from \$4.3 trillion in 2010 to \$9 trillion in 2022 (+107%).

Yields increased to a greater extent for more risky sovereign bonds in 2022 and 2023. As governments became more indebted, yields began to rise, reflecting increased sovereign risk, and the pressure on yields was compounded by higher inflation expectations. Governments issuing US dollar bonds in 2023 faced greater yields than those seen before the COVID-19 pandemic (Figure 5). Yields on US dollar sovereign debt in Africa increased to an even greater extent, leading to wider spreads relative to the bonds of emerging markets and developing economies. This rising cost of debt has contributed to fiscal problems. In nominal terms, interest payments on long-term external debt stock by emerging markets and developing economies have doubled since 2010 to an all-time high of \$210 billion in 2022. In sub-Saharan Africa interest payments multiplied to \$20 billion in 2022 from \$4 billion in 2010. By African region, the increase in yields was most pronounced in North Africa and West Africa, followed by that in East Africa and Central Africa then Southern Africa. Despite a reduction in yields from late 2023 to mid-2024, they remain above pre-pandemic levels, meaning debt service costs will continue rising for African governments. For example, in sub-Saharan Africa, spending on government debt interest is expected to exceed 14% of fiscal revenues in 2024 to 2025, up from 13% in 2023 and 6% in 2014, signalling large liquidity needs (Fitch Ratings, 2024).

Figure 5
Government Eurobond yields

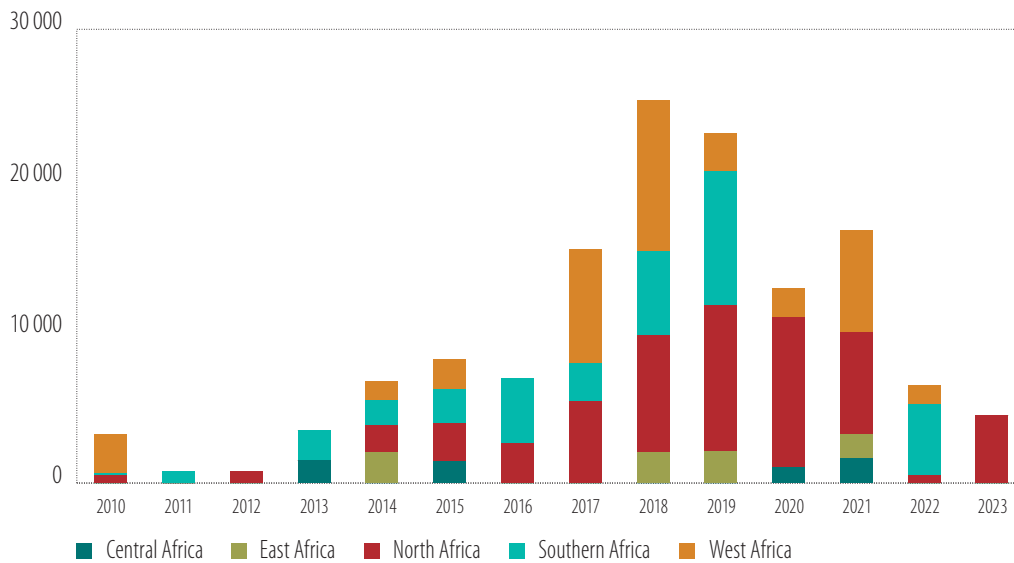


Source: Bloomberg and EIB staff calculations.

Gross issuances of government bonds in Africa stagnated in 2023, following a sharp decline in 2022 (Figure 6). Sub-Saharan African governments were effectively locked out of international capital markets for almost two years, following a Eurobond issuance in April 2022. The only countries that issued government US dollar-denominated Eurobonds in 2023 were in North Africa (Egypt and Morocco). However, Côte d'Ivoire, which is the world's largest cocoa producer, succeeded in tapping international capital markets in January 2024 for a \$2.6 billion bond, selling \$1.1 billion via a sustainable bond maturing in 2033 and \$1.5 billion in

conventional bonds due in 2037. Benin followed in February 2024, selling \$750 million of 14-year bonds at an 8.4% yield, matching Côte d'Ivoire's rate for its 2037 notes. Demand for Benin's issuance exceeded the offering by over six times, signalling strong investor interest in emerging market assets. In February 2024, Kenya sold a new \$1.5 billion Eurobond maturing in 2031, which it will use to buy back a large portion of a \$2 billion international bond due in June 2024 via a tender offer. Thus, market access is being restored but at elevated interest rates.

Figure 6
Government Eurobond issuances in Africa by region (\$ million)



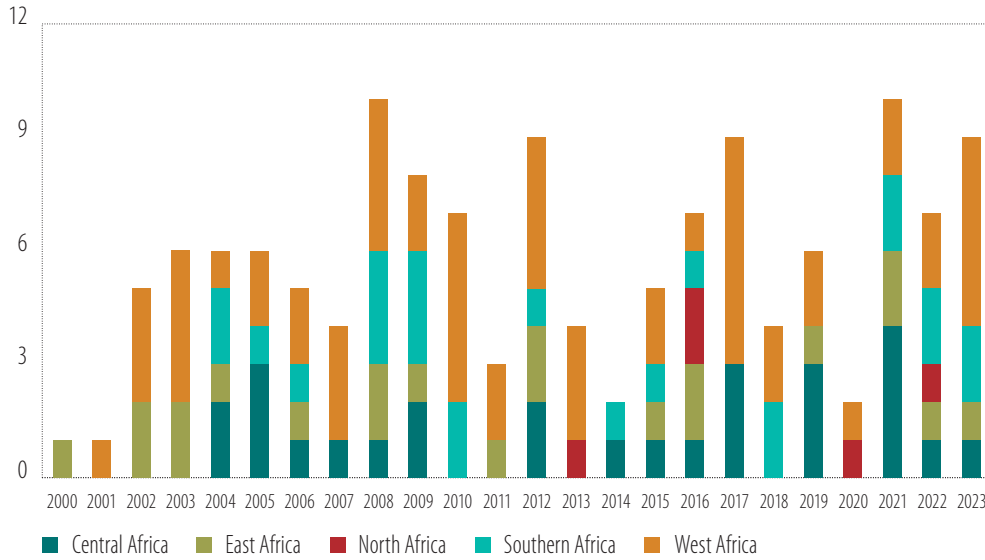
Source: Bloomberg and EIB staff calculations.

The lack of access to international capital markets in 2022 to 2023 meant many African governments resorted to the International Monetary Fund (IMF) for financing in the form of a programme with attached conditionality (Figure 7). The number of approved new International Monetary Fund arrangements remained elevated in 2023, marginally higher than in 2022 and close to the levels observed in 2021 when two years of the COVID-19 pandemic started weighing on governments' public finances. New International Monetary Fund arrangement approvals in 2023 were skewed towards West and Southern Africa, while approvals dropped in North Africa between 2022 and 2023.

Contrary to government debt, the issuance of non-sovereign international debt securities increased in 2023 in sub-Saharan Africa, driven by Southern Africa. Total international debt securities issued in sub-Saharan Africa in 2023 were at the highest level since 2019 (Figure 8). This was mainly due to issuers in Southern Africa, with a smaller contribution from those in Central Africa. With sovereign issuance falling in 2023, as mentioned above, international debt securities issued by non-sovereign sectors of the economy must have been responsible for the increase in total issuance of international debt securities.

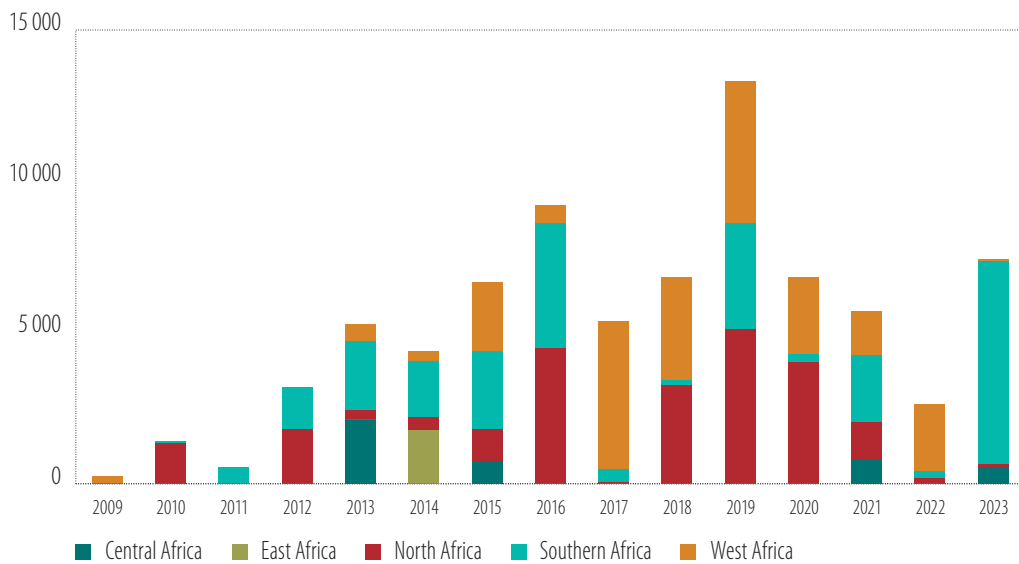
Turning to stocks rather than flows, the value of outstanding international debt securities as a percentage of GDP, issued by all African sectors, almost plateaued in 2023. The stock of international securities reached 11.6% of GDP in 2023, up from 11.2% in 2022 and 11.3% in 2021 (Figure 9). The debt stock is greatest in Southern Africa and has been on a consistent upward trend over recent decades. However, since about 2013, other African regions have seen their debt stock ratios increase, particularly West and North Africa.

Figure 7
Number of new International Monetary Fund arrangements approved (Extended Credit Facility, Extended Fund Facility, Stand-by Arrangement)



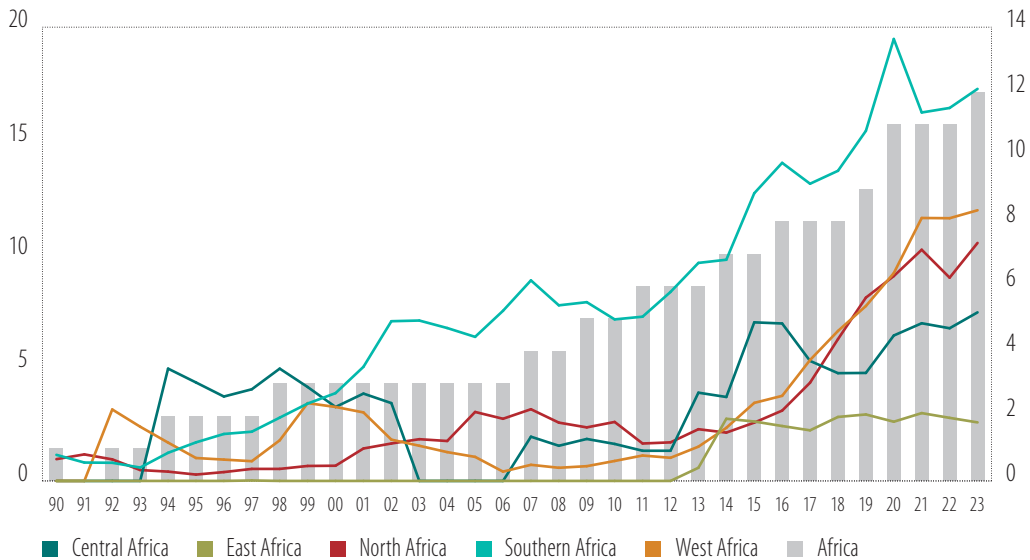
Source: IMF and EIB staff calculations.

Figure 8
Gross issuances of all international debt securities in Africa by region (\$ million)



Source: Bank for International Settlements and EIB staff calculations.

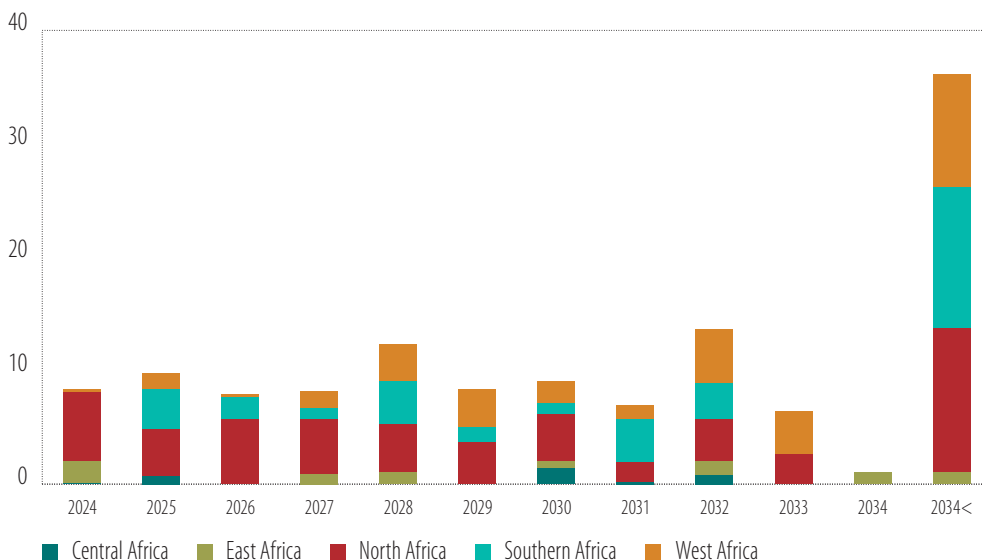
Figure 9
Outstanding international debt securities issued by all sectors in Africa by region (% of GDP)



Source: Bank for International Settlements and EIB staff calculations.

North and Southern Africa account for the bulk of debt redemptions in the medium term. Looking at the debt redemption schedule of government hard currency Eurobonds for Africa, debt redemptions in the next five years will be dominated by those of North and Southern Africa (Figure 10), with North Africa especially exposed to rollover risk in the short term.

Figure 10
Government Eurobond debt redemptions in Africa by region (\$ billion)



Source: Bloomberg and EIB staff calculations.

Southern Africa is the greatest contributor to sustainable debt issuances in Africa, but accurate understanding of the uses of sustainable debt relies on issuance by the country of risk. The country of risk is the country where the proceeds of the sustainable debt will be used and does not need to be

the country of domicile.³ Box 1 provides an overview of sustainable debt. Grouping the different African regions by the country of risk shows that, until 2016, Southern Africa and supranationals,⁴ in that order, dominated sustainable debt issuances on the African continent (Figure 11). North Africa is the next contributor for such issuances, while from 2019 onwards, West Africa also issued non-negligible volumes of sustainable debt. Within Southern Africa, the main issuers of sustainable debt are South Africa and Mauritius, in North Africa the predominant issuer is Egypt, and in West Africa the principal issuers are Côte d'Ivoire, Benin, Togo and Nigeria in that order. Meanwhile, the main issuer of sustainable debt in East Africa is Kenya and in Central Africa it is Cameroon.

Box 1

Sustainable debt

Sustainable debt refers to the issuing of bonds or loans to invest in projects or businesses that promote social or environmental causes. This definition has become more granular in meeting the evolving scope and complexity of the sustainable debt market. Sustainable debt issuance involves six main types of debt instruments that are classified based on how the funding is raised (from the investor market through bonds or from banks through loans) and the use of the proceeds. These instruments are:

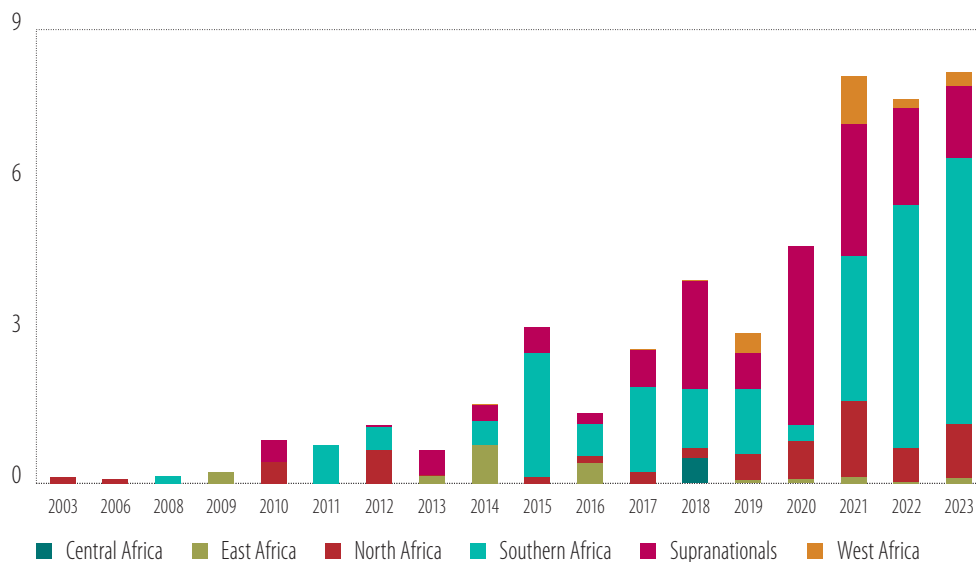
- **Green bonds:** The funds from these bonds are earmarked for environmental or climate projects, such as investing in renewable energy.
- **Social bonds:** The proceeds from these bonds are used for social impact projects, such as investing in low-cost housing for people with restricted access to the housing market.
- **Sustainability bonds:** The funds here are committed to a mix of social and green impact projects that may be aligned with the UN Sustainable Development Goals.
- **Green loans:** The proceeds from these bonds are used for financing environmental or climate projects, such as investment in improving the energy efficiency of buildings.
- **Social loans:** The funds here finance social impact investments, like training people with disabilities to improve employability.
- **Sustainability-linked loans (or bonds):** These loan (bond) proceeds are used for supporting various green and social impact projects.

Green bonds, social bonds, sustainability bonds and green loans are activity-based debt instruments because their proceeds are used for financing new – or refinancing existing – specific projects with strict reporting requirements where uses of the proceeds are recorded. Sustainability-linked loans and bonds are behaviour-based debt instruments as the proceeds are not expected to finance specific projects but are used in financing behavioural change(s) of the debt issuer as the issuer becomes more aware of the environment and climate change. An example of such behavioural change is a reduction in greenhouse gas emissions. However, behaviour-based debt instruments are more prone to greenwashing concerns owing to the lack of explicit and mandatory reporting on whether the proceeds were indeed used for financing improvements in a debt issuer's environmental behaviour. Moreover, increasing scrutiny means issuers must ensure their sustainability targets are suitably ambitious to avoid greenwashing allegations. In the United States, for example, the volume of sustainability-linked loans in 2023 was 77% smaller than in 2022 and 85% lower than in 2021 amid growing greenwashing concerns.

³ Using the country of domicile could be misleading for the importance of a country in sustainable debt markets. For example, the African Development Bank is the largest African sustainable debt issuer and is domiciled in Côte d'Ivoire, but the proceeds from this institution are mainly deployed elsewhere.

⁴ Supranational financial organisations are institutions created through international finance agreements. These organisations pool the financial resources of the participating countries to solve certain problems in developing the world economy and international economic relations. Supranational financial institutions domiciled in Africa include the Africa Finance Corporation, the African Development Bank, Banque ouest-africaine de développement, and the Eastern and Southern African Trade and Development Bank.

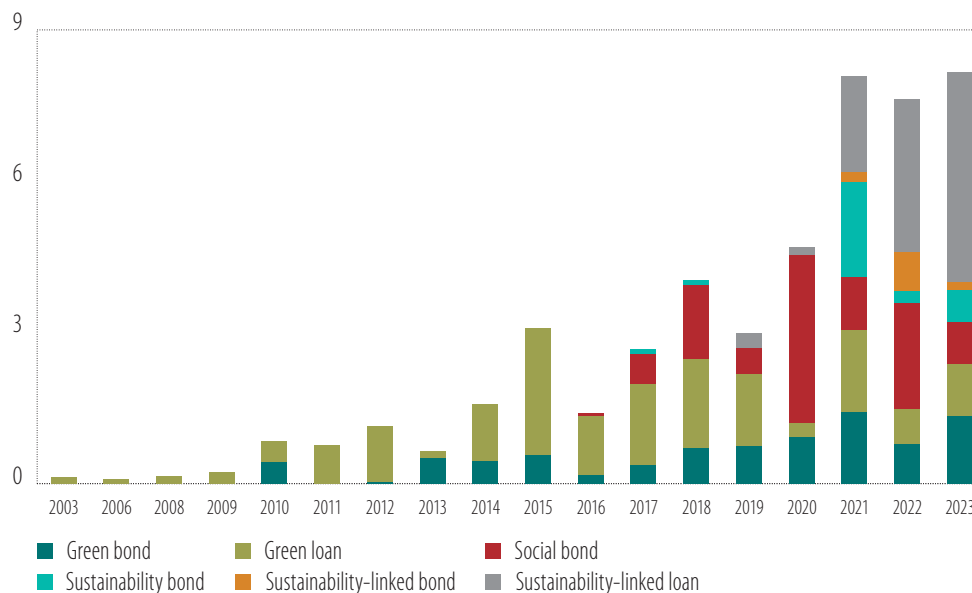
Figure 11
Sustainable debt issued by African countries and African supranationals for use in Africa
by issuer (\$ billion)



Source: Bloomberg and EIB staff calculations.

Sustainable finance has grown rapidly since 2020 (Figure 12). Before the COVID-19 pandemic, financial markets were focused on green issuance and climate change. However, the pandemic brought a new perspective to sustainable financing. Social finance increased as the healthcare sector expanded and strengthened in response to the high public health risk, and the education sector needed reinforcing to support remote schooling. In addition, more flexible working arrangements and remote working had to be introduced while safeguarding small businesses from closing. The necessary financing of these policy initiatives was supplemented by the issuance of additional sustainable debt, evident in the significant increases in social bonds and sustainability-linked loans seen after 2020. Subsequently, Russia’s invasion of Ukraine has shifted energy discussions and underlined the urgency of energy transition. The ensuing global energy crisis dictated that energy supply should be diversified towards cleaner sources, thereby supporting green debt issuances. The significant increase in global sustainability-linked loans in the last three years implies that debt issuers prefer to have flexibility in using the proceeds not for specific projects, but to support greater environmental awareness without the reporting requirements on the use of the proceeds (Box 1).

Figure 12
Sustainable finance in Africa by debt instrument (\$ billion)

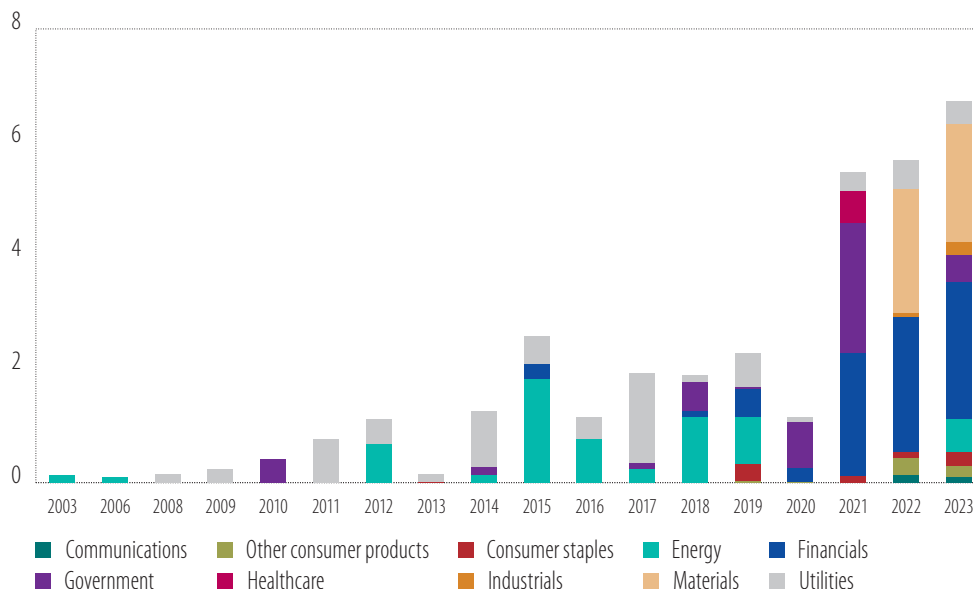


Source: Bloomberg and EIB staff calculations.

The financial sector has dominated sustainable debt issued in Africa since 2003. Disregarding issuances by supranationals reveals that the financial sector leads sustainable debt issuances in Africa. The utilities (non-energy) sector is the second most important sector issuing sustainable debt in Africa, having issued almost what the government sector has issued since 2003 (Figure 13). The energy sector trails the sustainable debt issued by the utilities sector in Africa over the same period. African regions show some differences in the leading sectors for sustainable debt issuances. The sectors issuing the largest amount of sustainable debt since 2003 are government, energy and utilities in North Africa, financials, energy and utilities in Southern Africa, utilities and communications in East Africa, government in Central Africa, and the government and financial sectors in West Africa.

There is a greenium, or green premium, in African debt of approximately 7 basis points over longer horizons. The EIB analysed bonds issued over the past couple of years by supranationals domiciled in Africa to explore whether a greenium existed. A greenium exists when the price of a green debt instrument is higher, or its yield is lower, than that of a comparable non-green debt instrument. This situation occurs when investors are willing to pay a higher price to hold a green instrument because they anticipate a higher demand in the future. We focused on supranationals because their debt has better credit quality than that of individual sovereign and corporate debt issuers in Africa. For example, the credit rating of the African Development Bank is AAA. In addition, supranationals issue ordinary and sustainable debt securities in the same hard currency with comparable maturities. If we had used sovereign debt issuers for this exercise, it would have been very difficult to find green and non-green bonds of comparable characteristics (coupon type, currency of issuance, type of payment, maturity, etc.) and compare their yields to see if there is a difference and, consequently, a greenium.

Figure 13
Sustainable finance in Africa issued by institutional sector (\$ billion)



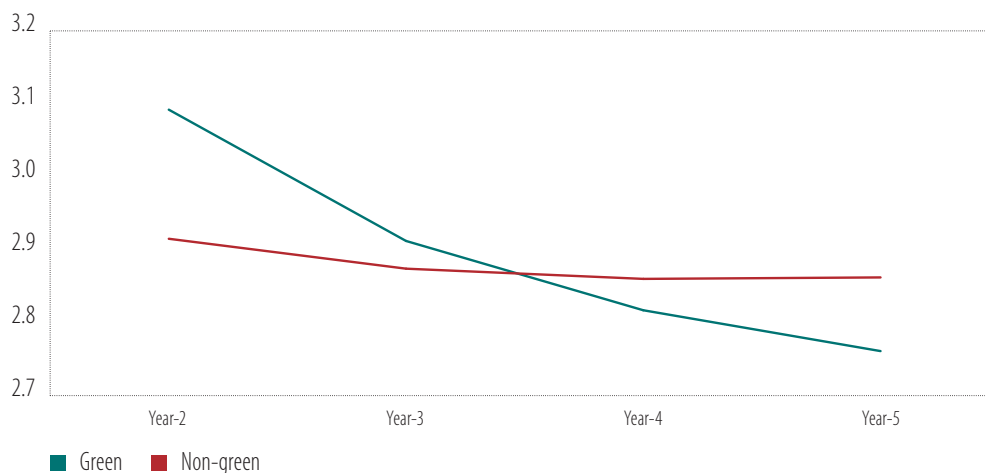
Source: Bloomberg and EIB staff calculations.

We chose green and non-green bonds issued by supranationals in Africa with comparable debt characteristics and constructed two groups. The green group includes bonds with Bloomberg’s Green Bond Instrument indicator, meaning the proceeds of the debt will be used for green purposes. In contrast, the non-green group includes bonds without the Green Bond Instrument indicator. For each of the two groups, we fitted a yield curve for the daily yields using the Nelson-Siegel method to construct a parametric term structure of interest rates.⁵ The yield of green bonds is higher than that of non-green bonds at shorter maturities implying that at short horizons there is no greenium (Figure 14). We attribute this finding to the markets’ position that the greening of economic activity will take time to materialise and is more likely to occur in the longer term than in the medium term. As bond maturity lengthens, the yield of green bonds is lower than that of non-green bonds, implying that there is an average greenium of 7 basis points for tenures of four to five years. In the European Union, an average greenium of 10 basis points has been reported for sovereigns and 6 basis points for corporates (Alper et al., 2022).

Deeper capital markets do not necessarily mean higher credit penetration. Banks in Africa fund their credit expansion predominantly by resorting to their deposit base, as highlighted in Chapter 3. Yet, part of the credit expansion may be supported by capital market sources. We proxy capital market depth by two different metrics: stock market capitalisation and the volume of outstanding debt securities issued by all sectors of the economy, as a percentage of GDP. The higher these two metrics are, the deeper capital markets are. We proxy credit penetration by using domestic credit to the private sector as a percentage of GDP. Credit to the private sector in Africa declined between 2013 and 2022 (the latest available data for domestic credit to the private sector), with the decline being most pronounced in sub-Saharan Africa (Figure 15). This decline coincided with a drop in stock market capitalisation in Africa despite an increase in international debt securities observed over the same period.

⁵ The method is based on Nelson, C. and Siegel, A.F. (1987). It uses a long-term yield rate, curve slope, curvature and time-decay factors to generate a standard best-fit model widely used in academia and by central banks for calculating yield curve constant maturity points.

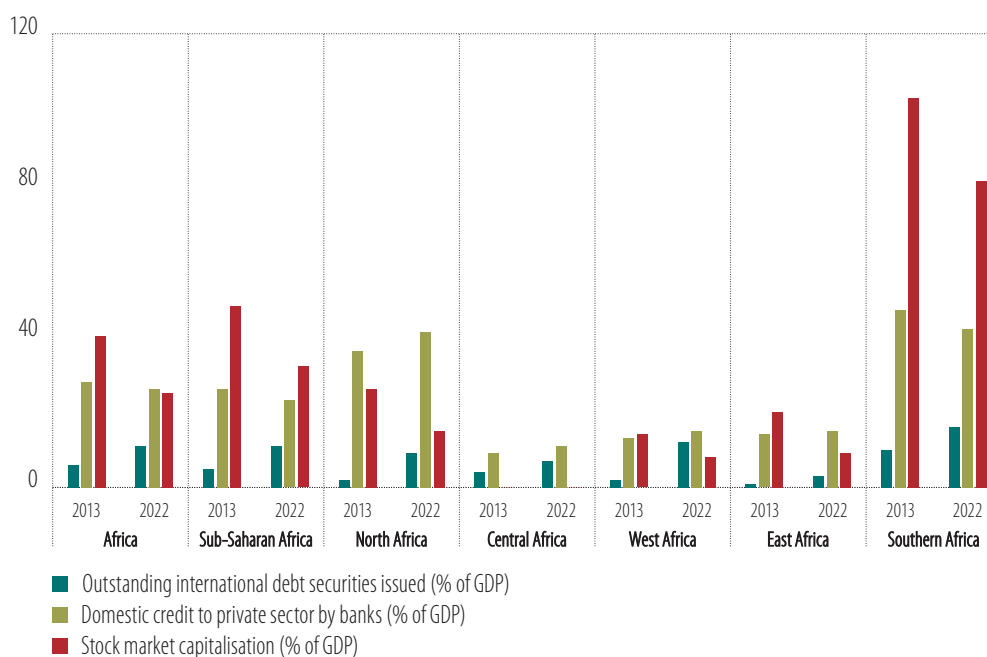
Figure 14
Sub-Saharan African supranationals' yield curves (in %)



Source: Bloomberg and EIB staff calculations.

In Southern Africa, the bond market grew between 2013 and 2022, but the decline in the country's much larger stock market capitalisation may have contributed to lower credit penetration in the same period. In North and West Africa, where an increase in credit penetration was observed, outstanding international debt instruments increased and stock market capitalisation decreased, implying that banks in these regions are more likely to source market liquidity for financing credit growth from the bond market rather than the stock market. In all of the regions except West Africa, the stock market capitalisation is higher than the stock of outstanding international debt securities issued, suggesting that there is room for the debt market to catch up with the depth of the stock market.

Figure 15
Capital market depth and banking sector penetration (% of GDP)

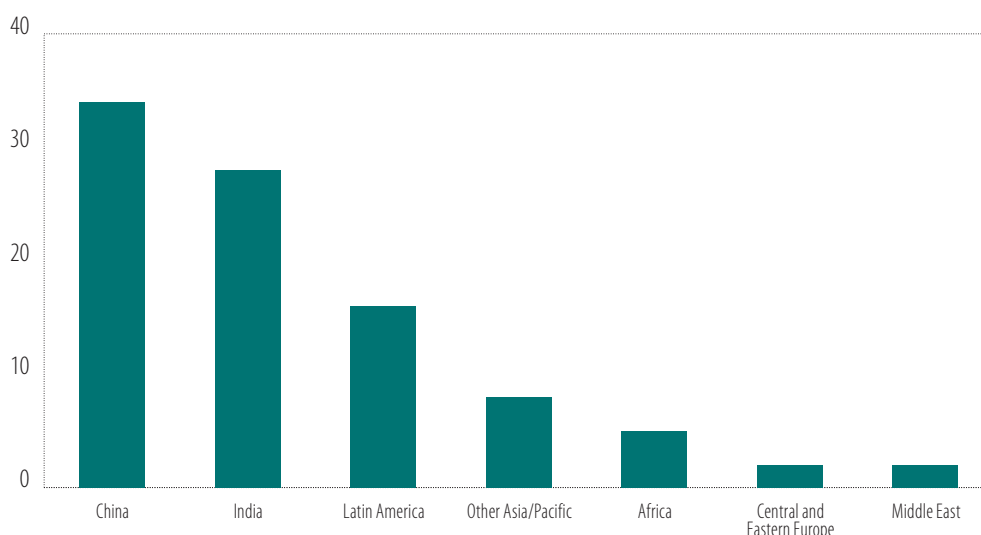


Source: Bloomberg, Bank for International Settlements, World Bank, IMF and EIB staff calculations.

Private capital markets

Africa has a 5% share in private capital investment in emerging and developing economies, up from 3.5% in 2022, and its largest share of global capital investment since 2016. Asia remains the largest market for global private capital, with China, India and other Asia-Pacific countries accounting for three-quarters of private capital investment in emerging and developing regions in 2023 (Figure 16). Latin America accounts for about 17% of investment, while Africa is at 5% (Figure 16). Globally, private investment spending in emerging and developing regions halved from \$188 billion in 2022 to \$94 billion in 2023, and is down from a peak of \$251 billion in 2021. The fall in African private capital investment was 23% between 2022 and 2023, which was lower than other regions and helped boost Africa’s share of the global total.

Figure 16
Private capital investment by region in 2023 (\$ billion)



Source: Global Private Capital Association.

A surge in private capital fundraising in Africa to \$3.7 billion in 2023 from \$2.5 billion in 2022 meant fundraising surpassed the record of \$3.5 billion set in 2019 (Figure 17). Although the amount of capital raised annually in Africa has varied in the last three years, the number of funds has been quite stable, meaning the variation is mainly in fund size. About three-quarters of the capital raised on the continent is for pan-African investments, rather than investments focusing on a specific country or region. Private capital funds are raised for different asset classes, including private equity, venture capital and infrastructure, which are various subcomponents of the data underlying Figure 17. In 2022, there was a sharp decrease in funds raised for private equity, falling to \$0.78 billion from \$1.76 billion in 2021. In contrast, funds raised for venture capital almost tripled, to \$0.77 billion in 2022 from \$0.27 billion in 2021, putting venture capital and private equity on an equal footing in 2022. In 2023, despite the tough market conditions, private equity fundraising rebounded to \$1.63 billion, almost matching the high of 2021, whereas venture capital fundraising fell to \$0.68 billion, thereby restoring the dominance of private equity in fundraising. Over the last two years, there has been sustained growth in infrastructure fundraising, to \$0.78 billion in 2023 from \$0.48 billion in 2021, accounting for a fifth of the total private capital funds raised. See Figure A1 in the appendix for detailed data on the components of private capital fundraising.

Figure 17
Private capital fundraising in Africa (\$ billion)

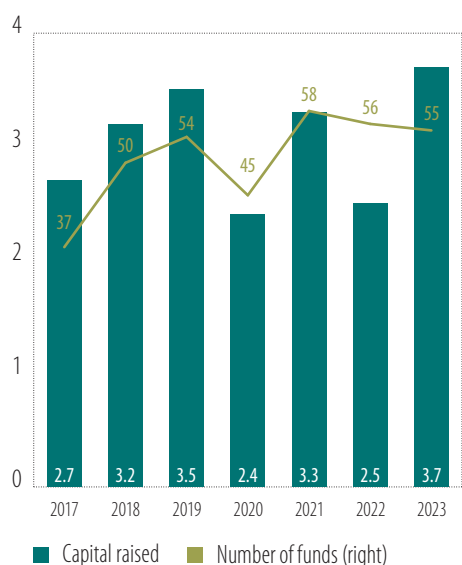
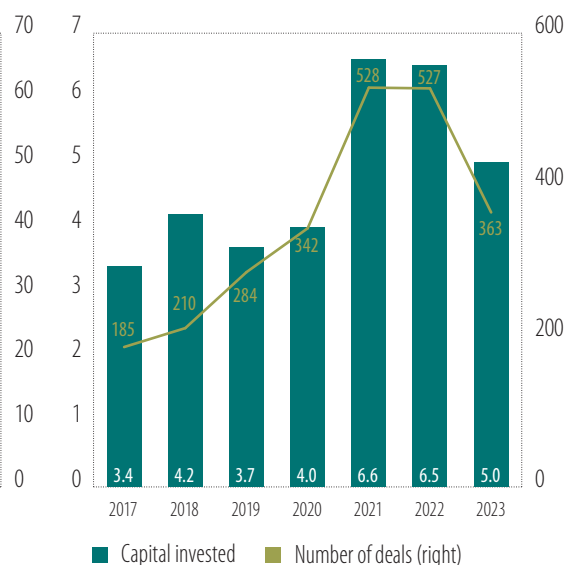


Figure 18
Private capital investment in Africa (\$ billion)

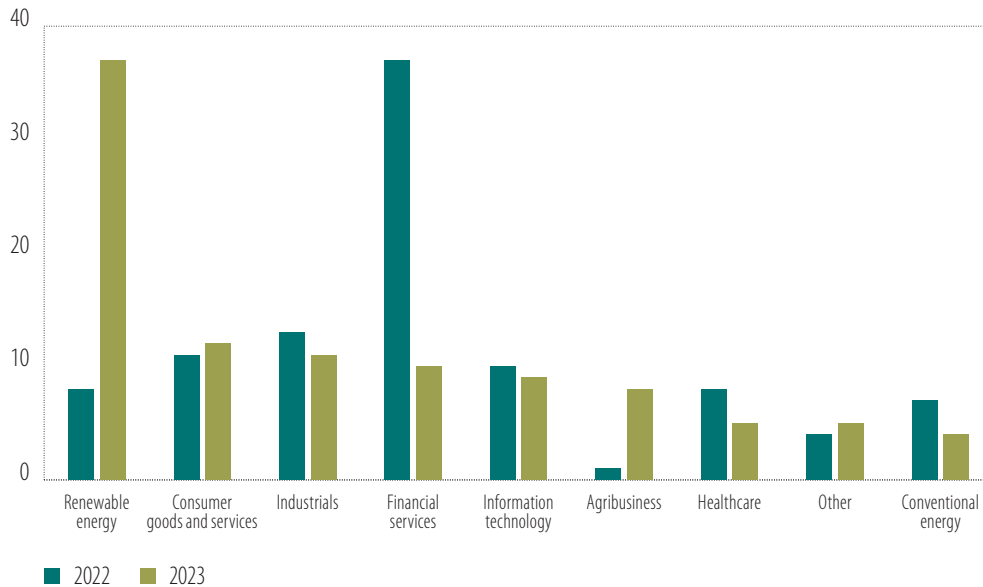


Source: Global Private Capital Association.

Private capital investment in Africa fell by 24% to \$5 billion in 2023 from \$6.5 billion in 2022, making it the lowest amount of capital deployed since 2020 (Figure 18). There were significant falls in investment across most major asset classes, except for infrastructure. Of the capital deployed in 2023, private equity (\$1.24 billion) and venture capital (\$1.14 billion), which are typically the two core asset classes in private capital, saw an annual decline of 39% and 59%, respectively, from 2022. Private credit, which had surged in 2022, fell by 70% to \$0.33 billion. Thus, it was a sharp increase in infrastructure spending – almost quadrupling to \$2.18 billion in 2023 from \$0.55 billion in 2022 – that allowed Africa to record a more modest decrease in overall capital investment compared to other regions. See Figure A2 in the appendix for detailed data on the components of private capital investment.

Renewable energy became the industry receiving the largest share of private capital investment in 2023, replacing the financial industry which had led investment in 2022 (Figure 19). The renewables sector accounted for 37% of investment in 2023, with financial services receiving 10% of total investment. This large increase for the renewable energy sector effectively reversed the share of investment of these two industries in 2022, when the financial sector attracted 37% of total investment. This volatility in industry share is partly related to the markets being relatively small. However, industry shares have been steadier in other sectors, including consumer goods and services, industrials, and information technology, with each typically receiving 10-13% of the total private investment annually. The agribusiness sector saw its share of investment increase to 8% in 2023 from 1% in 2022. Agriculture is a critical sector for Africa and the benefits of supporting the agribusiness sector to increase industrialisation in Africa is discussed in Chapter 2. One of the largest sectoral declines in private investment observed in 2023 was for conventional energy, which attracted only 4% of total funding, further highlighting the relative appeal of renewables seen recently.

Figure 19
Industry shares of total private capital investment in Africa in 2023 (in %)



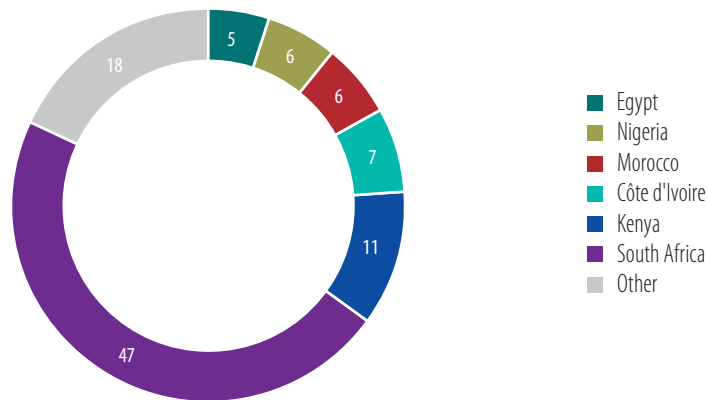
Source: Global Private Capital Association.

Private capital investment has become more concentrated at the country level, with South Africa accounting for half of all African investment in 2023 (Figure 20). In 2022, South Africa accounted for 20% of private investment on the African continent, up from 17% in 2021. The marked increase in concentration in the latest data might be driven by greater investment in larger, more liquid markets when financial conditions are tight. Kenya is the next biggest individual country market (11%), followed by Côte d'Ivoire (7%) and Morocco (6%). However, except for Morocco, most other large economies saw their share of capital investment decline in 2023 compared with their average for the previous two years. Nigeria, which was the largest individual market with a 20% share in 2021, has seen a sharp decrease in its share to 6% in 2023 as venture capital financing of the fintech sector slowed.

Exit values for private capital investments decreased by 39% to \$4.6 billion in 2023, from \$7.5 billion in 2022, but the value of exits remained robust by historical standards (Figure 21). Exit value is the return on an investment or asset at the time of sale. Although financial conditions were tight in 2023, private capital funds achieved a high value for exited assets relative to the historical average. However, there was a more pronounced decline in the number of exit deals, falling to 42 from 80, meaning that the average value of individual exited investments increased to \$110 million in 2023 from \$94 million in 2022. In 2022, strategic sales accounted for 79% of the total exit value, secondary sales made up a further 13% and private exits comprised just 6% of the total.⁶ In 2023, the composition of buyers changed significantly, with secondary sales surging to 61% of the total exit value, strategic sales falling to 34% and public markets dropping to a meagre 1%. The low share of public exits reinforces a long-standing issue whereby shallow public equity markets in Africa are a constraint on exiting investments compared with other regions. Increased country concentration was also evident in the private capital exit data, with South Africa accounting for 52% of the total exit value in 2023, compared with 41% in 2022. Côte d'Ivoire (8%) was the next largest contributor, owing to two deals worth a total of \$350 million in the second quarter of 2023.

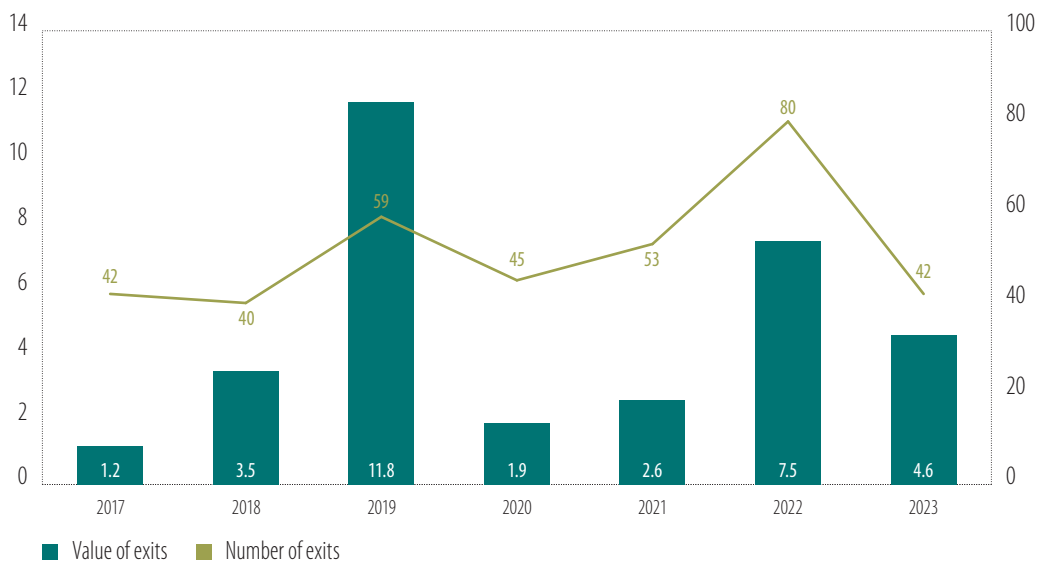
⁶ Strategic sales are when the private equity/venture capital firm sells its investment in a company to another company in the same industry, with the buyer typically trying to expand or build capability within its own industry. A secondary sale is when the investment in a company is sold to another private equity/venture capital firm, keeping the company in the hands of private capital investors. Note that the percentages do not total 100 because some smaller exit categories are not discussed in this report.

Figure 20
Country shares of total private capital investment in Africa in 2023 (in %)



Source: Global Private Capital Association.

Figure 21
Private capital exits in Africa (left axis: value in \$ billion; right axis: number of deals)



Source: Global Private Capital Association.

Financing conditions in Africa

Financial integration

Financial integration measures the degree to which a country or a region is connected financially with the rest of the world. This metric is calculated as the total external assets and liabilities of a country relative to the GDP of that country, and encompasses the assets and liabilities of the public and private sectors. As countries become more financially integrated, they have access to more financial resources. Such access is crucial for developing countries as they typically have large financing needs for development

that cannot be met using domestic resources alone. Thus, greater financial integration can lead to higher consumption and investment when domestic resources are limited. However, increased financial connectivity to global markets increases the exposure of a country to global financial shocks. The effects of global financial tightening in recent years, caused in part by an aggressive monetary policy tightening cycle in the United States, are an example of the perils of this increased connectivity. The 2022 edition of our Finance in Africa report (EIB, 2022) began tracking financial integration and contains a more detailed review of the pros and cons of increased financial integration, based on the External Wealth of Nations dataset (see Lane and Milesi-Ferretti (2018)).

Financial integration varies substantially across African regions and is particularly high in Southern Africa compared with other regions. The latest available data for 2022 show that financial integration ranged from 84% of GDP in West Africa to 362% in Southern Africa, with values between 104% and 116% for the other three regions (Figure 22). West Africa has the lowest level of financial integration, partly because this region is large with a significantly higher GDP than East Africa or Central Africa. In absolute US dollar terms, the total amount of external financial assets and liabilities is in fact much larger than that of either Central or East Africa. In Southern Africa, financial integration is boosted by the large external financial position of South Africa and, to a lesser extent, Mauritius. Financial integration in other developing regions in Asia or Latin America is typically around 150-180% of GDP. In this sense, most African regions are less integrated in global markets than regional peers.

Figure 22
Financial integration by region (% of GDP)

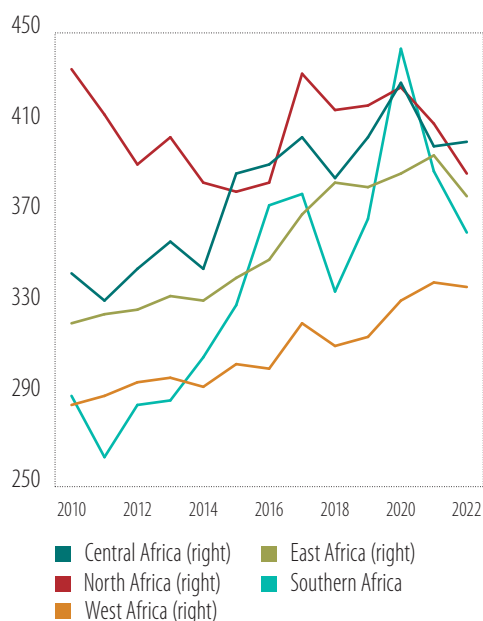
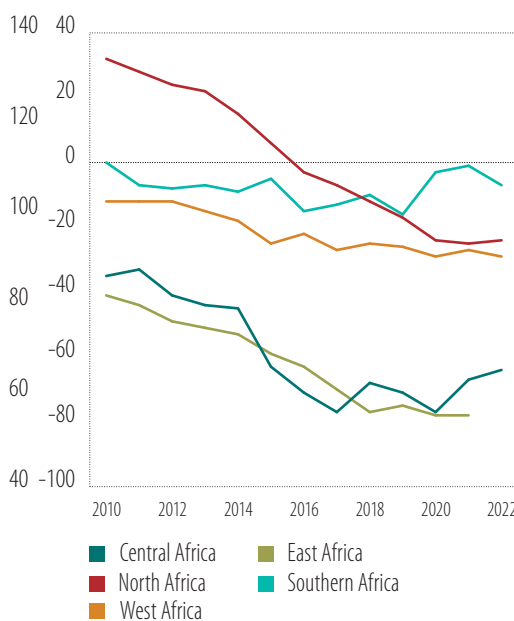


Figure 23
Net international investment position (% of GDP)



Source: [External Wealth of Nations database](#).

Financial integration increased across most regions between 2010 and 2020 until the shocks caused by the COVID-19 pandemic and Russia’s invasion of Ukraine stalled or even reversed the growth. The typical pattern observed over the last ten to 15 years is that external assets in nominal terms have been flat or growing slowly and external liabilities have increased more quickly. However, even for liabilities, their growth rate has slowed over the last five years. These patterns are reflected in the net international investment position, which subtracts external liabilities from external assets, aiming to show the external solvency of a country or regions. According to the net international investment position, net external liabilities grew across most regions until 2015 or 2016 but have been relatively stable since then as liability

growth slowed and aligned with asset growth (Figure 23). The volatility in financial integration measures compared with the net international investment position is mainly due to variability in the growth rate of nominal GDP. In 2020 and 2021, there were some large changes – positive and negative – in nominal GDP across the African regions, impacted by volatile real growth rates, high inflation and changes in US dollar exchange rates. As inflation slows and GDP growth settles over the coming years, financial integration metrics are also likely to be more stable.

Among bond and equity portfolio flows, bond market flows are typically more important for African regions. As mentioned above, a drawback of increased financial integration is the potential for global shocks to have a bigger impact on domestic financing. Such effects can be seen using the financial conditions index (see the next section in this chapter). However, the financial conditions index is a high frequency indicator using monthly data, but there is a shortage of timely indicators available on changes in portfolio flows to include in that index. Instead, now that annual data are available until 2022, the data on external assets and liabilities can provide an overview of how equity and debt flows behaved between 2019 and 2022. Focusing on the liability side, which represents foreign financing of domestic regions, Figure 24 shows that portfolio debt/bond liabilities are higher than equity liabilities for all African regions except Southern Africa. Debt liabilities range from 2.4 times larger than equity liabilities in East Africa to eight times larger in West Africa.

Figure 24
Portfolio equity and bond liabilities
(% of GDP)

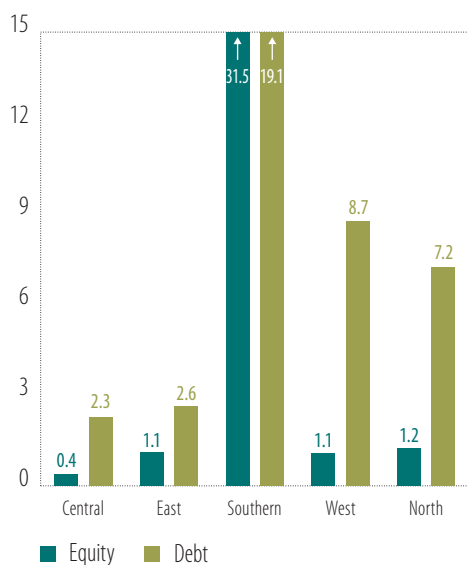
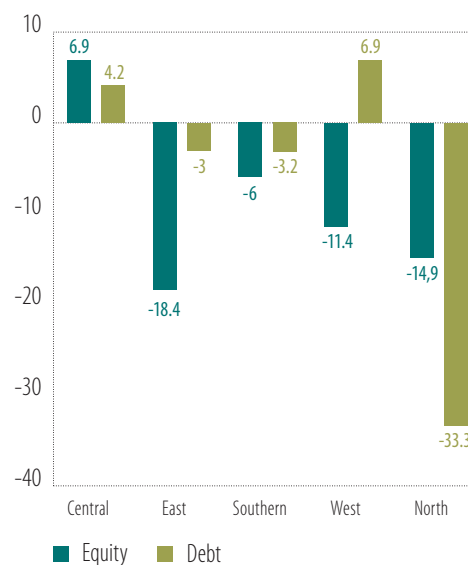


Figure 25
Change in nominal portfolio liabilities
2022 vs. 2021



Source: External Wealth of Nations database and EIB staff calculations.

The tightening in global financing conditions in 2022 is reflected in changes in portfolio liabilities. As the flows remain small relative to GDP in most African regions, and nominal GDP was volatile between 2021 and 2022, it might be more useful to focus on the changes in outright US dollar liabilities. Global markets were buoyant in 2021 but experienced a souring in sentiment in 2022. In terms of equity portfolio liabilities, there is a general tendency of declining liabilities across regions, ranging from a 6% fall in Southern Africa to an 18% fall in East Africa (Figure 25). In stark contrast is the 7% increase in equity portfolio liabilities in Central Africa but, as seen in Figure 24, the size of equity liabilities is extremely small in Central Africa as a share of GDP. Furthermore, the market in Central Africa is also smaller than other markets in absolute terms, with total portfolio liabilities of about one-third of the size of East Africa, which is the next smallest market in absolute terms. In this sense, the trend in terms of volumes was for exits from equity liabilities across Africa. However, for debt liabilities, which are generally more

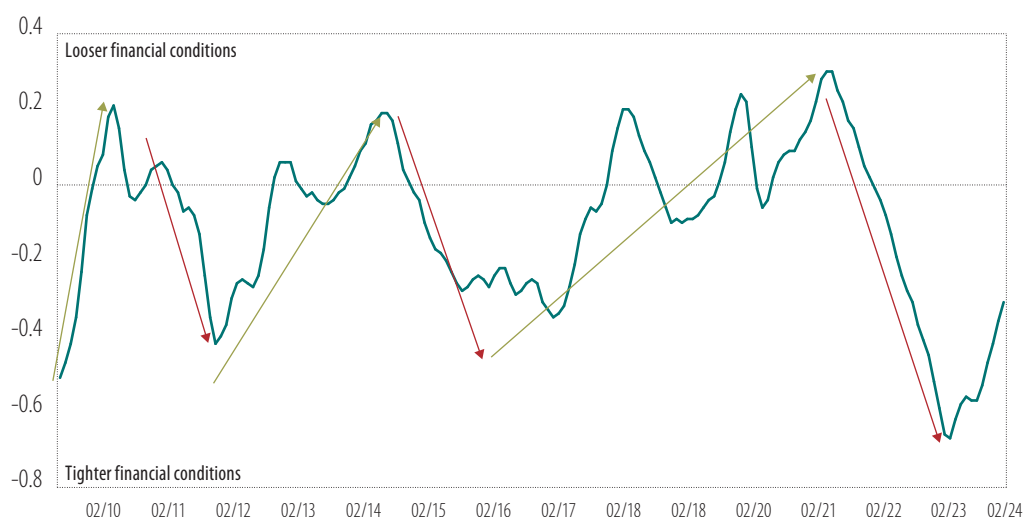
important for African regions, the situation was mixed. There were small reductions in debt liabilities in East and Southern Africa but increases in Central and West Africa. North Africa experienced a sharp drop in portfolio liabilities that was driven by the financial problems in Egypt, which included devaluation of the currency, thereby reducing the value, in US dollar terms, of the debt liabilities held by overseas investors. Overall, portfolio liabilities point to outflows in 2022 following a buoyant 2021 but, apart from North Africa, these outflows were more concentrated in equity rather than debt.

Financial conditions index for Africa

A financial conditions index for Africa was introduced last year in the Finance in Africa report (EIB, 2023). The motivation was to create an indicator capable of reflecting the ease with which the private sector can secure financing. The analysis was based on monthly data for four countries in sub-Saharan Africa from February 2009 to February 2023. Egypt, Nigeria, Kenya and South Africa were chosen because they are among the region's major economies, accounting for about half of the continent's GDP, and the regional heterogeneity permits an approximation of financial trends at the continent level. Seven country-level variables were included: credit growth (private and public sectors), corporate lending spread,⁷ 12-month change in the nominal exchange rate vs. the US dollar, 12-month policy rate change, 12-month change in the stock market, and annual rate of inflation. More details on the methodology are available in the 2023 Finance in Africa report (EIB, 2023).

The financial conditions index has been expanded to ten countries in this edition of the report, adding Morocco, Côte d'Ivoire, Ghana, Tunisia, Senegal and Zambia. These ten countries accounted for approximately 60% of GDP on the African continent in 2023, further enhancing the representativeness of the index. The sample has been extended to February 2024, compared to February 2023 last year. The index shows three periods during which financial conditions have loosened since 2009, and three periods of tightening (Figure 26). For a detailed description of the drivers of financial conditions during these historical periods, please consult the 2023 Finance in Africa report (EIB, 2023).

Figure 26
Financial conditions index for Africa



Source: European Investment Bank.

⁷ This is the difference between corporate interest rates and the policy rate.

The extended financial conditions index reveals a severe tightening in financial conditions over the course of 2023. A broad loosening in financial conditions began in 2016 but there was some volatility, caused by stock market changes and, to a lesser extent, exchange rate movements. The onset of the COVID-19 pandemic in early 2020 led to a tightening of financial conditions initially due to weakness in the stock market and exchange rates. However, swift reductions in policy rates by central banks quickly reversed the sentiment on stock markets and strengthened currencies, loosening financial conditions until mid-2021. Subsequently, accelerating inflation following the onset of Russia's invasion of Ukraine rapidly reversed the situation again. Policy rates were increased, and exchange rates and stock markets fell, causing tightening in the financial conditions index over 2022 and 2023. The period after the invasion represents the most severe peak-to-trough tightening episode since 2009. The tightening pressure exerted by the variables comprising the financial conditions index started to wane around mid-2023, particularly for the stock market, but weaker private sector credit growth and wider lending spreads maintained tightening pressures. Since then, financial conditions have started easing again, reversing approximately one-third of the peak-to-trough tightening.

The new countries added to the index have driven the recent rebound in financial conditions, recovering from the shocks caused by the COVID-19 pandemic and the spike in food and energy prices stemming from Russia's invasion of Ukraine more quickly than the four original countries in the index (Figure 27). As the financial conditions index is GDP-weighted, Morocco (35%), Côte d'Ivoire (19%) and Ghana (18%) account for about three-quarters of the weight of the index for new countries. In Morocco, the tightening exerted by the currency had begun reversing by the final quarter of 2022, while inflation started falling from the first quarter of 2023, accompanied by improving stock market performance and tightening spreads on corporate lending rates. In Côte d'Ivoire, the situation was similar, with inflation, foreign exchange pressures and stock markets all improving by the final quarter of 2022, although this improvement was partially offset by fresh policy rate tightening. Ghana had weathered the financial impact of global shocks relatively well but then faced a severe tightening in financial conditions owing to its sovereign debt default in late 2022. However, by mid-2023, financial conditions were starting to loosen again through inflation, foreign exchange and stock prices, but tightness continued in private sector lending. Among the remaining three new countries in the index, financial conditions had also started improving in Zambia and Tunisia but less so in Senegal. Although the recovery was quicker for the six new countries, the scale of the peak-to-trough tightening in financial conditions was similar for the original and the new countries.

Economic and financial conditions remained strained among the original four countries in the index. Nigeria saw inflation rise and currency weaken in 2023 as the new government tried enacting economic policy reforms that will bear fruit in the long term. South Africa saw financial conditions hit a low point in the final quarter of 2022 and improvement since then has been weak, impeded by unfavourable developments in credit markets. In addition, stock market performance in South Africa has trailed other large economy commodity exporters in global emerging markets. In Egypt, the economic problems confronting the country led to a sharp deterioration in financial conditions from the final quarter of 2021, hitting a low point in the second quarter of 2023, although there has been some recovery since then, helped by a rebound in the stock market. Kenya saw continued tightening of financial conditions throughout 2023 due to a weaker currency, falling stock prices and policy tightening.

The conditions experienced recently by the new countries more closely reflect the loosening of conditions on international bond markets. Figure 28 shows the GDP-weighted average yield for 14 African countries and their spread relative to US Treasury yields. These yields fell to 10.2% in April 2024 from 13.9% in May 2023, a reduction of 373 basis points. Over the same period, the yields on US Treasuries increased by 106 basis points, meaning the risk-free rate was rising. Accordingly, the fall in African yields was entirely due to spread tightening, with spreads narrowing by 479 basis points. This reflects an improvement in market sentiment towards African governments since late 2023, at least partly linked to perceptions that risks are receding. Even though major fiscal issues persist and financing options remain narrow, there are now signs that the worst of the sovereign debt crisis has passed, although, as seen earlier in the chapter, yields remain above pre-pandemic levels.

Figure 27
Financial conditions indices by country groups



Source: European Investment Bank.
 Note: New countries are Morocco, Côte d'Ivoire, Ghana, Tunisia, Senegal and Zambia while existing countries are South Africa, Nigeria, Egypt and Kenya.

Figure 28
Hard currency bond yields and spread to US bond yield, GDP-weighted average for 14 African countries (in %)



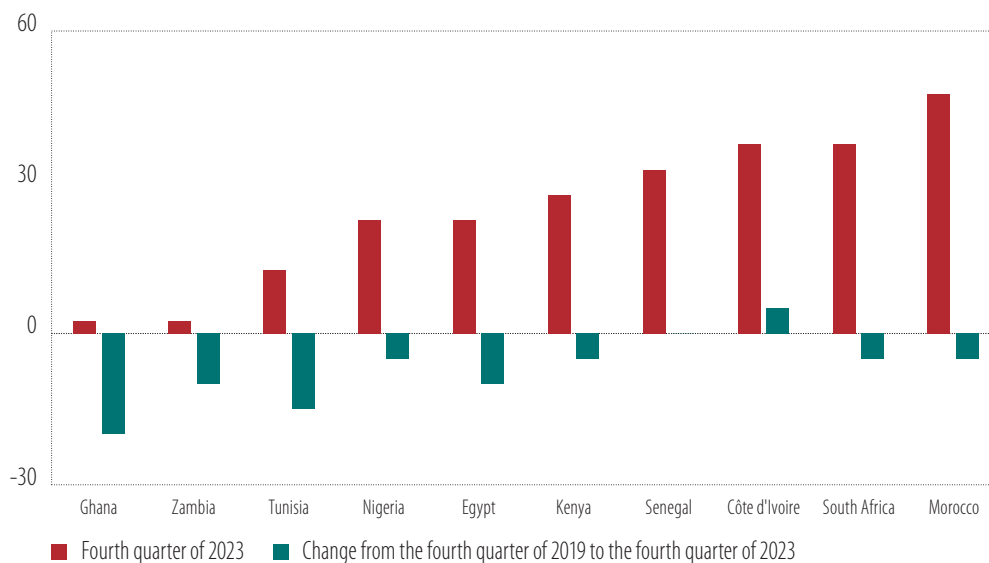
Source: Bloomberg and EIB staff calculations.

Middle-income rather than low-income countries present the biggest sovereign debt risk in terms of impact. There are 13 low-income countries at high risk of debt distress in Africa, according to the International Monetary Fund, but their share of continental GDP is only 13%. This group includes Ethiopia, even though this country is effectively still finalising its debt restructuring. If Ethiopia is excluded, the GDP share of low-income countries in debt distress falls to just 8%. At present, middle-income countries such

as Egypt and Tunisia probably represent the greatest risk, while Angola is also considered at fairly high risk of debt distress. These three countries account for almost 19% of GDP on the African continent. Egypt is by far the largest of these three economies (14% of Africa's GDP) and while risks remain, the situation has improved, and bond yields have fallen for this country. Among the 13 low-income countries at high risk of debt distress, nine have International Monetary Fund programmes in place and three more are in pre-programme negotiations, leaving just Burundi without a programme. While a programme does not preclude sovereign debt distress, the Economist Intelligence Unit (2024) highlights that Ethiopia, Ghana, Malawi and Zambia did not have a programme in place when they fell into debt distress. Among the middle-income countries, Egypt has a programme, but Tunisia and Angola do not.

There is significant variation in the creditworthiness of the countries included in the financial conditions index. For the countries in the index, the EIB conducted an analysis comparing their sovereign creditworthiness in the fourth quarter of 2019, just ahead of the onset of the pandemic, to that in the fourth quarter of 2023, using the median sovereign credit rating of the three main rating agencies – Fitch, S&P and Moody's.⁸ Credit rating agencies use a rating scale (from Aaa to D, for example) to classify sovereign creditworthiness. These detailed scales typically have roughly 20 different notches on the rating scale. For each country, a numerical score is created for the rating by translating the credit rating to a number on a points scale between 0 and 100, meaning that each notch on the scale is equivalent to five points. For example, the highest rating of Aaa is equivalent to 97.5,⁹ Aa1 is equivalent to 92.5, continuing all the way down the scale in increments of five to a score of 2.5 for a country in default.

Figure 29
Sovereign creditworthiness (numerical rating scale)



Source: European Investment Bank, Fitch, S&P and Moody's.

Note: The red bars show sovereign creditworthiness (median credit rating) in the fourth quarter of 2023, and green bars show the change since the fourth quarter of 2019.

The deterioration in sovereign creditworthiness was most pronounced for countries that already had weaker fundamentals. Figure 29 shows the sovereign creditworthiness in the final quarter of 2023 and how that credit rating has changed since the final quarter of 2019. Starting credit ratings (that is, those in the fourth quarter of 2019) ranged from a high of Baa3 for Morocco to a low of Caa2 for Zambia. The largest declines in creditworthiness were for Ghana and Zambia, both of which went into default during

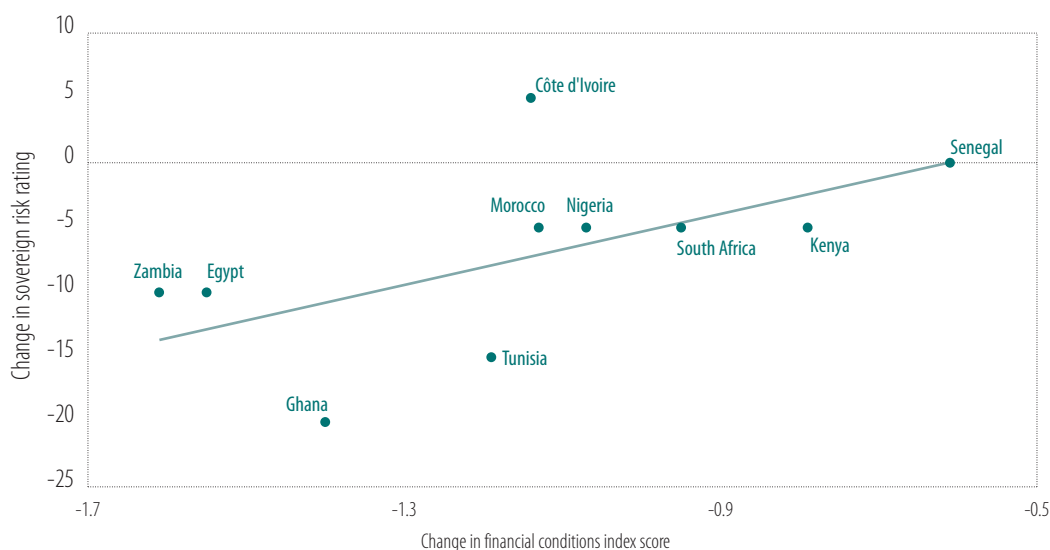
⁸ If there is no sovereign credit rating available for a country from all three rating agencies, which would preclude the use of the median rating, the best rating is used instead.

⁹ This is the mid-point of the 95-100 range.

the period. The very low starting rating for Zambia limited the scale of its subsequent fall. Tunisia had the next weakest credit rating before the COVID-19 pandemic and saw a median downgrade of three notches during the four-year period analysed. This suggests that recent global shocks particularly affected countries with weaker initial fundamentals. At the higher end of the rating scale, Morocco and South Africa saw a median one-notch downgrade, while Côte d'Ivoire was the only country that benefited from an upgrade.

The degree of tightening in financial conditions may reflect changes in sovereign creditworthiness. Comparing the change in sovereign creditworthiness from Figure 29 to the peak-to-trough decline in the financial conditions index for each country, Figure 30 points to a loose relationship between the size of the decline in the financial conditions index at the country level and the corresponding change in credit rating. This is not surprising given that the financial conditions index and the sovereign credit rating capture some of the same broad macrofinancial trends. Moreover, as sovereign borrowing costs are affected by sovereign credit ratings, changes in credit ratings have implications for financing of the private sector. This highlights the importance of sound public finances for the well-being of the private sector and the wider financial system in a country. For countries that have found themselves in debt difficulties, such as Ghana and Zambia, progress on their debt restructuring has coincided with improvements in their respective financial conditions index.

Figure 30
Changes in sovereign creditworthiness and financial conditions index scores



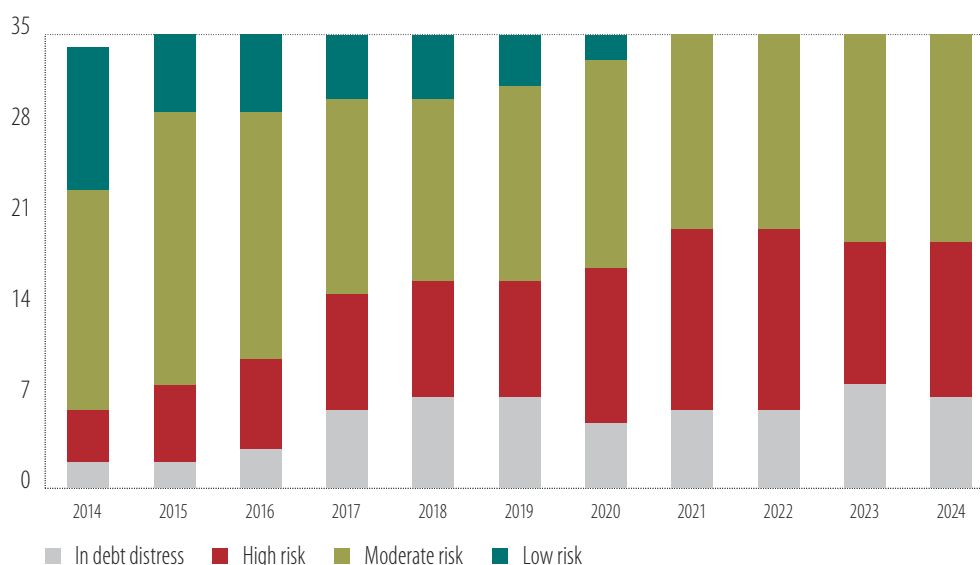
Source: European Investment Bank, Fitch, S&P and Moody's.

Public debt and private sector credit in Africa

Over the past four turbulent years, bank holdings of domestic sovereign debt have increased sharply across Africa. To help finance the widening fiscal deficits in the wake of multiple shocks – the COVID-19 pandemic, the cost-of-living crisis stemming from Russia's invasion of Ukraine, and the global economic slowdown – African banks absorbed a sizeable share of the new issuance of domestic sovereign debt. This has created a stronger connection between governments and banks with two key consequences: (i) it reduces resources available for financing private investments (crowding out) and (ii) it exposes the banking sector to sovereign risks at a time of elevated concerns over sovereign debt distress (Figure 31). For instance, two of the largest banks in Ghana suffered their first loss following the country's decision to restructure its local currency and overseas debt at the end of 2022 (Bloomberg, 2023). Ghana Commercial

Bank – the largest bank in terms of assets – posted a net loss of GHS¹⁰ 593.4 million (\$50.5 million) in 2022 for the first time since 1993, and Ghana’s Standard Bank – the largest bank by market value – registered a loss of GHS 297.8 million (\$25.4 million). In the neighbouring country of Nigeria, banks also reported suffering a loss (about \$1.4 billion) following Ghana’s public debt restructuring.

Figure 31
Risk of debt distress in debt risk status for low-income countries in Africa



Source: *Low-Income Countries Debt Sustainability Analysis Comprehensive List, February 2024; IMF REO (2024).*

Note: *As per the joint IMF-World Bank Debt Sustainability Analysis of Poverty Reduction and Growth Trust in Eligible Low-Income Countries. 2024 data cover up to the end of February. Constant sample of 35 African countries.*

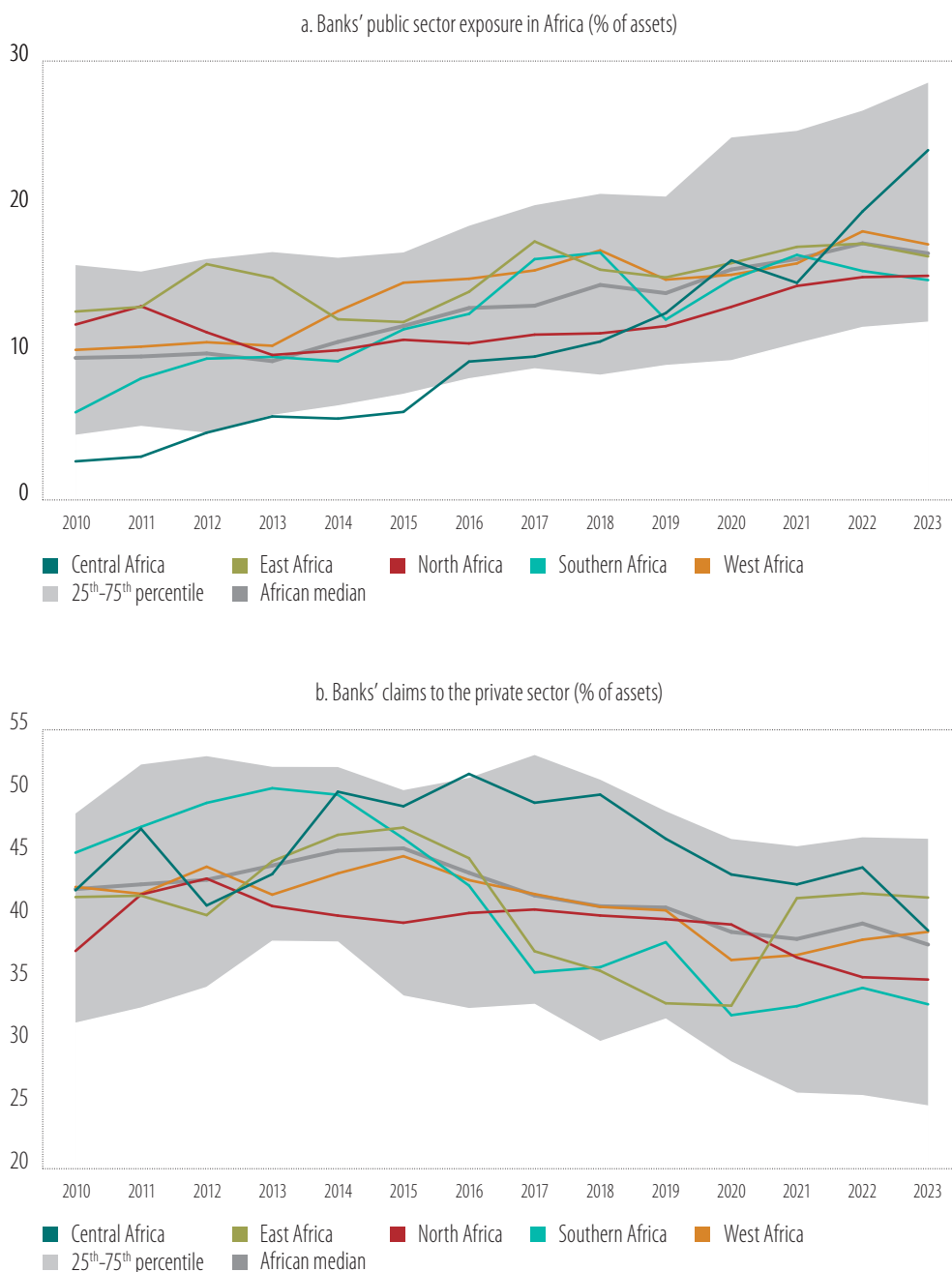
The continued exposure of banks to government borrowings poses concerns about the severity of crowding out. Domestic sovereign debt exposure of banks increased in Africa to 17.5% in 2023 from 10.3% in 2010 (Figure 32a). In parallel, Figure 32b shows a decreasing trend in banks’ private sector lending (the sample median declined from 42% to 38% during the same period). At the regional level, public sector exposure of banks increased, particularly in Central Africa, from 2.6% to 24% of total assets. In West and Southern Africa, public sector exposure of banks increased by 7-9% of assets, whereas in North and East Africa, it increased by around 3% of assets. In contrast, the most marked decline in banks’ private sector lending was observed in Southern Africa, with a decline of about 12.1% of assets, whereas that in Central, North and West Africa declined by about 2-3% of assets. Although private sector lending of banks in East Africa hardly declined from 2010 to 2023, it exhibited the highest volatility over the sampled period. This increasing exposure was the result of additional government financing needs met mostly by domestic banks as foreign holders in local currency bond markets receded and the domestic investor base remained limited.

Empirical evidence shows that crowding out has been an issue in many African countries even before the recent increase in public debt (Attout et al., 2022; EIB, 2023). The high liquidity of sovereign instruments, their high yields and the fact that they are perceived as less risky and cheaper (in terms of capital charges) make them more attractive to financial intermediaries than lending to the private sector. Furthermore, sovereign instruments require no due diligence or monitoring compared with private sector lending. In Africa, where financial systems are less developed, government securities dominate the financial markets, offering higher rates – sometimes higher than private sector lending for banks – while attracting zero capital charges. Crowding out is one factor explaining the structurally low level of bank

¹⁰ GHS denotes Ghanaian cedi.

lending to the private sector in many African countries, and this becomes even more of a bottleneck when demand for private sector credit increases. Moreover, banks prefer lending to a safe borrower than a risky private business, especially in times of uncertainty and high inflation and interest rates, which have been witnessed in Africa in recent years (International Monetary Fund, 2024).

Figure 32
Banks' public sector exposure and private sector lending



Source: International Financial Statistics data and EIB staff calculations.
 Note: Banks' public sector exposure and private sector lending correspond to claims on central government debt and banks' claims to the private sector, respectively all divided by total banking sector assets. The figure shows aggregated data for 52 African countries.

In this edition of the report, we measure crowding out using a severity of crowding out (SOCO) index. The severity of crowding out index was initially developed by Schmidt and Zwart (2018) and recently refined by Attout et al. (2022), and is updated annually to capture trends in the crowding out of private sector lending in African countries. In addition, the severity of crowding out index provides insights on bank lending conditions under different economic cycles while allowing for comparisons between countries and over time. The index comprises three sub-indices that facilitate understanding of the key factors at play: the supply of public debt, demand for private sector credit, and banks' lending decisions towards the private sector (Box 2).

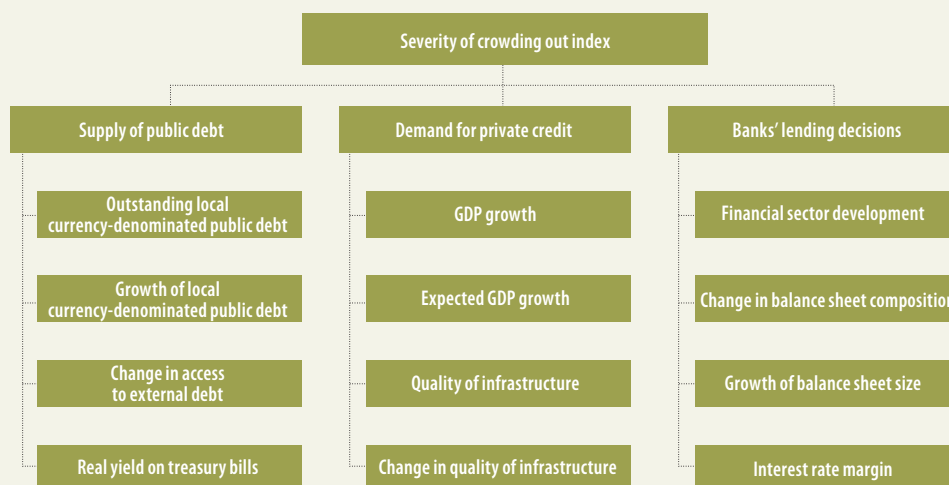
Box 2

The severity of crowding out index, sub-indices and underlying variables

Construction of the severity of crowding out index allows for comparisons between countries and over time. The index was developed by assessing each country using 12 indicators categorised into three sub-indices. The first sub-index estimates the supply of public debt and includes the local currency debt-to-GDP ratio (level and change), changes in the composition of debt (foreign currency vs. local currency), and the real yield on Treasury bills. The second sub-index captures the demand for private credit by examining GDP growth rates for the current year and the forecast for the following year. It also includes the Africa Infrastructure Development Index (level and change), which is a structural indicator of economic development. Finally, the third sub-index explicitly explores banks' behaviour towards lending to the private sector and considers financial sector development, balance sheet developments (growth and composition), and pricing. Figure 33 presents an overview of the index, the three sub-indices, and the underlying indicators.

Figure 33

The severity of crowding out index aggregates three sub-indices, each with four underlying variables

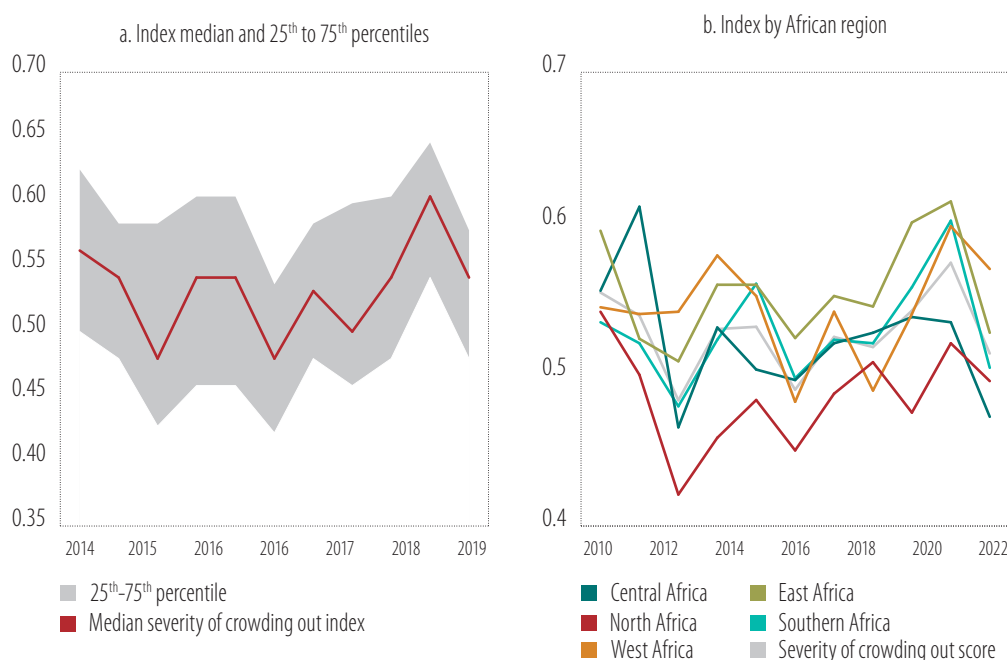


Source: Attout et al. (2022).

As shown in Figure 34, crowding out significantly increased to record levels in 2023 before easing in 2024. The sharp increase in the severity of crowding out index from 2021 until the peak reached in 2023 was driven by higher public debt issuance and a rebound in private credit demand, creating intense competition for banks' funding. The limited supply of external funding in African countries amid the souring fiscal deficits means domestic borrowings by governments have intensified. However, the severity of crowding out index shows signs of easing in 2024 due to the loosening of global financial conditions,

allowing African countries to access international markets for financing. As shown in Chapter 3, there is also an increase in the share of banks expecting to issue hard currency bonds in the next 12 months compared to the past 12 months. Figure 34a, which shows the median and the 25th to 75th percentiles (shaded band) for the severity of crowding out index, depicts the distribution of the index across African countries. The evolution of the index shows episodes of volatility over the entire sample. For example, the index declined between 2014 and 2016 as an economic slowdown reduced demand for private sector credit. However, when economic activity recovered in 2017 and 2018, the index picked up with a rise in loan demand from the private sector. The index dropped in 2019 as public finances improved, before sharply increasing in 2020 in the wake of the COVID-19 pandemic, remaining elevated until 2023.

Figure 34
Severity of crowding out in Africa: 2014-2024



Source: International Financial Statistics data and EIB staff calculations.
 Note: 0 and 1 indicate low and high severity, respectively. The severity of crowding out index median is computed across 41 countries in Africa. The shaded band depicts the 25th to 75th percentiles, showing the heterogeneity of the whole sample. 2024 values are estimates.

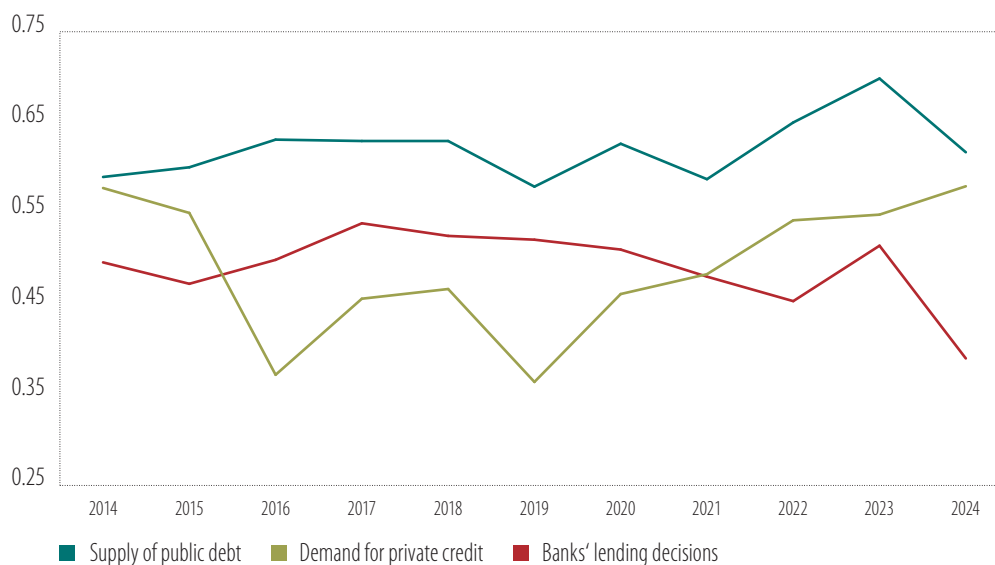
Although all the African regions show high levels of crowding out, the East, Southern and West African regions have the highest levels, especially after 2021 (Figure 34b). These observations are explained by increases in government financing needs as economic recovery measures from the shocks intensified, leading to increased government borrowing from banks and further crowding out of the private sector. The severity of crowding out index for North Africa declined in 2022 due to favourable bank lending decisions driven by increased bank private sector credit and improved financial sector development in Egypt, Morocco and Tunisia, which reduced the crowding-out effects.¹¹ However, the index deteriorated markedly in 2023, in parallel with an increased supply of public debt. Sustainability of the high debt levels in Egypt and Tunisia (96% and 77% of GDP, respectively) remains a source of concern as these countries are at high risk of debt default. Central Africa is projected to have the lowest severity of crowding out in 2024, mostly explained by structurally favourable bank lending decisions.

11 See the yearly severity of crowding out index for each African country presented in Appendix B, where 0 indicates low severity and 1 indicates high severity.

The severity of crowding out was particularly high in 2023 in over half of the African countries in the index. Although pressures had considerably increased across the continent, the severity of crowding out index was above 0.6 in these countries and even above 0.7 in Mozambique. The increased supply of public debt was the main driver of higher severity of crowding out scores and was especially high for Ghana, Gabon, Mali, Burkina Faso, Uganda, Mozambique and Kenya. Credit growth has been expanding considerably since 2019 (highest in Benin and Côte d'Ivoire in 2023), broadly reflecting the risk aversion of financial institutions. The lending decisions of banks in Africa deteriorated in 2023, reflecting the tightening of financial conditions, but are projected to start easing in 2024 with the tepid recovery of the economy.

Overall, all the indicators contributed to an increase in the severity of the crowding out index in 2023, but public debt issuance and private sector credit needs were the most significant contributors (Figure 35). Apart from 2023, banks' lending decisions have steadily reduced crowding out, reflecting the continuous growth in banks' balance sheet size and financial sector development. The improvement in bank lending conditions implies that private sector lending is still growing, and this offsets the effect of the crowding out (Figure 35). The decline in the severity of crowding out index in 2024 implies that banks' appetite for sovereign debt is gradually diminishing and risk aversion to the private sector is improving.

Figure 35
Evolution of the severity of crowding out sub-indices



Source: EIB staff calculations based on publicly available data.

Note: 0 and 1 indicate low and high severity, respectively. The values for 2024 are estimates.

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Appendix A: Components of private capital

Figure A.1
Components of private capital raised
(\$ billion)

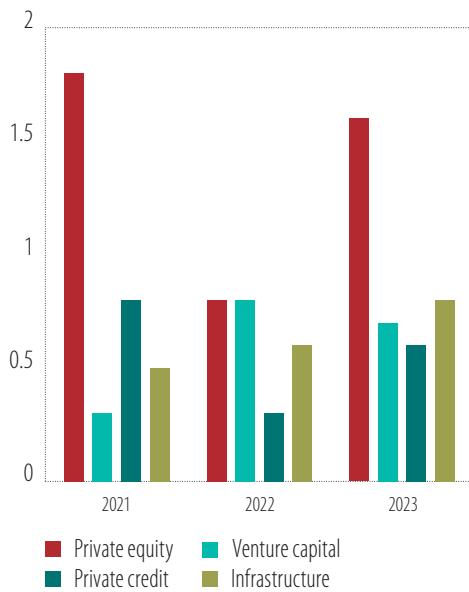
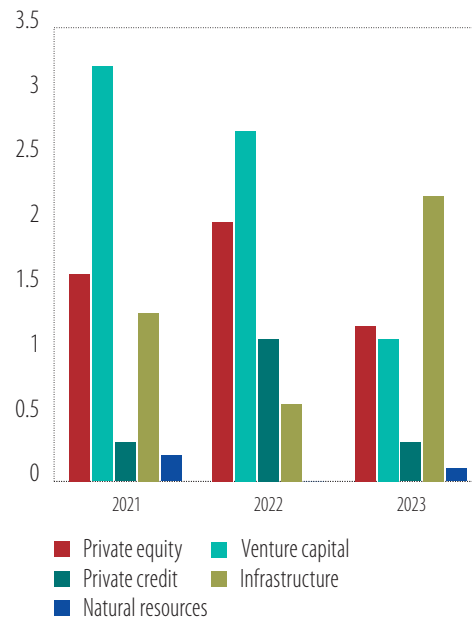


Figure A.2
Components of private capital investment
(\$ billion)



Source: [External Wealth of Nations database](#) and EIB staff calculations.

Note: The components of private capital in Figure A1 are the constituent elements of private capital fundraising in Figure 17 in this chapter. Similarly, the components of Figure A2 are the constituent elements of private capital investment in Figure 18.

Appendix B: The severity of crowding out index over time by country

| Country | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|----------------------|------|------|------|------|------|------|------|------|------|------|------|
| Algeria | 0.46 | 0.48 | 0.40 | 0.44 | 0.54 | 0.56 | 0.46 | 0.54 | 0.52 | 0.52 | 0.48 |
| Angola | 0.54 | 0.42 | 0.40 | 0.46 | 0.56 | 0.42 | 0.50 | 0.38 | 0.46 | 0.60 | 0.48 |
| Benin | 0.50 | 0.54 | 0.54 | 0.60 | 0.44 | 0.44 | 0.60 | 0.50 | 0.58 | 0.63 | 0.60 |
| Botswana | 0.58 | 0.48 | 0.54 | 0.52 | 0.46 | 0.48 | 0.56 | 0.63 | 0.63 | 0.67 | 0.50 |
| Burkina Faso | 0.33 | 0.52 | 0.46 | 0.60 | 0.56 | 0.48 | 0.50 | 0.56 | 0.48 | 0.60 | 0.60 |
| Burundi | 0.50 | 0.50 | 0.50 | 0.56 | 0.54 | 0.46 | 0.50 | 0.42 | 0.44 | 0.50 | 0.46 |
| Cabo Verde | 0.54 | 0.67 | 0.60 | 0.60 | 0.60 | 0.58 | 0.63 | 0.65 | 0.60 | 0.54 | 0.56 |
| Cameroon | 0.56 | 0.67 | 0.46 | 0.58 | 0.40 | 0.44 | 0.48 | 0.50 | 0.54 | 0.50 | 0.54 |
| Central African Rep. | 0.50 | 0.54 | 0.46 | 0.56 | 0.44 | 0.48 | 0.44 | 0.46 | 0.44 | 0.35 | 0.31 |
| Chad | 0.50 | 0.63 | 0.38 | 0.50 | 0.65 | 0.65 | 0.58 | 0.52 | 0.52 | 0.50 | 0.42 |
| Comoros | 0.54 | 0.50 | 0.29 | 0.46 | 0.44 | 0.38 | 0.54 | 0.40 | 0.58 | 0.58 | 0.54 |
| Congo, Dem. Rep. of | 0.63 | 0.58 | 0.40 | 0.46 | 0.50 | 0.40 | 0.48 | 0.67 | 0.54 | 0.60 | 0.42 |
| Congo | 0.50 | 0.60 | 0.50 | 0.58 | 0.58 | 0.52 | 0.60 | 0.42 | 0.56 | 0.63 | 0.56 |
| Côte d'Ivoire | 0.63 | 0.42 | 0.58 | 0.50 | 0.50 | 0.42 | 0.58 | 0.48 | 0.60 | 0.63 | 0.56 |
| Egypt | 0.56 | 0.48 | 0.38 | 0.38 | 0.40 | 0.44 | 0.44 | 0.40 | 0.42 | 0.40 | 0.42 |
| Eritrea | 0.67 | 0.56 | 0.44 | 0.42 | 0.42 | | | | | | |
| Eswatini | 0.35 | 0.50 | 0.35 | 0.54 | 0.52 | 0.60 | 0.54 | 0.46 | 0.44 | 0.48 | 0.44 |
| Gabon | 0.65 | 0.65 | 0.60 | 0.50 | 0.46 | 0.50 | 0.54 | 0.60 | 0.63 | 0.63 | 0.58 |
| Ghana | 0.52 | 0.48 | 0.65 | 0.85 | 0.88 | 0.58 | 0.71 | 0.60 | 0.54 | 0.65 | 0.60 |
| Guinea-Bissau | 0.63 | 0.58 | 0.60 | 0.35 | 0.44 | 0.42 | 0.48 | 0.33 | 0.50 | 0.60 | 0.56 |
| Kenya | 0.42 | 0.52 | 0.60 | 0.65 | 0.63 | 0.52 | 0.56 | 0.60 | 0.63 | 0.63 | 0.50 |
| Lesotho | 0.56 | 0.54 | 0.44 | 0.46 | 0.63 | 0.46 | 0.40 | 0.60 | 0.60 | 0.60 | 0.50 |
| Madagascar | 0.48 | 0.56 | 0.50 | 0.42 | 0.60 | 0.38 | 0.54 | 0.42 | 0.50 | 0.67 | 0.60 |
| Mali | 0.44 | 0.52 | 0.56 | 0.56 | 0.54 | 0.52 | 0.54 | 0.35 | 0.54 | 0.65 | 0.60 |
| Mauritania | 0.65 | 0.56 | 0.58 | 0.50 | 0.50 | 0.44 | 0.48 | 0.48 | 0.54 | 0.65 | 0.54 |
| Mauritius | 0.63 | 0.60 | 0.54 | 0.54 | 0.63 | 0.50 | 0.46 | 0.56 | 0.63 | 0.65 | 0.56 |
| Morocco | 0.54 | 0.58 | 0.46 | 0.54 | 0.56 | 0.38 | 0.52 | 0.58 | 0.46 | 0.58 | 0.54 |
| Mozambique | 0.65 | 0.54 | 0.48 | 0.54 | 0.54 | 0.44 | 0.52 | 0.48 | 0.69 | 0.71 | 0.63 |
| Niger | 0.56 | 0.48 | 0.46 | 0.58 | 0.58 | 0.42 | 0.44 | 0.46 | 0.50 | 0.58 | 0.65 |
| Nigeria | 0.54 | 0.58 | 0.40 | 0.52 | 0.58 | 0.52 | 0.46 | 0.48 | 0.60 | 0.65 | 0.52 |
| Rwanda | 0.63 | 0.56 | 0.56 | 0.65 | 0.60 | 0.52 | 0.58 | 0.54 | 0.60 | 0.65 | 0.54 |
| São Tome & Príncipe | 0.48 | 0.42 | 0.48 | 0.46 | 0.56 | 0.54 | 0.50 | 0.46 | 0.48 | 0.58 | 0.56 |
| Senegal | 0.56 | 0.52 | 0.48 | 0.60 | 0.38 | 0.33 | 0.50 | 0.52 | 0.44 | 0.56 | 0.58 |
| Sierra Leone | 0.67 | 0.71 | 0.63 | 0.67 | 0.56 | 0.60 | 0.60 | 0.48 | 0.58 | 0.58 | 0.60 |
| South Africa | 0.46 | 0.54 | 0.42 | 0.54 | 0.52 | 0.52 | 0.54 | 0.48 | 0.48 | 0.50 | 0.46 |
| Tanzania | 0.65 | 0.46 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.63 | 0.63 | 0.65 | 0.56 |
| The Gambia | 0.67 | 0.69 | 0.71 | 0.67 | 0.63 | 0.50 | 0.58 | 0.46 | 0.60 | 0.56 | 0.48 |
| Togo | 0.56 | 0.44 | 0.44 | 0.52 | 0.48 | 0.40 | 0.46 | 0.52 | 0.50 | 0.56 | 0.48 |
| Tunisia | 0.50 | 0.40 | 0.29 | 0.44 | 0.42 | 0.44 | 0.54 | 0.54 | 0.44 | 0.46 | 0.50 |
| Uganda | 0.77 | 0.56 | 0.56 | 0.58 | 0.69 | 0.67 | 0.52 | 0.69 | 0.73 | 0.69 | 0.56 |
| Zambia | 0.56 | 0.50 | 0.65 | 0.69 | 0.58 | 0.69 | 0.65 | 0.69 | 0.60 | 0.54 | 0.38 |
| Average | 0.55 | 0.54 | 0.50 | 0.54 | 0.54 | 0.49 | 0.53 | 0.51 | 0.54 | 0.58 | 0.53 |

Note: The table presents the severity of crowding-out index over time by country where 0 and 1 indicate low and high severity, respectively. The different shading denotes the severity of crowding out index where dark shades indicate intensified crowding out.



Chapter 2 was authored by Colin Bermingham and Frank Betz, both of the European Investment Bank.
Box 1 was written by Arthur Minsat and Elisa Saint Martin, both of the OECD Development Centre.

Chapter 2

Economic development and access to finance

Africa is a high-growth region – only developing Asia is typically able to outpace it. Over the next five years, sub-Saharan Africa is expected to reverse the pattern of slowing growth observed since the start of the 2000s. However, past periods of brisk economic growth in Africa have not always delivered the hoped-for benefits. In 2023, Africa accounted for just 3.1% of global gross domestic product (GDP) in nominal terms, a minimal rise from 2.7% in 2003, despite average economic growth of 5.7% in the first decade of this period.

A factor frequently cited as restricting development in Africa is a relatively low level of industrialisation contrasted with a very high share of agriculture in GDP, a metric that has not changed in 20 years. Africa's low participation in global value chains is linked to low industrialisation and slow private sector development. This participation is weaker than that of other emerging regions and is concentrated in lower value-added activities – Africa is typically the commodity exporter, with production and processing happening in other countries. An exception to this is intra-African exports, which have a much higher industrial content than the bulk of exports that go to advanced countries.

Existing approaches for achieving increased global value chain participation – namely industrialisation through the availability of cheap labour – might not be a suitable solution for Africa. First, existing structural constraints in Africa would still be a deterrent for participation in global value chains. Second, global value chains are increasingly sophisticated, making them less labour intensive. However, the agriculture sector provides a crucial opportunity for Africa to develop regional value chains. Three-quarters of African adults classed as poor work in agriculture – too many for the economy to absorb if they were to move to other sectors. Instead, increased productivity and greater industrialisation are needed within the agricultural sector itself. African agricultural imports and exports have been growing over the past decade, but import values have grown more rapidly than export values, highlighting opportunities for increased regional processing and distribution of agricultural products. Agriculture needs to be at the centre of industrialisation in Africa.

Improving industrialisation and private sector development means overcoming key structural constraints, such as skills shortages. Building an appropriate skill base is necessary for boosting high-productivity sectors with employment potential. The digital and green transitions are creating considerable demand for new skills. However, only 9% of the workforce aged 15-24 in 15 African countries currently possess basic digital skills, while 5% hold intermediate digital skills. Green skills are needed in sectors such as renewable energies, construction, infrastructure and recycling. Returns on education seem higher in Africa than elsewhere in the world, likely reflecting the lower starting point for the region.

Limited access to finance is another constraint, with domestic and external sources of finance becoming scarcer over time. Africa has suffered from declines in foreign direct investment, overseas development aid, portfolio flows and cross-border bank flows. Domestically, government revenue as a share of GDP is 18% in Africa, well below that of other developing regions, further limiting the funds available for investment. Private sector credit in sub-Saharan Africa was 36% of GDP in 2022 (a decline from 56% of GDP in 2007), while growth in private capital stock (the productive base of the economy) has not kept pace with other regions. Microeconomic evidence from firm surveys supports the assertion that firms cannot access the credit they need and are discouraged by various factors, including collateral requirements and high interest rates. Addressing these financial constraints would accelerate industrialisation in Africa and promote convergence in living standards with advanced economies.

Economic development in Africa

Development progress in Africa

Global economic growth has been declining for 20 years, but the next five years should see a reversal of that trend. Average growth rates over the last 20 years have varied widely in some regions, being lowest in advanced countries and highest in emerging and developing Asian economies (Figure 1). However, the average growth rate has typically fallen in each successive four or five-year period. The period from 2020 to 2023, which was characterised by the COVID-19 pandemic and Russia's invasion of Ukraine, represented a low point for some regions. However, advanced economies recorded their lowest growth during the global financial crisis (2008 to 2012), while Latin America and the Caribbean saw their weakest growth from 2013 to 2019.

The economic growth rate in sub-Saharan Africa has typically lagged behind only that of emerging and developing Asia over the last 20 years. Looking ahead, the growth outlook for sub-Saharan Africa is also better than for many other regions, with expected growth of 4.1% on average between 2024 and 2028. This rate is higher than that seen during the COVID-19 pandemic or between 2013 and 2019. A similar pattern in the magnitude of growth rates is also evident in North Africa. Although the forecast of a rebound in growth is welcome, how this will affect private sector development and poverty eradication remains unclear, particularly in sub-Saharan Africa.

Figure 1

Real GDP growth (including forecasts) by region and over time (%)

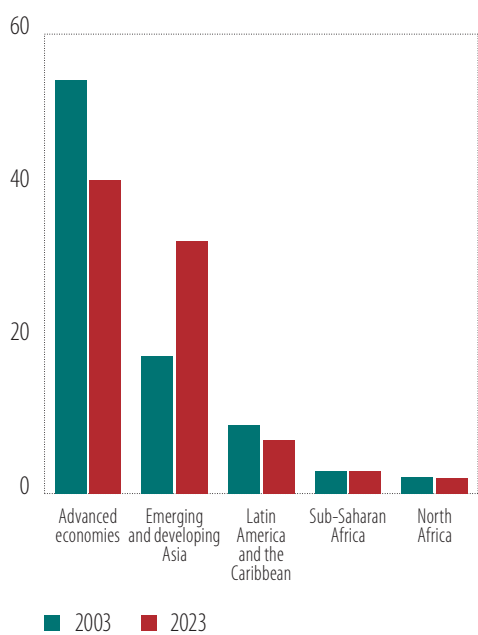


Source: *IMF World Economic Outlook Database, April 2024.*

Past periods of brisk economic growth in Africa have not always delivered the hoped-for benefits. In 2003, sub-Saharan Africa accounted for 2.7% of global GDP in nominal terms. After 20 years, the percentage has risen to just 3.1% (Figure 2), despite average economic growth of 5.7% in the first decade of that period. North Africa has seen its share of global GDP decline slightly to 2.0% from 2.2% during the same time frame. In contrast, emerging and developing Asia increased its share of global GDP to 33% in 2023 from 18% in 2003. These comparisons over time are clouded by measuring everything in US dollars, even when expressed in purchasing power parity terms, given the currency depreciation in many African countries. However, the prolonged downward trend in exchange rates in some African countries may reflect a decline in the perceived attractiveness of economic assets in these countries.

Progress in real GDP per capita, which is a measure of income per person in the economy, has been more substantial for sub-Saharan Africa compared with North Africa, but has stalled in both regions over the past decade. The exchange rate issues can be partially mitigated by looking at trends in real GDP per capita in local currency to understand how individual purchasing power in the local economy is evolving over time. Figure 3 shows an index of real per capita GDP in local currency for each region. The International Monetary Fund (IMF) performs a similar exercise without advanced countries (IMF, 2024). North Africa and sub-Saharan Africa saw per capita income grow briskly during the 2000s. For North Africa, this growth came to a halt during the global financial crisis and Arab Spring period (2008-2014). For sub-Saharan Africa, robust income growth continued until 2014, with 2008-2014 being a period of strong growth for this region. Since then, however, improvement in real per capita GDP in sub-Saharan Africa and North Africa has been limited, except for a post-pandemic bounce. In contrast, real per capita GDP continued to grow at a similar rate in advanced economies, apart from a short interruption caused by the COVID-19 pandemic. This means that while living standards have improved over the last 25 years for African and advanced countries, there has been limited convergence of these African countries (particularly North Africa) with the living standards of advanced countries. Meanwhile, developing Asia, which is excluded from the chart because its growth rate is on a different scale,¹ saw living standards grow far more rapidly than any other region during this period.

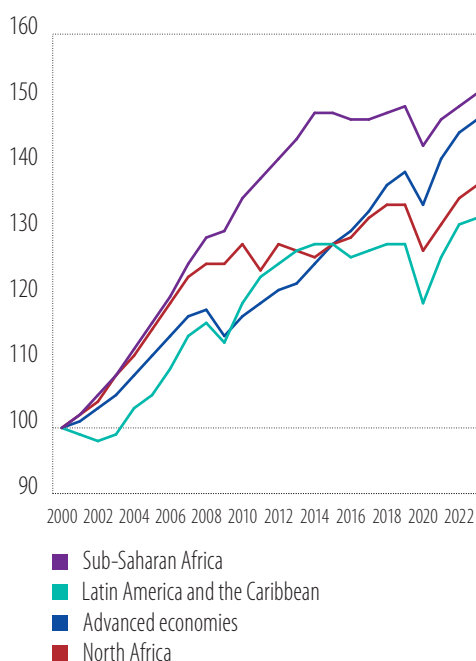
Figure 2
Share of global GDP by region over time (%)



Source: IMF World Economic Outlook Database, April 2024.

Note: In Figure 3, the share of each country in the regional real GDP per capita index is its share of nominal GDP in US dollars in its region. Therefore, even here, it is not possible to fully escape exchange rate issues.

Figure 3
Real GDP per capita in local currency (index, 2000=100)



Low industrialisation in Africa

A factor frequently cited as restricting development in Africa is the relatively low level of industrialisation on the continent. The data seem to support this view. Figure 4 shows the share of industry and agriculture in GDP in different global regions. The share of industry in GDP is lowest in Africa and highest in the Middle

¹ The Asian index would be above 400 by 2023.

East and North Africa and East Asia and the Pacific. The high level in the Middle East and North Africa is linked to the size of the fossil fuel industry in the region, whereas the transformation of the Asian economy over the last 20 or 30 years is associated with a relocation of production to Asia from advanced countries, supporting industrialisation. Sub-Saharan Africa has the highest share of GDP in the agriculture sector at 18%, compared with less than 8% of GDP in other regions. The share of employment in agriculture in Africa is significantly higher than its share of GDP in this sector, with the African Development Bank (2024) highlighting that productivity in agriculture is low in Africa – typically 60% less than economy-wide productivity levels.

Figure 4
Sectoral share of GDP by region, 2020 (%)

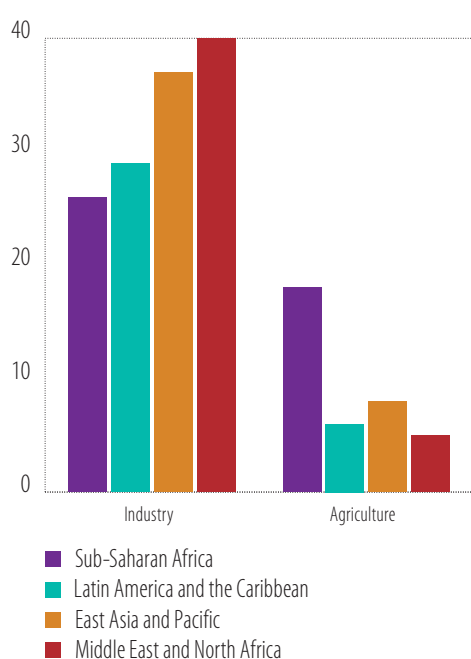
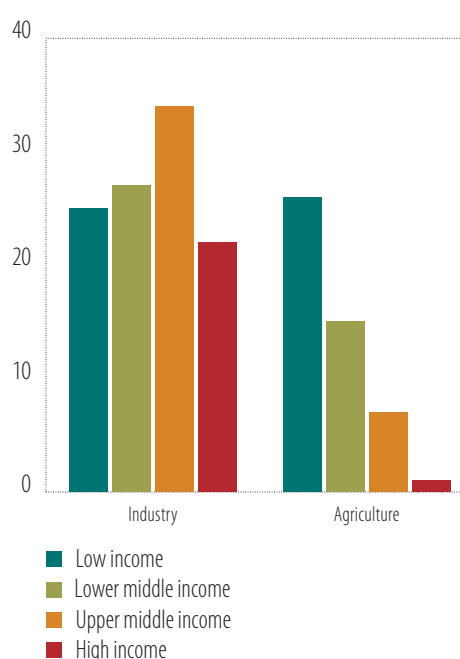


Figure 5
Sectoral share of GDP by income group, 2020 (%)



Source: [World Bank Open Data](#).

Note: For the Middle East and North Africa, the data on the share of industrialisation represent an average of the data available for the years 2018 and 2022, as the data in this region are more volatile than in other regions.

Looking at GDP shares by income group rather than geography, the most obvious trend is that the share of GDP declines as income levels increase (Figure 5). For low-income countries, agriculture is worth about 25% of GDP, compared with just 1% for high-income countries. The opposite is partially true for industry. The share of industry in GDP increases from the low-income group up to the upper middle-income group, but then declines sharply for the high-income group to a level that is even lower than that of the low-income group. The key characteristic of the high-income group is that economies are largely dominated by high value-added services.

A review of sectoral shares over time also shows that industrialisation in sub-Saharan Africa did not increase between 2000 and 2020, with industry as a share of GDP declining by 1 percentage point over this period.² In contrast, the share of agriculture increased by 1 percentage point of GDP and the services share was unchanged. In short, sectoral shares have been static, which supports the idea that industrialisation has been absent from Africa's development. The share of industry in the Middle East and North Africa fell by 5 percentage points in the same period but remained higher than other regions.

² To avoid undue influences in comparing one specific year to another, these differences are instead based on sectoral shares averaged over the three-year period of 2019-2021 compared with the same shares averaged over 1999-2001. This gives a more stable comparison than comparing 2020 and 2000.

However, industrialisation did not grow in East Asia and the Pacific or Latin America over this period. In East Asia and the Pacific, the industry share had increased during the 1990s, so the rate of industrialisation during 2000-2020 failed to keep pace with growth in nominal GDP, which was increasingly driven by services (up by 12 percentage points of GDP).

The Africa Industrialization Index 2022, which is a report by the African Development Bank, the African Union and the United Nations Industrial Development Organization, features an index aiming to capture the state of industrialisation across continental Africa. The index examines industrialisation between 2010 and 2021 by focusing on three dimensions – performance (capturing actual levels of industrialisation, using measures such as the share of manufactured products in GDP and exports), direct determinants (capturing the availability of labour and capital) and indirect determinants (capturing the business environment, infrastructure and macroeconomic stability) – creating country and regional industrialisation scores ranging from 0 to 1. According to the African Industrialization Index 2022, industrialisation levels are low in Africa and aggregate progress is slow, supporting the simple industry share analysis presented above. However, the index finds that progress is brisker among the low-income groups. Improvements in different countries over the period covered by the index were mainly in performance and direct determinants, whereas indirect determinants were slowing progress. The report highlights key bottlenecks to industrialisation, including inadequate infrastructure, a lack of access to finance and shortages of skilled staff.

Africa's participation in global value chains

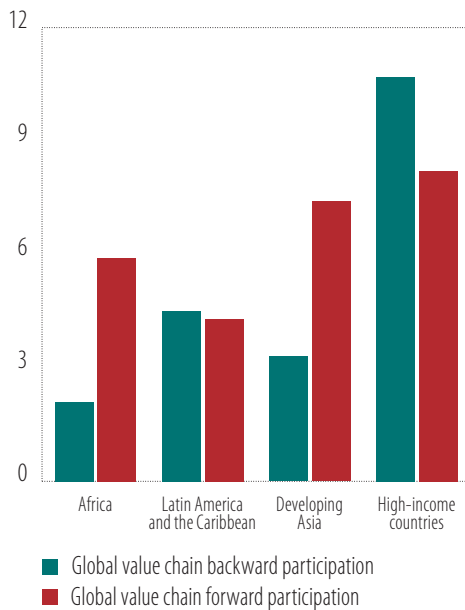
Africa's low participation in global value chains is linked to low industrialisation and slow private sector development. A global value chain is formed when the production process for a good or service takes place in more than one country, with each country contributing some of the value added. Forward participation is when a country sends its products to another country for further processing, whereas backward participation is when a country imports resources from abroad for domestic production. Backward participation is more valuable for a country as it is associated with higher value-added activity and may facilitate the development of domestic manufacturing knowledge. Each country participates differently in value chains for different products, depending on its resources and industrial capabilities. Furthermore, as value chains have stretched over more countries, an individual country will have backward and forward participation in the value chains for different products. Global value chain participation is the sum of a country's backward and forward linkages.

Emerging markets can accelerate their industrialisation by participating in global value chains. Baldwin and Venables (2013) argue that participation in global value chains enables emerging markets and developing economies to be part of an industrial production process without all the knowledge needed for manufacturing a product in its entirety – a country can specialise in an individual element of the process. Ignatenko et al. (2019) find that participation in global value chains positively affects income per capita, as well as components of income per capita, namely investment and productivity. However, the process is not automatic and upper-middle-income and high-income countries appear to be the main beneficiaries. In addition, Ignatenko et al. report that participation in global value chains is linked to various factors, including proximity, common language, currency volatility, rule of law, infrastructure, trade barriers and labour costs. A lack of infrastructure, trade frictions, currency volatility and lower institutional quality in some African countries could therefore be a barrier to greater global value chain participation.

Africa's participation in global value chains is weaker than that of other emerging regions and is concentrated in lower value-added activities. In a comprehensive study of Africa's role in global value chains, the African Union Commission and the Organisation for Economic Co-operation and Development (OECD) (2022) find that African countries are typically commodity exporters, with production and processing happening in other countries. This forward participation in global value chains equated to 5.9% of African GDP in 2019, which is similar to other regions (Figure 6). However, for backward participation in global value chains, Africa – at just 2.1% of GDP – lags behind other developing regions including developing Asia (3.3%) and Latin America and the Caribbean (4.5%). Furthermore, with forward participation standing

at almost three times the level of backward participation, Africa exhibits a degree of imbalance not seen in other regions. The report also highlights the fact that Africa's share of backward participation in global value chains was static at close to 2% in the 20 years between 2000 and 2019, in line with the static share of industry in GDP over the same period.

Figure 6
Global value chain participation by region, 2019
(% of GDP)



Source: AUC/OECD Africa's Development Dynamics 2022.

Figure 7
Value of agricultural imports and exports
(\$ billion)



Source: FAOSTAT (crops and livestock products).

Existing approaches to increasing global value chain participation and industrialisation might not be the solution for Africa. Boosting industrialisation in Africa by mimicking the approach of other countries (such as those in Asia) and attracting manufacturing production via cheap labour may not be successful. First, this approach has not worked to date in Africa, and existing structural constraints in the region would still be a deterrent for participation in global value chains. Second, the literature points to increased sophistication in global value chains, making them less labour intensive. For example, Sen (2019) shows that countries with higher trade integration require fewer workers per unit of manufacturing production, and Pahl and Timmer (2019) provide long-term evidence on declining employment per unit of exports. These trends could accelerate if recent developments in artificial intelligence are incorporated into manufacturing processes. A problem for Africa has been meeting the strict product standards required for exporting to advanced economies, and this requirement could become more onerous for certain product categories.

Nonetheless, developing regional value chains could accelerate the industrialisation of Africa. The African Union Commission/OECD (2022) report shows that processed and semi-processed goods account for 79% of intra-African exports, compared with just 41% of exports to other destinations. This means that the industrial content in intra-African exports is much higher than that of exports leaving the continent. However, regional value chains in Africa account for only 2.7% of the continent's global value chain participation, compared with 26% in Latin America and the Caribbean and 43% in developing Asia. This is because Africa's trade – from an import and export perspective – is mainly linked to OECD countries and Asia. For example, the United Nations Economic Commission for Africa (2023) shows that more than 80% of African imports and exports are from and to countries beyond the continent. In effect, if Africa could boost its regional trade networks, a corresponding increase in industrialisation and reduction in exposure to global shocks could follow.

The agriculture sector offers a major opportunity for Africa to develop regional value chains. As discussed above, at 18%, the share of agriculture in GDP is higher in sub-Saharan Africa than in other regions, and the importance of agriculture to employment is even greater. The 2023 edition of our Finance in Africa report (EIB, 2023) shows that there are 26 countries in sub-Saharan Africa where more than 40% of the population work in agriculture. In addition, Christiaensen (2020) reports that three-quarters of African adults classed as poor work in agriculture – too many for the economy to absorb if these workers were to be redeployed in other sectors. Instead, increased productivity and greater industrialisation are required in the sector. African agricultural imports and exports have been growing over the past decade but import values have grown more rapidly than export values (Figure 7), highlighting opportunities for increased regional processing and distribution of agricultural products. Reinforcing this is the fact that while food accounts for 8% of merchandise imports globally, of the 39 countries where this share is above 20%, 17 are in Africa, with Egypt and Rwanda just below 20%.³ The development of regional agricultural value chains could help meet this growing agricultural import demand. Furthermore, as African countries become wealthier, the demand for agricultural products will grow further. Developing regional value chains would also be the first step in developing the expertise needed to facilitate greater participation for agriculture in global value chains.

The European Investment Bank (EIB) is already helping African banks to lend money to the agricultural sector. For example, the [Green African Agricultural Value Chain project](#) will provide up to €200 million to financial intermediaries across sub-Saharan Africa for on-lending to eligible small and medium-sized enterprises and mid-caps active in agriculture value chains. By primarily directing the on-lending to this type of company, the project will enable smaller farmers to benefit from value chain integration through investments in commercial value-added processes. In addition, the focus on members of agriculture value chains that integrate smallholders is aimed at increasing the participation of smallholder farmers in market-integrated, nutrition- and gender-sensitive value chains. First Capital Bank in Zambia was the first bank to receive funding from the ongoing project.

Overcoming constraints on growth

Improving industrialisation and private sector development means overcoming key structural constraints in the economy, particularly inadequate levels of infrastructure, low skills attainment and a lack of finance to the private sector. The EIB is working to alleviate access to finance constraints for the private sector in Africa, and this lack of finance will be the subject of discussion for the remainder of this chapter. Meanwhile, Box 1 reviews the problems caused by a lack of skilled labour on the continent.

Box 1

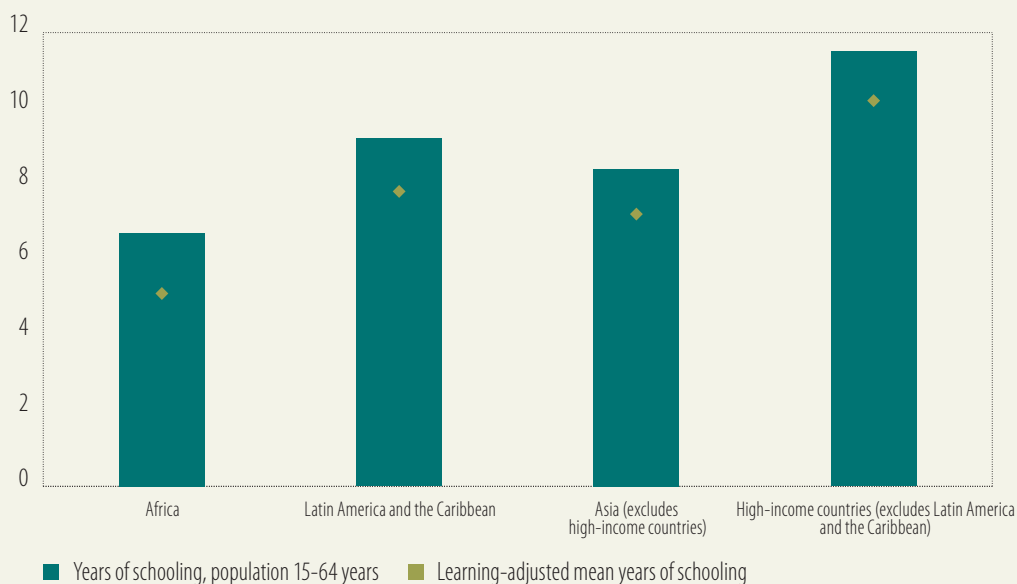
Building a skilled workforce for Africa's productive transformation

This contribution draws on findings in the African Union Commission and OECD flagship report *Africa's Development Dynamics 2024: Skills, jobs, and productivity* (African Union Commission and OECD, 2024).

Progress in educational achievements must continue increasing the supply of skilled workers in African labour markets. The number of young people completing at least secondary education in Africa will more than double between 2020 and 2040, reaching 240 million. This builds on significant progress achieved in the past 20 years: Mean years of schooling have increased by over two years for 28 African countries with available data. However, the number of learning-adjusted years of schooling, which is a measure merging the quantity and quality of education, is more than two years lower in Africa than in any other world region. In 2020, the learning-adjusted number of years of schooling was 5.1 in Africa, compared with 7.2 years in developing Asia and 7.8 years in Latin America and the Caribbean (Figure 8). The COVID-19 pandemic has also set back learning by about 0.5 to 2 years, with the most vulnerable students bearing the brunt.

3 World Bank World Development Indicators Database.

Figure 8
Average years of schooling and learning-adjusted years of schooling by world region, 2020



Source: EIB staff calculations based on World Bank (2023b).

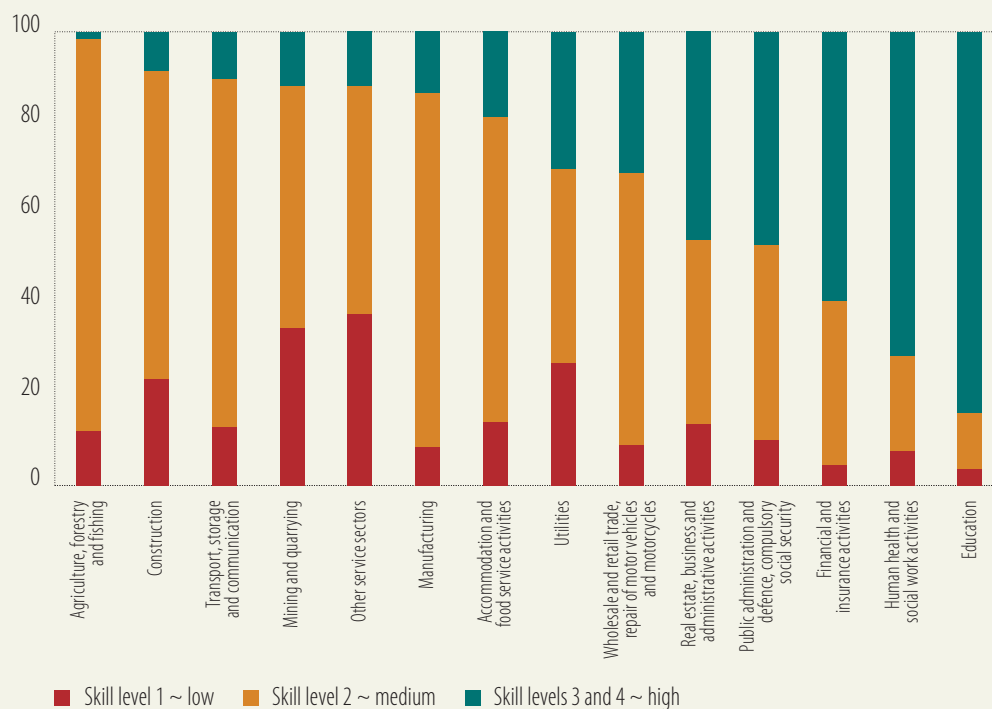
Note: Learning-adjusted years of schooling merge the quantity and quality of education into one metric, reflecting that similar durations of schooling can yield different learning outcomes. See Filmer et al. (2020) for the detailed methodology.

Building the appropriate skill base is necessary for boosting high-productivity sectors with employment potential. African countries must identify industries that combine potential for productivity growth and creation of quality jobs (Rodrik and Stiglitz, 2024). Manufacturing is strategic, but its growth remains limited: The sector employed about 8% of Africa's workforce in 2022, compared with 12% in developing Asia and 19% in China (Newfarmer and Heitzig, 2023).

Employment in financial and insurance activities grew at an average annual rate of 4% between 2000 and 2021, a higher rate than agriculture (at 1.7%), although from a lower base. Although the financial and insurance sector accounts for less than 2% of total employment in Africa, about 60% of the workforce in this sector is formal, with employment contracts and paid taxes, varying from 47% in West Africa to 71% in North Africa. Almost half of the occupations in the sector require high educational attainments to match the expected complexity and range of tasks, unlike the agriculture or manufacturing sectors that rely primarily on medium-skilled occupations (Figure 9). Only the education and health sectors have a higher share of workers in skilled occupations. Skills development in commodity-based economies could also boost productivity in strategic sectors:

- Central and Southern Africa's mining sector needs to overcome skills shortages to develop downstream industries like cobalt refining and electric vehicle manufacturing, where value addition per worker is higher than in extraction.
- West Africa ranks among the world's top producers of a dozen agri-food products, such as fonio, shea nuts, yams and cocoa beans. However, about a quarter of these products are lost after harvest. Boosting research and development, technical skills and conservation techniques will reduce this waste, support the development of higher-value products and enhance regional food security and resilience to climate change.

Figure 9
Percentage of workers in low-, medium- and high-skilled occupations by economic activity in Africa, 2021 or latest available data



Source: ILOSTAT (2023), ILO Labour Force Statistics (database).

Note: Skill level is defined as a function of the complexity and range of tasks and duties performed in an occupation. Skill level 1 (low) covers elementary occupations. Skill level 2 (medium) covers plant and machine operators and assemblers, craft and related trade workers, skilled agricultural, forestry and fishery workers, service and sales workers, and clerical support workers. Skill levels 3 and 4 (high) cover technicians and associate professionals, professionals, and managers. Data are based on labour force statistics across 31 African countries.

The digital and green transitions are creating demand for new types of skills. Digital skills enable workers to use digital technologies productively, and range from basic (for example, internet navigation or mobile communication) to intermediate (use of spreadsheet and presentation software) and advanced (programming). By 2030, 70% of the projected demand in five African countries (Côte d'Ivoire, Kenya, Mozambique, Nigeria and Rwanda) will be for basic digital skills and 23% for intermediate digital skills, especially in services (Figure 10). However, only 9% of the workforce aged 15-24 across 15 African countries currently possess basic digital skills while 5% hold intermediate digital skills (UNICEF, 2022).

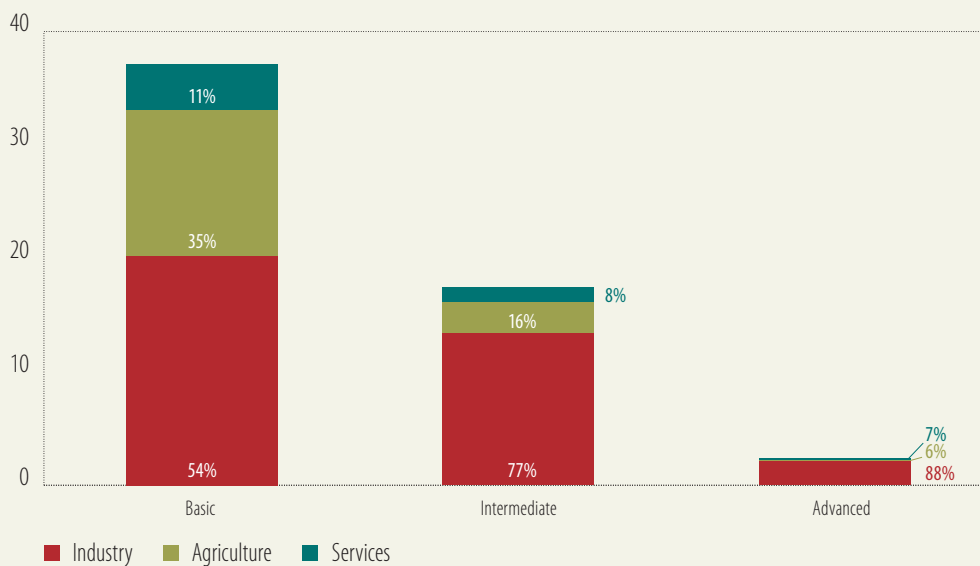
- In East Africa, progress in digital skills development is highly uneven: The share of the population aged 15 years and over who possess basic digital skills ranges from 33% in Mauritius to 4% in South Sudan. Despite these shortcomings, digital sectors have grown steadily in the region. East Africa registered the highest number of mobile money accounts (1 106 per 1 000 adults compared with 600 for Africa, 533 for developing Asia and 245 for Latin America and the Caribbean). Country-specific expansion of digital skills provision, especially through technical and vocational education and training institutions, can effectively respond to increasing demand for digital skills in the region.

Green skills, which are those needed for developing or modifying products, services or operations in response to climate change, will also be necessary for supporting climate adaptation and mitigation and driving productive transformation in sectors such as renewable energies, construction, infrastructure and recycling. In Africa, renewable energy and sustainable infrastructure could generate over 9 million job opportunities from 2019 to 2030 and a further 3 million jobs by 2050.

- North Africa is the region with the greatest potential for developing solar and wind energy and is set to become the leading exporter of green hydrogen, with estimated exports of \$110 billion a year by 2050. Egypt, Morocco and Algeria have expanded solar energy, with the latter two ranking second and third in solar production on the continent, behind South Africa. Egypt and Morocco also dominate African wind energy production after South Africa. Developing specific technical skills (for example, construction and installation) and managerial skills (like project management) could create at least 2.7 million jobs, improve energy security and contribute to the efforts to reduce global emissions.

Figure 10

Number of jobs (in millions) requiring digital skills in 2030 in five African countries, by skill level



Source: EIB staff calculations based on World Bank (2021).

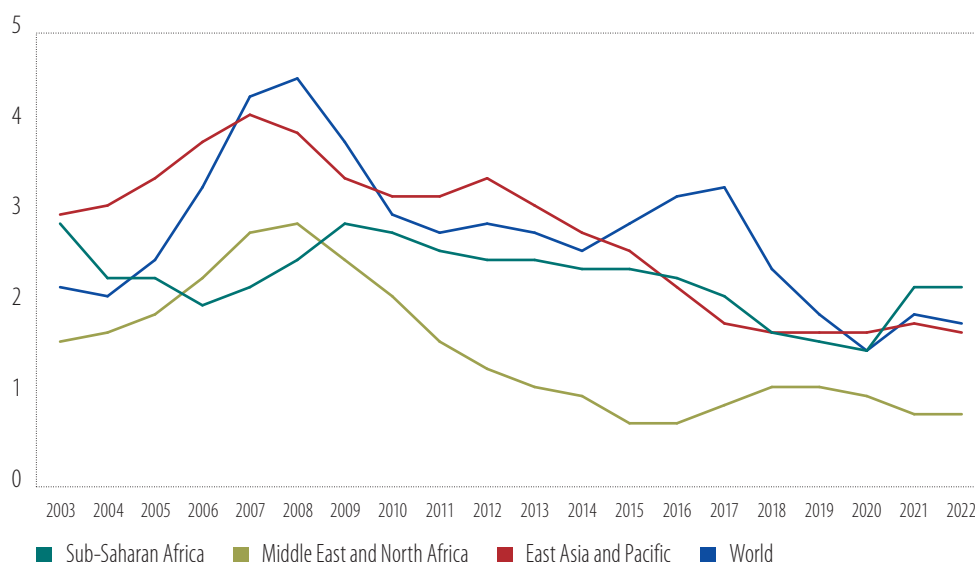
Note: Data cover Côte d'Ivoire, Kenya, Mozambique, Nigeria and Rwanda.

Accelerating Africa's progress in education would bring huge benefits for development. Macroeconomic analysis reveals that foundational skills acquired in primary and secondary education highly correlate with economic growth. Microeconomic analysis of over 7 600 manufacturing firms in 27 African countries suggests that a 10 percentage point increase in the share of employees with high school and university degrees is associated with an increase in average firm productivity of between 4.2% and 4.8% (Okumu and Mawejje, 2020). Returns on education seem higher in Africa than elsewhere in the world: Each additional year of education could increase African learners' earnings by 8.2% to 11.4%, compared with 7.6% to 9.1% for countries in Latin America and the Caribbean (Peet et al., 2015).

Financing constraints are still hindering private sector development, with inadequate flows of external and domestic finance. For external finance, recent research (Bill and Melinda Gates Foundation, 2023; International Monetary Fund, 2023; Piemonte et al., 2019) has highlighted how the types of financing available to countries tend to depend on the income level of a country, with low-income countries relying more on official development assistance, and middle- and high-income countries featuring private foreign direct investment in a more prominent role. The International Monetary Fund notes that foreign direct investment was vital for the successful development of East Asia, whereas many countries in sub-Saharan Africa are stuck at the early stage of development, relying on official development assistance rather than foreign direct investment and with the private sector playing a more limited role (International Monetary Fund, 2023). This situation is becoming more problematic as official development assistance flows dry up.

During the period before the global financial crisis, the level of net inward foreign direct investment as a percentage of GDP was much higher among developing Asian countries than in sub-Saharan Africa (Figure 11) or the Middle East and North Africa region. However, the gap between sub-Saharan Africa and East Asia and the Pacific narrowed after the global financial crisis, mainly because global foreign direct investment flows began slowing. The Middle East and North Africa region had similar levels of foreign direct investment to sub-Saharan Africa until the global financial crisis when foreign direct investment fell more sharply in the former. Global foreign direct investment in 2022 is at levels not seen since the late 1990s. Indeed, capital flows more generally (including portfolio flows and cross-border banking flows) stagnated in the period after the global financial crisis (Tiftik et al., 2023). This reduced flow of international capital is concerning for regions such as Africa, where large amounts of capital need to be mobilised to achieve development goals and climate targets.

Figure 11
Inward foreign direct investment flows by region (% of GDP, three-year moving average)



Source: IMF World Economic Outlook Database, October 2023.
Note: East Asia and Pacific (excluding high-income countries), Middle East and North Africa (excluding high income countries).

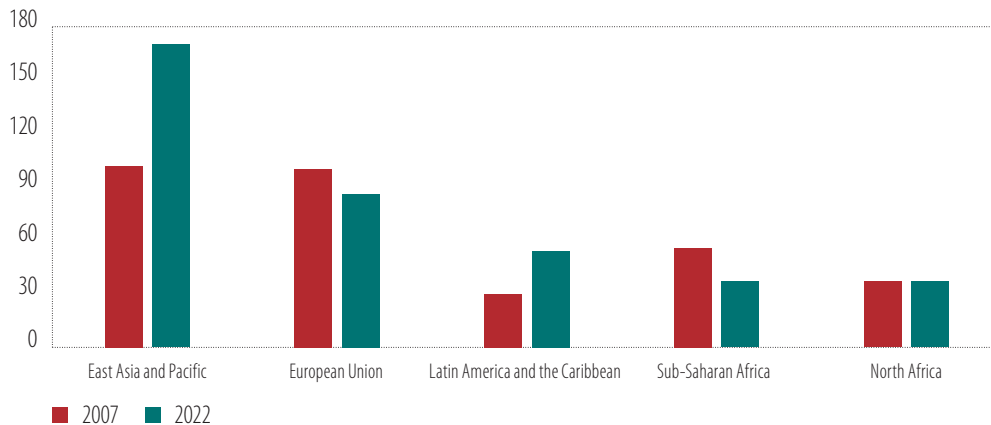
Against a background of declining foreign investment, domestic resources are the largest source of investment funding in most economies, but sub-Saharan African countries operate under considerable constraints. Public investment is currently hampered by relatively low government revenue as a percentage of GDP and high debt levels. Government revenue equalled 17.7% of GDP in sub-Saharan Africa in 2022, compared with 26% in North Africa⁴ and 30.6% in Latin America and the Caribbean, meaning sub-Saharan African governments have fewer resources available for domestic investment. In addition, higher public debt levels and interest rates are diverting resources from other uses such as public investment. For private investment, saving rates in sub-Saharan Africa are sometimes low due to a young population, high levels of informality in the economy and relatively low-income levels, reducing the availability of investment funds. Furthermore, low levels of financial inclusion and shallow bank credit markets mean that savings are not always channelled to the most productive investments.

⁴ Egypt is a notable exception among the large countries in the region, with government revenue of 19% of GDP, which is more in line with the average for sub-Saharan Africa.

Sub-Saharan Africa has seen credit as a share of GDP decline over the last 15 years. Private sector credit in 2022 was 36% of GDP, a decline from 56% of GDP in 2007 (Figure 12), highlighting that credit provision to the private sector has failed to keep pace with economic growth. Moreover, of the 30 countries across the world with the lowest share of credit to the private sector as a percentage of GDP, 24 were in sub-Saharan Africa. In North Africa, credit as a share of GDP between 2007 and 2022 was unchanged at 37%, as credit expansion in countries like Morocco and Tunisia was offset by a sharp drop in credit as a share of GDP in Egypt. In contrast, East Asia and the Pacific saw rapid growth in the provision of credit to the private sector between 2007 and 2022, which may have contributed to brisk growth in the economy and incomes. In Latin America and the Caribbean, credit as a percentage of GDP was 30% in 2007 – lower than that of sub-Saharan Africa. However, the credit market of Latin America and the Caribbean grew relative to GDP between 2007 and 2022, while that of sub-Saharan Africa shrank. Like sub-Saharan Africa, credit to the private sector in the European Union shrank relative to the size of the economy between 2007 and 2022. This metric had been on an upward trajectory until the global financial crisis, but with banks at the centre of the crisis, domestic credit and cross-border bank flows declined in the aftermath.

Figure 12

Credit to the private sector (% of GDP)



Source: *IMF World Economic Outlook Database, October 2023.*

Note: *East Asia and Pacific (excluding high-income countries), Latin America and Caribbean (excluding high-income countries).*

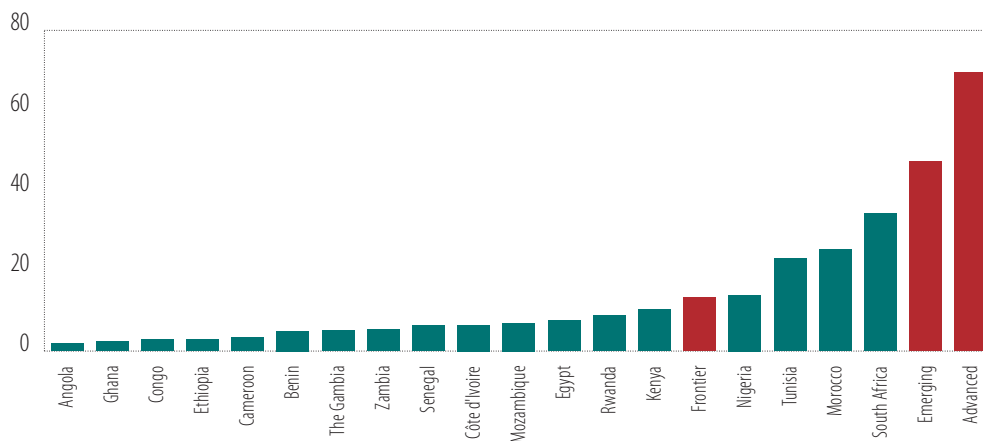
A multi-country comparison highlights the low levels of household and corporate sector indebtedness in Africa. Of the 18 Africa countries with data available, 13 have household debt of less than 10% of GDP (Figure 13). Moreover, only Nigeria, Tunisia, Morocco and South Africa have household debt ratios above the frontier (or pre-emerging) market average, but their debt ratios remain below the averages for emerging market and developing economies.⁵ As African economies develop more mature credit markets, opportunities for lending to households could represent a significant growth opportunity for banks and a source of finance for investment.

The corporate sector is generally more indebted than the household sector in Africa. For corporate debt, only six countries have debt of 10% or less of GDP compared with 13 countries for household debt (Figure 14). The frontier market average for corporate debt is also higher at 25% of GDP, vs. 13% for household debt. As shown in *Finance in Africa 2023* (EIB, 2023), the banks taking part in our survey tended to lend to large firms rather than small and medium-sized enterprises. A considerable share of credit in Africa is therefore channelled towards large firms rather than small firms and households. Nonetheless, African corporate indebtedness remains well below the emerging and advanced market averages.⁶

⁵ The frontier group are excluded from the broader emerging market and developing economies group when calculating these averages.

⁶ For corporate debt, indebtedness is higher in emerging markets compared with advanced markets, as the average for emerging markets is heavily skewed by China. Chinese corporate sector debt equates to 164% of GDP and has a weight of over 40% in the calculation of the emerging market weighted averages. The median, rather than the average, emerging market corporate indebtedness ratio is close to 45%.

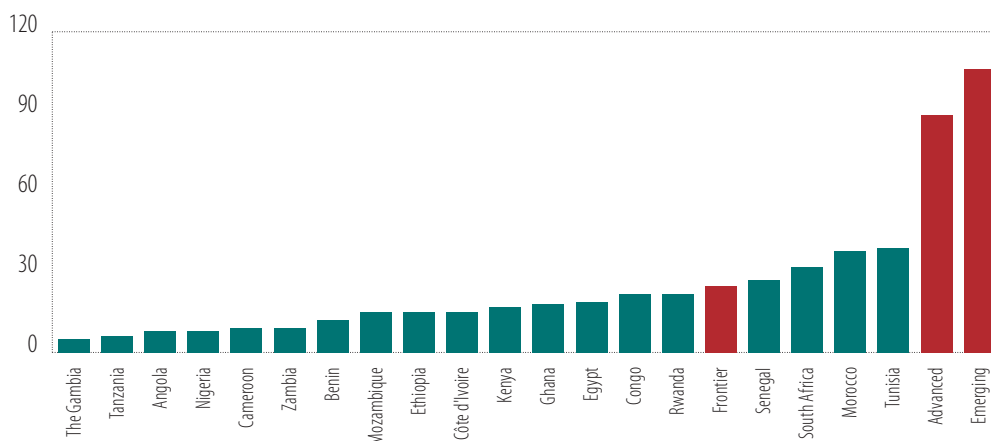
Figure 13
Household debt (% of GDP, 2023Q4)



Source: Institute for International Finance, Global Debt Monitor and Frontier Markets Debt Monitor (subscription required).

The relatively low level of private sector credit may be limiting the rate of private investment, partly through degradation of the private capital stock. According to International Monetary Fund data,⁷ the median private capital stock was equal to 88% of GDP across 48 African countries in 2019, which is the latest year for which data are available. For the other 113 countries across the globe in the sample, the median was 155% of GDP (Figure 15). This means that African countries have a lower private capital productive base relative to other regions. In contrast, public capital stock ratios across the two groups of countries are broadly similar, at 54% of GDP in Africa and 59% in other countries. This suggests that the biggest difference between the two sets of countries is in their private productive capacity.

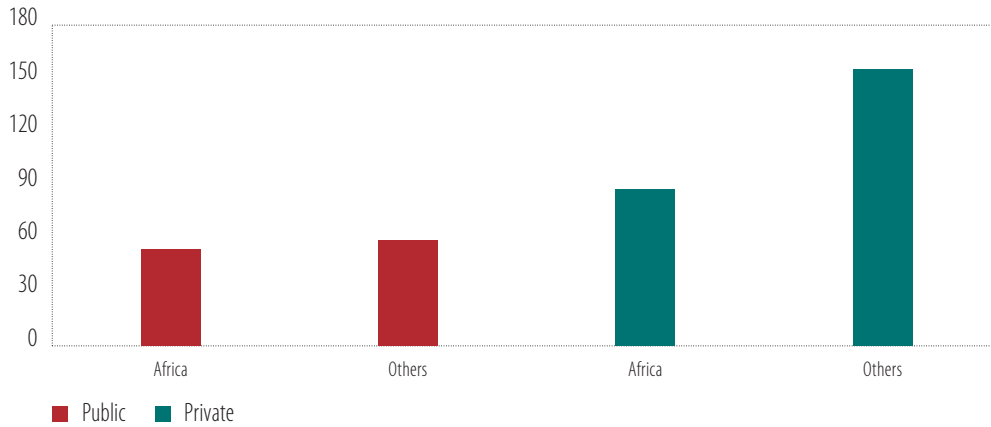
Figure 14
Corporate debt (% of GDP, 2023Q4)



Source: Institute for International Finance, Global Debt Monitor and Frontier Markets Debt Monitor (subscription required).

7 IMF Investment and Capital Stock Dataset (ICSD).

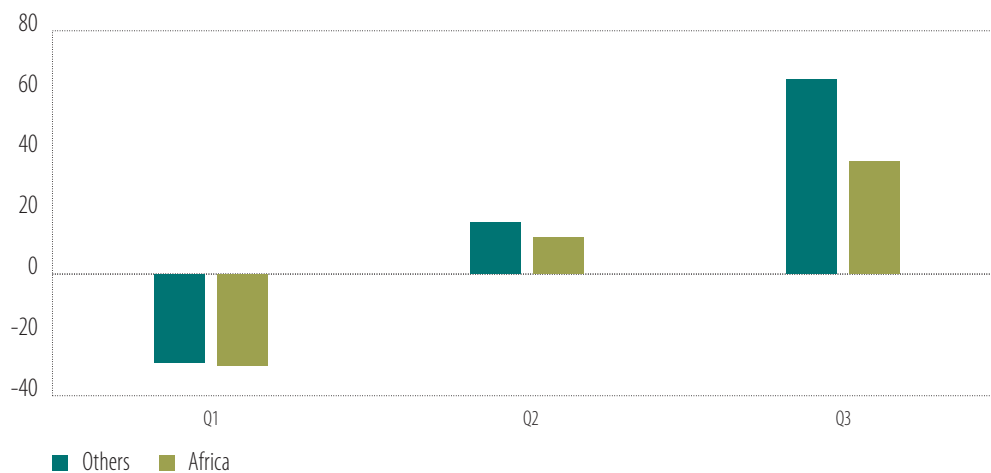
Figure 15
Median capital stock by region (% of GDP)



Source: IMF Investment and Capital Stock Dataset.

Even the top-performing countries in Africa have been less likely than other regions to see their private capital stock grow significantly relative to the size of the economy over the last 20 years. Figure 16 shows how much the capital stock in Africa changed between 2000 and 2019, as a percentage of GDP and broken down by quartile. The 25th percentile (also known as the first quartile) for African and other countries is close to -30 percentage points, meaning that a quarter of countries in both groups saw their private capital stock ratios decline by at least 30 percentage points of GDP. A moderate difference emerges for the median country (second quartile in Figure 16) in each group, with an increase of 12 percentage points of GDP for Africa compared with 17 percentage points of GDP for other countries. However, the 75th percentile or third quartile, which represents the top-performing countries in each group, shows an increase of 64 percentage points of GDP for other countries compared with only 37 percentage points of GDP for Africa. This means that even the top-performing countries in Africa saw their private capital stock increase at a much slower rate than other regions, despite the capital stocks coming from a lower starting point. Diminishing access to finance is therefore potentially linked to weaker growth in private capital stock, which in turn has contributed to disappointing convergence in living standards.

Figure 16
Change in private sector capital stock to GDP ratio 2000-2019 (percentage points of GDP)



Source: IMF Investment and Capital Stock Dataset.

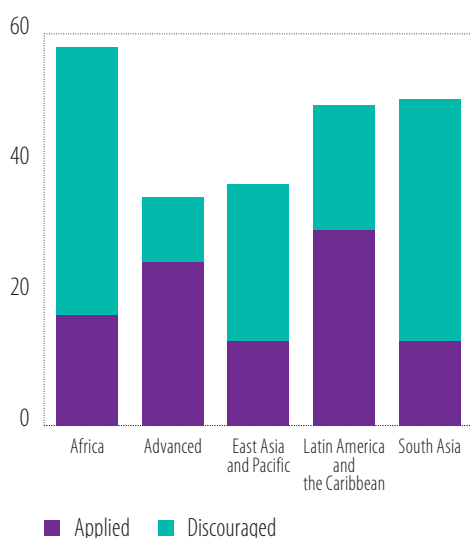
Microeconomic evidence on access to finance constraints

A lack of finance at the firm level is potentially restricting private sector development and industrialisation in Africa. Academic literature documents how finance has driven industrialisation for centuries. Heblich and Trew (2018) show that banking sector access by firms was a causal factor in the industrial revolution, with these firms having higher industrial employment. Svilokos et al. (2019) demonstrate a link between financial conditions, such as real interest rates, and industrialisation in Central and Eastern Europe. In addition, Brixiová et al. (2020) show that across 42 countries, African firms with access to finance create more jobs than credit-constrained firms, and the impact is strongest for manufacturing jobs.

This section examines the ability of African firms to access external finance based on World Bank Enterprise Survey data. The World Bank Enterprise Surveys feature data from interviews of more than 219 000 firms in 159 economies across the globe. These data are suitable for measuring financial access because they represent the experience of a broad cross-section of firms and individuals. Furthermore, the surveys contain a module specifically dealing with firms’ access to finance. The EIB, the European Bank for Reconstruction and Development and the World Bank have worked together to collect data in North Africa, Eastern Europe and Central Asia.⁸ This section discusses the data for 18 African economies that have been fielded since 2020: Botswana, Central African Republic, Côte d’Ivoire, Egypt, Ghana, The Gambia, Lesotho, Morocco, Madagascar, Mauritius, Rwanda, Sierra Leone, Seychelles, Chad, Togo, Tunisia, Tanzania and South Africa.

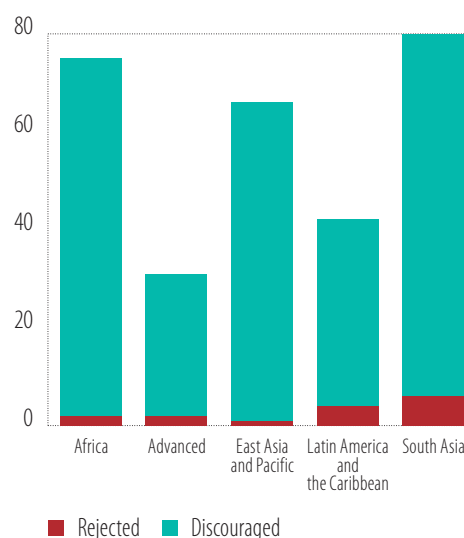
Africa has the highest share of firms needing loans. Understanding whether a firm that needs a loan can obtain one is of particular interest, as there may be market failures. Figure 17 compares the percentage of firms needing loans in Africa with the benchmark groups used throughout this chapter, distinguishing between firms that need a loan and applied for one and those that need a loan but did not apply for one – also known as discouraged firms. The banking systems of advanced economies are characterised by a low share of discouraged firms as a percentage of the total number of firms and relative to firms needing a loan. Africa has the highest share of firms needing a loan (58%), ahead of South Asia (51%) and Latin America (49%). However, Africa also has the highest share of discouraged firms (41%).

Figure 17
Need for loans



Source: Enterprise Survey and EIB staff calculations.

Figure 18
Credit-constrained firms

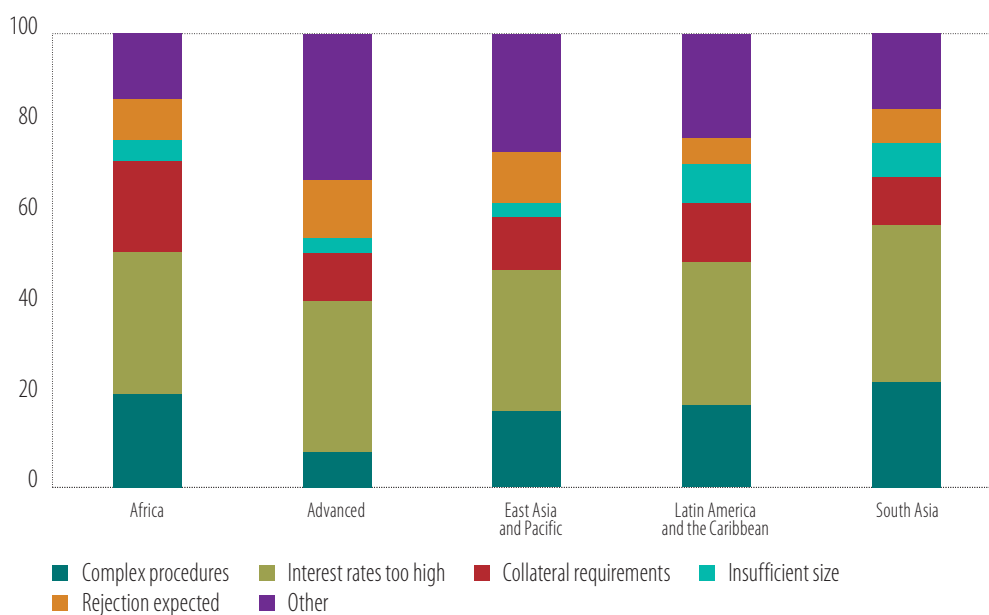


8 This cooperation has led to the following reports: European Investment Bank (2022a, b) and European Investment Bank (2022c).

Most firms in need of a loan are unable to obtain one, meaning that credit is constrained. Credit-constrained firms are those that need a loan but either have their loan application rejected or are discouraged from applying in the first place. Discouraged firms need a loan but refrain from applying because of what they perceive as complex application procedures, unfavourable interest rates, high collateral requirements, insufficient loan amounts, fear of being rejected and other, unspecified reasons. Only firms needing a loan can be credit constrained. Figure 18 expresses credit-constrained firms as a percentage of firms needing a loan. According to the survey, 74% of African firms in need of a loan are credit constrained, second only to South Asia (80%). Most credit-constrained firms are discouraged from applying for a loan. Meanwhile, rejections are rare across all regions. In summary, the results indicate that firms in Africa are frequently unable to obtain the financing they need.

Stringent collateral requirements, complex application procedures and high interest rates discourage firms from applying for a loan. Given the high share of discouraged firms among credit-constrained companies, it is useful that the survey provides additional information on why firms are discouraged. Figure 19 shows that discouraged firms in Africa most frequently cite high interest rates as the reason that they did not apply for a loan (31%), ahead of complex applications procedures (21%) and stringent collateral requirements (20%). As in Africa, firms in other regions also refer to high interest rates as the key reason for not applying for a loan. In this context, it is important to note that complaints about high interest rates cannot be viewed in isolation from the returns companies can generate with their assets. Firms discouraged by high interest rates state that their marginal cost of funding is high relative to the marginal return on capital. Africa has the highest share of firms affected by stringent collateral requirements, including a lack of high-quality collateral such as real estate on the side of firms. However, the high share of firms citing collateral constraints can also indicate collateral regimes that make pledging movable assets challenging for firms. The significant percentage of firms citing complex application procedures likely reflects constraints on the supply and the demand side of the market: Clients might not be sophisticated enough to feel confident in approaching a bank, and banks may not have lending programmes adapted to the needs of small and medium-sized firms.

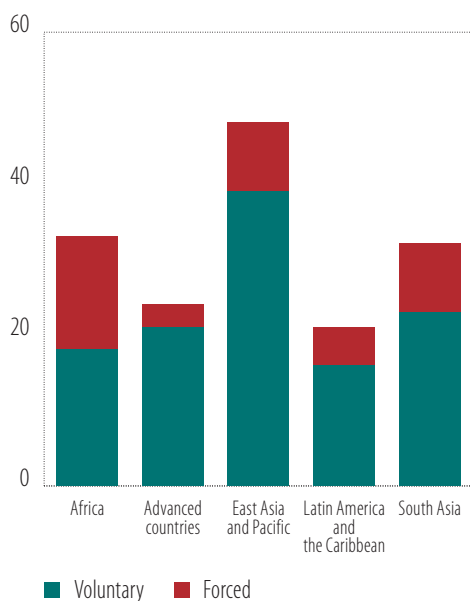
Figure 19
Factors discouraging firms from applying for a loan



Source: Enterprise Survey and EIB staff calculations.

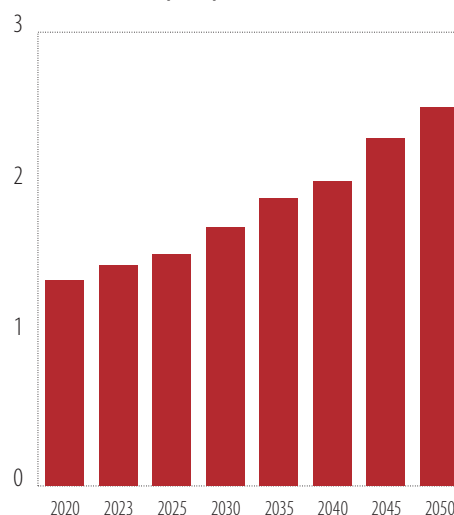
An operating environment characterised by ineffective financial intermediation may induce firms to become financially autarkic or self-sufficient. In this analysis, financially autarkic firms are those that operate using internal finance only. The phenomenon of these zero-leverage firms is not limited to small firms in low and middle-income countries – 10% of listed US companies fall into this category (although the capital structure choices of these firms may be driven by different considerations).

Figure 20
Financially autarkic firms



Source: Enterprise Survey and EIB staff calculations.

Figure 21
Projected African population (billions of people)



Source: United Nations Population data.

To qualify as financially autarkic, a firm must meet several conditions. First, the firm must finance its working capital from internal sources only. This definition excludes firms that use supplier credit to finance their working capital. If the firm invests, the investment also needs to be financed exclusively from internal sources. In addition, the firm must not have any outstanding loans or access to an overdraft facility. Combining data on firm liability structure with information on loan demand makes it easier to understand whether a firm prefers self-finance. This applies to firms that are financially autarkic and do not need a loan (referred to as voluntarily autarkic). Financially autarkic firms that need a loan are by construction credit-constrained, because if they had obtained a loan, they would no longer be autarkic. These firms are referred to as forced autarkic.

Africa has the highest share of forced autarkic firms. Figure 20 shows the share of financially autarkic firms by region. In total, 33% of firms in Africa are deemed financially autarkic – the second highest share after East Asia and the Pacific (48%). Although both regions have a comparable share of credit-constrained firms, the share of overdraft facilities is lowest in East Asia and the Pacific. The next step in the analysis is understanding whether firms prefer operating with zero-leverage or whether they would prefer to take on debt but are credit constrained. Figure 20 also provides information on the relative importance of voluntary and forced autarkic firms. In all regions, most financially autarkic firms are voluntarily autarkic.

If Africa could address the challenges outlined in this chapter, the payoffs for growth and development would be huge. The urgency of investing is heightened by a rapidly growing population. Africa has a youthful and growing population, with the total population expected to almost double between 2020 and 2050 (Figure 21). The World Bank (2023a) reports that the working age population in Africa is not expected to peak until close to the year 2100. As the working age population grows, Africa is expected to enjoy a so-called demographic dividend. However, to benefit from this dividend, Africa must provide

more education, healthcare and infrastructure. In addition, creating more robust employment, supported by a thriving private sector, will be necessary to absorb these new entrants to the labour force. Against this background, investment is imperative and the EIB will continue to provide sustainable investments in Africa with a view to underpinning inclusive development on the continent.

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Chapter 3

Banking sector trends in sub-Saharan Africa

Current economic conditions are the main concern among banks this year, cited by 77% of the banks surveyed in the ninth annual EIB Banking in Africa survey, followed by asset quality, cited by 53% of banks. Funding issues also persist, with about one-third of banks citing lack of capital and the cost or availability of funding as a problem. Although credit provision to the private sector in Africa has grown over the last three years, it is broadly similar to the rate of inflation, meaning private credit as a share of gross domestic product (GDP) is relatively static over the period.

Banks in sub-Saharan Africa have seen profits grow in recent years, driven by the high interest rate environment. The textbook explanation for this is that interest rates on loans re-price faster than interest rates on deposits, but this is not the reason in this case. The median spread between loans and deposits has narrowed in the last three years. However, banks have changed their asset mix and grown their bond portfolios, predominantly government bonds, much more quickly than their loan portfolio. In addition, the spread between yields on government bonds and interest rates on bank deposits has widened. Therefore, interest income remained the key driver of profitability for banks, but it was interest from government bond holdings. This source of revenue may not prove very enduring because drops in inflation will eventually lead to lower interest rates.

There are mixed signals for non-performing loans. Balance sheet data from various countries in sub-Saharan Africa show that the median non-performing loan ratio decreased substantially between 2017 and 2023. The survey data paint a similar picture, with the share of banks reporting significant non-performing loan ratios on their small and medium-sized enterprise (SME) loan books decreasing over the last couple of years. Nonetheless, concerns about non-performing loans have been a fixture of the survey in recent years and the proportion of banks citing non-performing loans as a worry has increased from last year. Given the churn in the survey sample, this might just be a random variation, but it could also be the first sign that banks are worried that high interest rates and high inflation might stop the downward trend in non-performing loans, particularly given the scale of the concerns about the economic environment.

The survey revealed that 94% of banks had provided direct loans to small and medium-sized enterprises in the past 12 months, while 65% of banks had provided loans to large corporates. However, large firms benefit from more advantageous terms on loans: 59% of loans to small and medium-sized enterprises had a repayment period of two years or less compared with just 34% of loans to large corporates. Small firms often face greater obstacles than large firms when accessing bank credit. The most binding constraints for small and medium-sized enterprises in obtaining loans are lack of acceptable collateral and poor credit history. For large corporates, lack of funding is the greatest obstacle to bank lending.

Banks in sub-Saharan Africa are increasing their focus on gender balance in lending. The share of banks with a gender strategy was 72%, with another 17% planning to introduce one, which is broadly in line with findings from the 2023 survey. This means that nine out of ten banks could soon have a gender strategy in place. In addition, two-thirds of banks have financial services or products specifically targeting women. There is evidence that loan size differs between genders: 59% of banks reported no difference in the size of loans to women and men, but 38% of banks stated that loans to female-led businesses are smaller than those to male-led firms. However, banks continue to report better loan performance among female-led firms, with nearly 70% of banks observing lower rates of non-performing loans for these businesses. This again highlights the advantage of lending to women.

The European Investment Bank (EIB) conducted its ninth annual **Banking in Africa** survey with the support of **Making Finance Work for Africa**. The EIB surveyed 51 banks in sub-Saharan Africa in February and March 2024.¹ The survey results provide valuable insights into the financial sector in the region. The number of participating banks increased from 33 in 2023, making the survey more representative. However, the banks responding to the survey differ from year to year. Therefore, although comparisons are made in this chapter with the results from previous versions of the survey, some caution is needed in interpreting trends over time.

This chapter explores the effect that the tightening of global financial conditions is having on banks and the impact of operating in a higher interest rate environment. It analyses whether banks are sufficiently equipped for supporting the private sector, especially small and medium firms, in an environment that remains challenging. Following the approach adopted last year, banking trends at the regional level for different parts of sub-Saharan Africa are analysed separately in Chapter 4. The EIB Banking in Africa survey results described in this chapter are supplemented with data on bank balance sheets at the national level from up to 27 African countries.² Combining these data provides a more detailed picture of recent trends.

Banking sector concerns and profitability

Current economic conditions are the main concern among banks in the 2024 survey. Banks have been asked to report the major factors affecting them for several years, but the list of options was expanded in 2024 to include economic conditions and cybersecurity concerns. The inclusion of economic conditions as an option has made a big difference to the results, being the most frequently cited issue, at 77% of banks. The next biggest issue is asset quality, cited by 53% of banks.

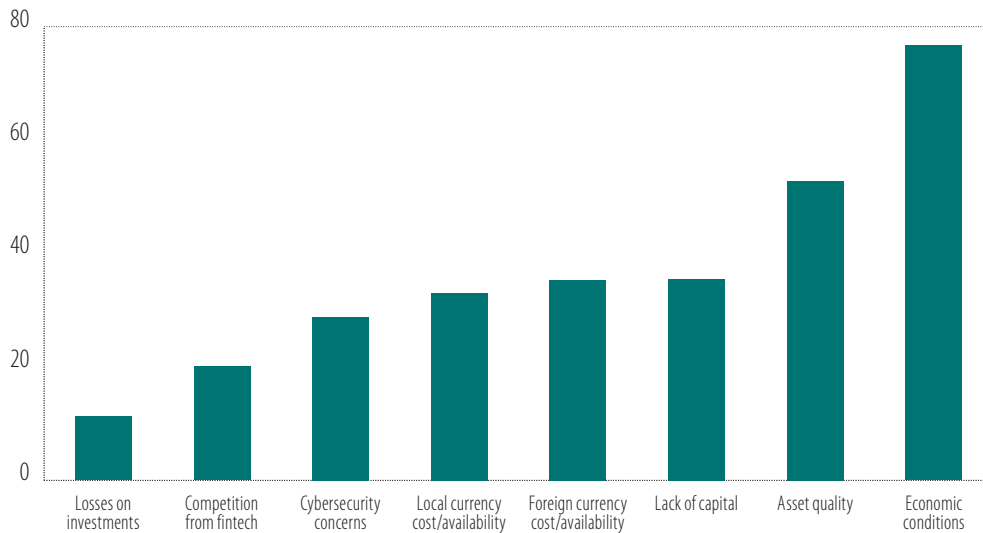
Asset quality was the predominant concern of the banking sector immediately after the COVID-19 pandemic but has been replaced by funding issues in the last couple of years. The latest trends in asset quality are covered in detail later in this chapter. Funding issues are still a concern for many banks, with about one-third of banks citing lack of capital, the cost or availability of foreign currency funding and the cost or availability of local currency funding as issues in 2024. However, this proportion is lower than that of last year, which is partly due to the prominence attached to economic conditions but may also reflect a slight easing in funding constraints since the beginning of 2024.

Banks' concern over economic conditions reflects the importance of economic growth for the profit performance of banks. A growing economy creates more demand for bank lending to the private sector. In addition, a healthy economy means that borrowers in the retail and commercial sectors are less likely to default on loans. These factors translate into higher profits for banks. Figure 2 shows the evolution of bank profits – calculated as the median return on equity across 26 countries in sub-Saharan Africa – compared to GDP growth in sub-Saharan Africa. In the early part of the last decade, when GDP growth was consistently high, median bank profitability was also high. As GDP growth slowed and eventually crashed due to the COVID-19 pandemic, bank profitability followed a similar trend. Subsequently, there was a concurrent recovery after the pandemic. Banks therefore remain dependent on economic conditions to support their profitability. However, bank profits outperformed what would be expected by GDP growth alone in 2023 and the reasons for this are explored in this chapter.

¹ The survey was conducted in sub-Saharan Africa but includes North African banks with a pan-African presence.

² The set of 27 countries is based on the availability of data in the *IMF Financial Soundness Indicators*. However, interest rate data come either from the *IMF International Financial Statistics* or from national sources, such as central banks.

Figure 1
The main factors affecting the banking sector in sub-Saharan Africa in the next 12 months
 (% of responding banks)



Source: EIB Banking in Africa survey, 2024.
 Note: The figure indicates the percentage of responding banks that listed each of the factors as among their top three concerns.

Figure 2
Bank profits and gross domestic product growth in sub-Saharan Africa (in %)



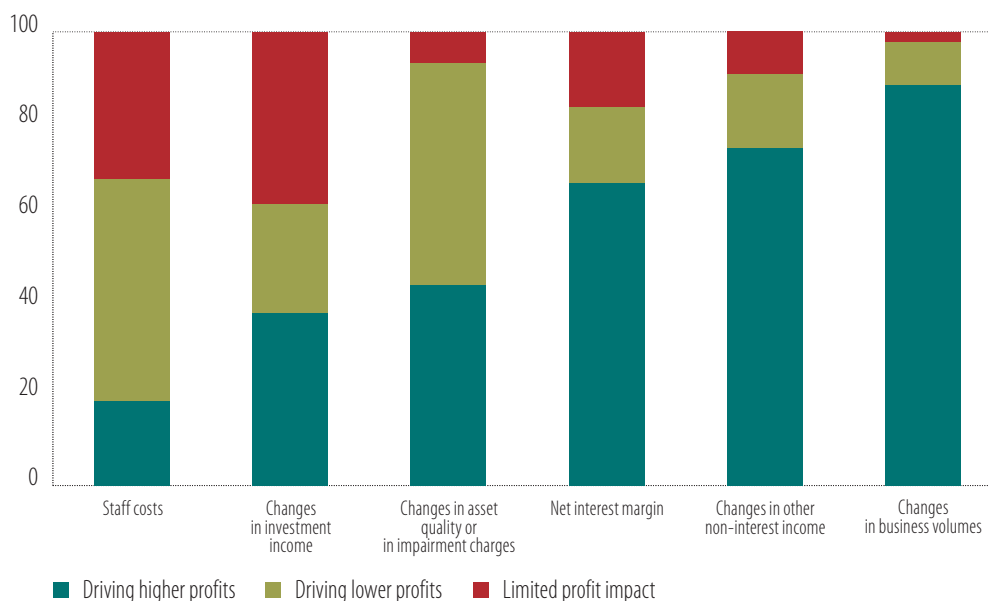
Source: IMF World Economic Outlook database and IMF Financial Soundness Indicators database.

Our survey points to continued buoyancy in bank profits. Nearly 80% of the banks surveyed expect profits in the next 12 months to be higher than those in the last 12 months, a period that was characterised by relatively high profits. The factor most cited in the 2024 survey as supporting profits, at 88% of banks, is changes in business volumes, meaning that most banks expect to see their activities expand (Figure 3). Changes in non-interest income, such as commissions and fees, is the second profit-driving factor, cited by three-quarters of banks. Interest margin is also a profit driver, as cited by 67% of banks, but has decreased

from 80% last year. This reduction may indicate that current interest rates are at the peak of the cycle in some countries. Like last year, asset quality and impairment charges have had a mixed effect on bank profits, being a profit driver for 44% of banks but a drag on profits for 49% of banks. Staff costs are the other main factor hindering profits, cited by 49% of banks.

Figure 3

Factors affecting profits of banks in sub-Saharan Africa (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Credit growth

The provision of credit to the private sector in sub-Saharan Africa has grown over the last three years, supporting bank profitability. Based on a GDP-weighted sample covering most countries, lending grew at 16% in 2021, accelerating to 17% in 2022 and 23% in 2023. This expansion in bank lending is a source of increasing income for the banking sector. The acceleration in credit growth between 2022 and 2023 is partly driven by Nigeria, where credit growth increased to 45% in 2023 from 20% in 2022. From an economic perspective, the rate of credit growth was broadly similar to the rate of inflation in many countries, meaning private credit as a share of GDP is relatively static over the period. This echoes the point made in Chapter 2, which showed that while credit as a share of GDP grew in other developing regions over the 15 years between 2007 and 2022, this ratio declined in Africa.

In many African countries, the availability of credit underpins economic growth. Although a relationship between GDP growth and lending can exist, it is often necessary to focus on an economic indicator that is more sensitive to financing conditions than GDP, such as investment. Furthermore, for credit, exploring the flows rather than the stock is necessary for showing a relationship to economic growth. One such indicator is the credit impulse, which is calculated as the change in the rate of loan growth over the last 12 months.³ The credit impulse indicates whether the growth rate of lending is accelerating or decelerating and can be more closely linked to the evolution of economic activity than simply the rate of lending growth. Figure 4 depicts the credit impulse and GDP growth for Kenya, showing that

³ The growth rate of lending here is the year-on-year growth rate. By taking the change in this growth rate over the last 12 months, it is effectively the second derivative of loans, at the annual frequency.

economic growth exhibits a similar trend to the lagged credit impulse for most of the sample and there is synchronicity between the two. Appendix 1 charts credit impulse and a measure of economic activity – typically investment – for other African countries. Again, a relationship between these indicators is evident, although it sometimes broke down during the COVID-19 pandemic.⁴ The typical relationship between credit impulse and economic activity shows that maintaining credit flows to the private sector underpins economic growth, particularly investment. Therefore, boosting credit growth to deepen the share of credit as a percentage of GDP could contribute to higher investment, higher GDP and – in line with the relationship shown in Figure 2 – further support for bank profitability. This idea is supported by academic literature. For example, Ozili et al. (2023) and Akpansung and Babalola (2012) reported a positive relationship between credit supply and economic growth in Nigeria, and Asante et al. (2023) found a similar result across sub-Saharan Africa.

Figure 4
Credit impulse and gross domestic product growth for Kenya (in %)



Source: IHS Markit and Central Bank of Kenya.
 Note: GDP is the year-on-year growth rate, two-quarter moving average, whereas impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter.

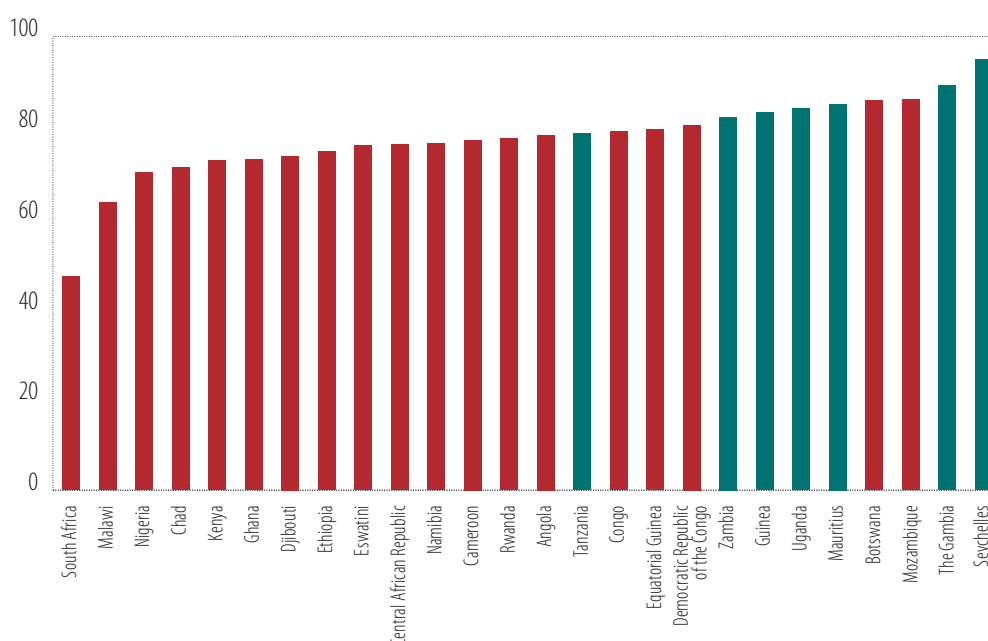
Banking in a high interest rate environment

With central banks raising rates to combat inflation, commercial banks in sub-Saharan Africa have typically been operating in a high interest rate environment in recent years. A high interest rate environment translates into higher net interest margins for banks, meaning a higher spread between the interest rates charged by banks in their lending operations versus the interest rates banks themselves pay to obtain funding. This presupposes that lending rates increase more than deposit rates when the policy rate is changed, at least until all liabilities are fully re-priced, but this is not a given. In practice, the evolution of net interest income earned by banks will also depend on the structure of banks’ assets and liabilities – namely who they lend to and from whom they borrow. Accordingly, understanding the structure of the assets and liabilities is important.

⁴ Credit impulse, as the change in a growth rate, is an inherently volatile variable and does not always match GDP or investment growth. However, the fact that it does so relatively consistently across various countries is evidence in favour of its importance.

Banks in sub-Saharan Africa are predominantly deposit funded. The share of deposit liabilities in total liabilities ranges from 47% in South Africa to 95% in Seychelles. The average and the median shares of deposit funding for the countries shown in Figure 5 are both 77% of total liabilities. This high proportion of deposit funding means that the funding base is relatively stable owing to the lack of reliance on wholesale funding, and the cost of deposits predominantly determines the cost of funding for banks. Accordingly, domestic economic conditions, such as domestic policy rates and inflation, affect the cost of funding for African banks because they influence the interest rates set on deposits.

Figure 5
The share of deposits in banks' total liabilities (in %)

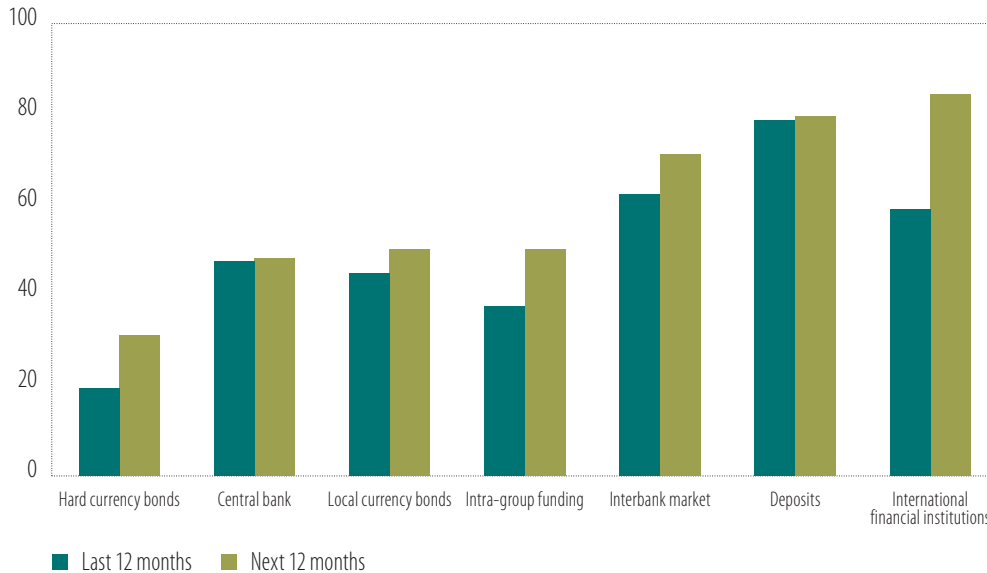


Source: *IMF Financial Soundness Indicators*.

Note: Total liabilities do not include capital, as the focus is mainly on interest-bearing liabilities. Green bars indicate countries where foreign currency liabilities are more than one-third of total liabilities. The figure covers the second quarter of 2022, except for Seychelles, where it is the fourth quarter of 2021.

Despite the dominance of deposits, banks rely on various funding sources. In the last 12 months, banks raised funds most frequently through deposits (79% of banks), followed by the interbank market (62%) and international financial institutions (59%), such as the EIB (Figure 6). Only 19% of banks report issuing hard currency bonds over the previous 12 months, likely reflecting tough conditions on international markets, but this is an increase from 5% last year. Over the next 12 months, 98% of banks expect to increase their overall funding. The relative importance of different funding sources is not changing significantly over time and is expected to remain stable for the next 12 months. The biggest difference is for international financial institutions, with 84% of banks expecting to use this funding source compared with 59% last year. This increase is driven by banks in Southern Africa, where only 43% of banks used funding from international financial institutions in the last 12 months but 92% are planning to use this source in the next 12 months. While hard currency bonds are likely to remain the least used source of funding, almost one-third of banks would like to issue hard currency bonds, which is an increase on the last 12 months. The large increase in demand for funding from international financial institutions may be based on an expectation that this approach offers a better way to access hard currency funding compared with directly issuing bonds. However, although deposits are cited less frequently than international financial institutions as a funding source for the next 12 months, the chart in Figure 6 only captures how often a source of funding will be used and not the volumes involved. Thus, deposits will remain the most important source of funding, as seen in Figure 5, and the cost of deposits will continue exerting the greatest effect on the overall cost of funding for banks.

Figure 6
Funding sources for sub-Saharan African banks (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Deposit pricing tends to differ in advanced countries compared with higher inflation regions such as Africa. In advanced, high-rated countries, the central bank policy rate is the risk-free rate and every other interest rate in the economy tends to be priced at a mark-up to the central bank rate, considering factors such as risk and liquidity. However, in high-inflation environments, the policy rate is often elevated to reduce inflationary pressure. This means that deposit rates for commercial banks can be markedly lower than the policy rate. Indeed, banks in some countries would be unable to run a profitable business if their cost of funding was higher than the central bank policy rate. Instead, banks set interest rates on deposits at a level that they hope will attract enough funds from the public to suit their lending ambitions. Figure 7 shows central bank policy rates and commercial bank deposit rates for various countries in sub-Saharan Africa. Among some of the more highly rated nations, such as Botswana or Mauritius, there is little difference between the policy rate and the deposit rate, but there are many countries where the interest rate offered by commercial banks to depositors is considerably below the policy rate. Therefore, evaluating how commercial banks have been affected by the significant increase in inflation and policy rates over recent years is necessary.

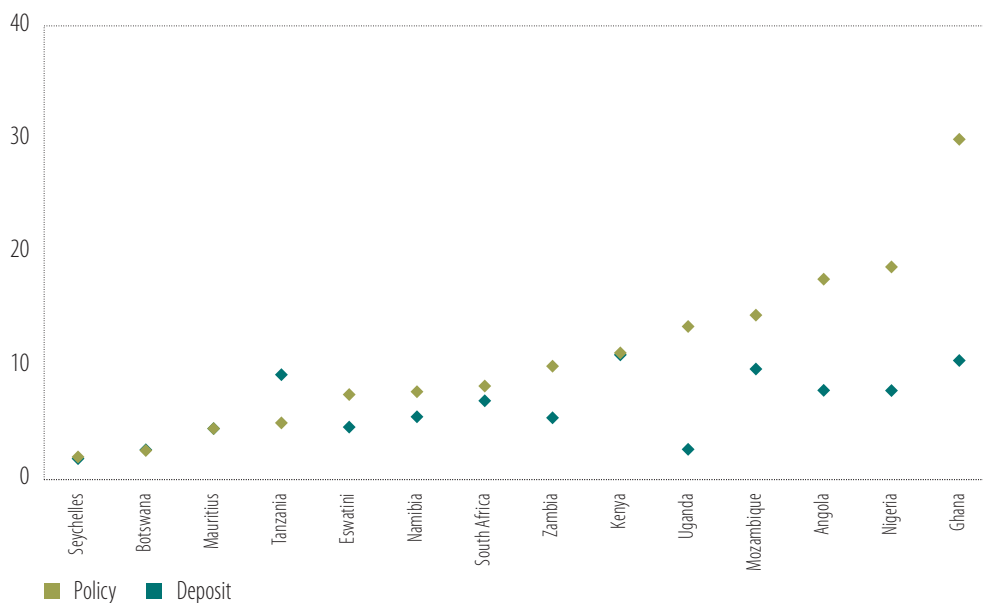
Although policy rates have increased, there is considerable heterogeneity at the country level. The typical pattern is that policy rates were reduced immediately after the COVID-19 pandemic to support domestic economic activity but were subsequently increased as inflation surged. There are some exceptions, such as Tanzania, where policy rates fell after the pandemic without any subsequent increase by the end of 2023. For most countries, policy rates were higher in 2023 compared with pre-pandemic levels. The difference between the maximum and minimum policy rate in the post-pandemic period, until the fourth quarter of 2023, averaged 439 basis points, with a median of 400 basis points. Three countries in the sample saw a trough-to-peak increase in policy rates of at least 1 000 basis points – Malawi (1 200 basis points), Ghana (1 650 basis points) and the Democratic Republic of the Congo (1 750 basis points).⁵

Despite the higher interest rate environment since the war in Ukraine, the data suggest a lower spread between commercial banks' deposit rates and lending rates to the private sector. In addition, there are again marked differences between countries. For example, Figure 8 shows a selection of countries, mostly

⁵ This is over the period until the first quarter of 2024.

in Southern Africa, where the spread between deposit and lending rates widened from 2020 onwards. In some countries, such as Ghana and Mozambique, these lending spreads were large in absolute terms, at 2 325 basis points and 1 435 basis points, respectively, by the fourth quarter of 2023. However, there were also numerous countries with declining spreads, as shown in Figure 9. The median spread for all countries over time declined to 635 basis points by the fourth quarter of 2023, from 881 basis points in the fourth quarter of 2020 (Figure 9). This 246-basis point tightening in the median spread shows that although central banks increased policy rates across sub-Saharan Africa, the increases in lending rates were typically smaller than the increases in deposit rates.

Figure 7
Central bank policy rates and commercial bank deposit rates for selected countries in sub-Saharan Africa (in %, fourth quarter 2023)



Source: IMF Financial Soundness Indicators and national central banks.

The span of the data is insufficient for determining whether spread tightening is typical following a sharp increase in policy rates. Policy rate increases can sometimes be in response to excess inflationary pressure arising from strong economic performance. In this situation, banks might consider more aggressive increases to lending rates on the basis that the economy is strong. However, the recent increase in policy rates was driven mainly by inflation in food and energy prices resulting from supply shocks linked to the COVID-19 pandemic and Russia's invasion of Ukraine. Thus, strong economic growth did not cause the high inflation and consequent policy tightening. Indeed, most economies were slowing from the post-pandemic economic bounce when households and businesses faced the higher inflation and input costs, respectively. With household and business budgets under strain, banks were likely concerned that increasing their lending rates in line with policy rates could increase non-performing loan ratios. The idea that there is not full pass-through from central banks' rates to lending or deposit rates is supported by academic literature. For example, Jibrilla and Balami (2022) found an incomplete pass-through from the central bank policy rate to lending and deposit rates in Nigeria, and Chiumia and Palamuleni (2020) found that the pass-through of policy rate changes to retail rates was incomplete in Malawi.

Despite some narrowing in interest rate spreads on loans, bank profitability has improved in recent years. This was seen for return on equity (Figure 2) and return on assets. Return on assets increased for 16 of 24 countries between the fourth quarter of 2019 and the fourth quarter of 2022. The median increase in the profit ratio for these 16 countries was 14% but there were ten countries with a profitability increase of more than 25% in this period and seven of these had increases above 50%. In contrast, only two countries saw their profit ratio contract by more than 25%. Thus, there was a clear improvement in

bank profitability, with banks in some countries seeing substantial improvements, reflecting the results in the survey. However, a question remained about what was driving this profit performance if interest rate spreads on loans to the private sector were narrowing.

Figure 8
Sub-Saharan African countries with higher lending spreads in the fourth quarter of 2023 (percentage points)

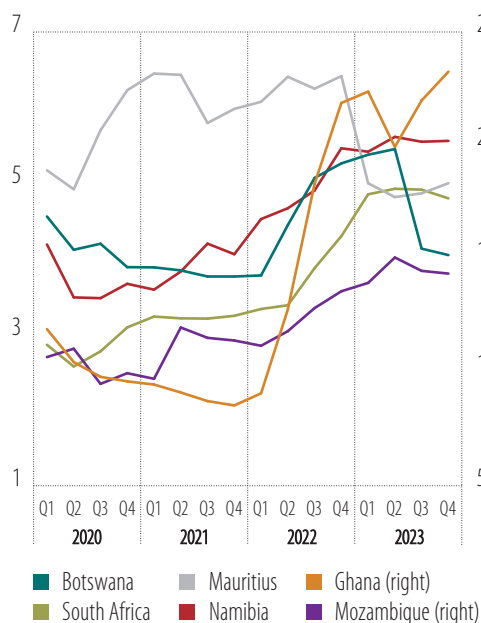
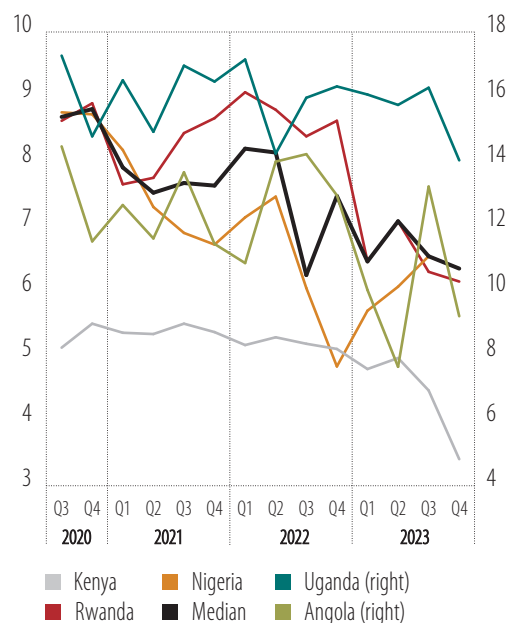


Figure 9
Sub-Saharan African countries with lower lending spreads in the fourth quarter of 2023 (percentage points)



Source: IMF International Financial Statistics and national central banks.
Note: The median spread in Figure 9 is the median of all countries, including those in Figure 8 that have rising spreads.

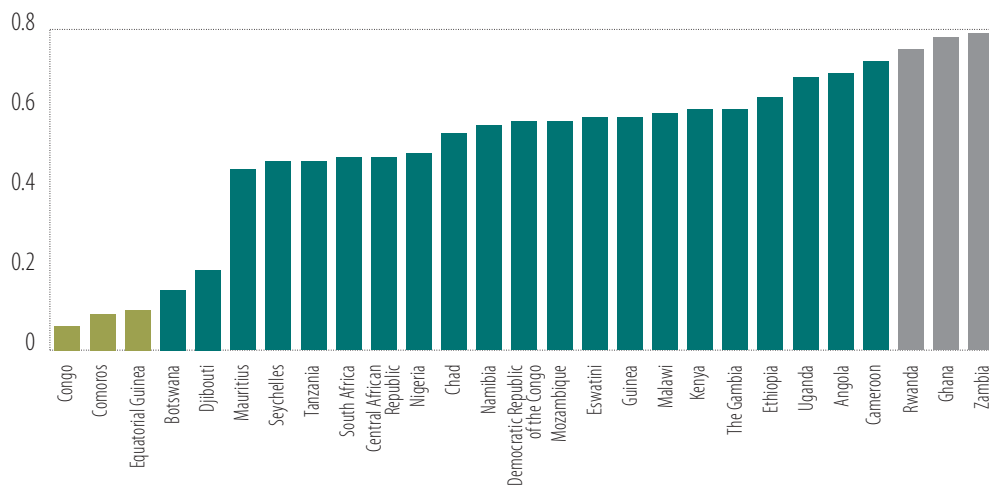
Interest income remains a key driver of bank profitability in Africa. As shown in Figure 10, net interest income and profitability are highly correlated at the country level, with only a few countries exhibiting a weak relationship. Across the 27 countries with available data, the average correlation between net interest income and profitability is 0.49 and only six countries have a correlation below 0.45. Looking at the three countries with the lowest correlations between interest income and profitability, the cost efficiency of the banking sector seems to be a factor. Figure 11 shows the ratio of non-interest expenses to gross revenue. A higher ratio means that the banking system is less efficient, with non-interest expenses consuming a higher share of revenue. The three countries with the lowest correlations between interest income and profitability – Equatorial Guinea, Comoros and Congo (Figure 10) – have some of the highest operating expenses (Figure 11). Conversely, the countries with a high correlation between interest income and profits in Figure 10 (grey bars) are among the more cost-efficient countries in Figure 11 (grey bars). Therefore, the data suggest that net interest income is a key driver of profit, and where this link breaks down, it is often due to high operating costs. Furthermore, this relationship appears to be unaffected by the COVID-19 pandemic, despite tightening spreads on private sector lending after the pandemic.

While private lending spreads were tightening in recent years, interest rate spreads on government lending were widening. As fewer countries have available data on the spread between the interest rates paid on government bills and/or bonds and commercial bank deposit rates, the sample of countries for this analysis shrinks to 16.⁶ The median spread for these countries is shown in Figure 13. Following

6 For government debt, the yield on Treasury bills (T-bills) is used where possible, as many African governments have higher issuance at the short end of the yield curve.

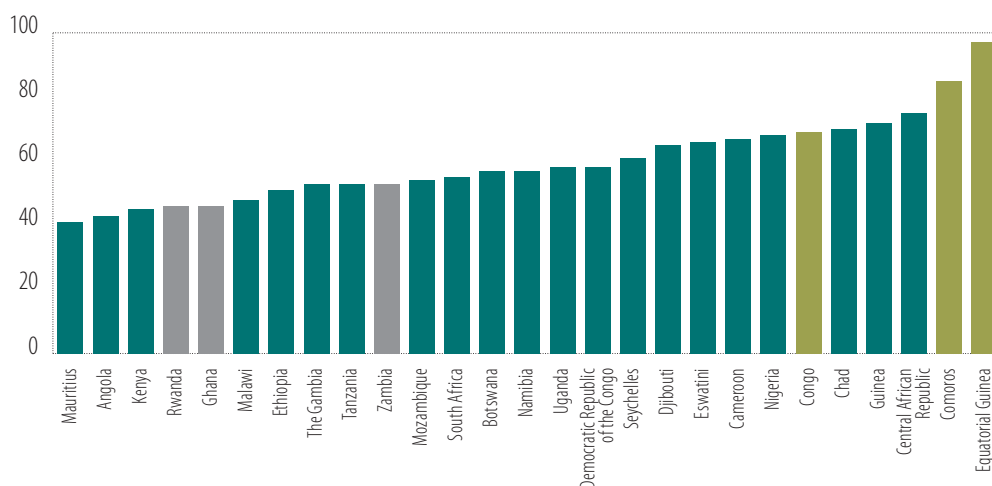
a peak in the first quarter of 2017, these spreads had been narrowing until the first quarter of 2022, which coincides with the start of the Ukraine war. However, as financing conditions deteriorated amid an increase in global risk aversion in 2022, the spread between the interest rates on government debt and the deposit rates of banks rapidly increased. The median spread increased from 58 basis points in the first quarter of 2022 to 294 basis points in the first quarter of 2023. This increase in interest margins for government debt contributes to the higher profitability of banks. Indeed, the countries with a high correlation between profitability and net interest income in the sample tend to have a higher share of bonds among bank assets.

Figure 10
Correlation between profits and interest income



Source: *IMF Financial Soundness Indicators*.
Note: Profitability is measured using return on assets.

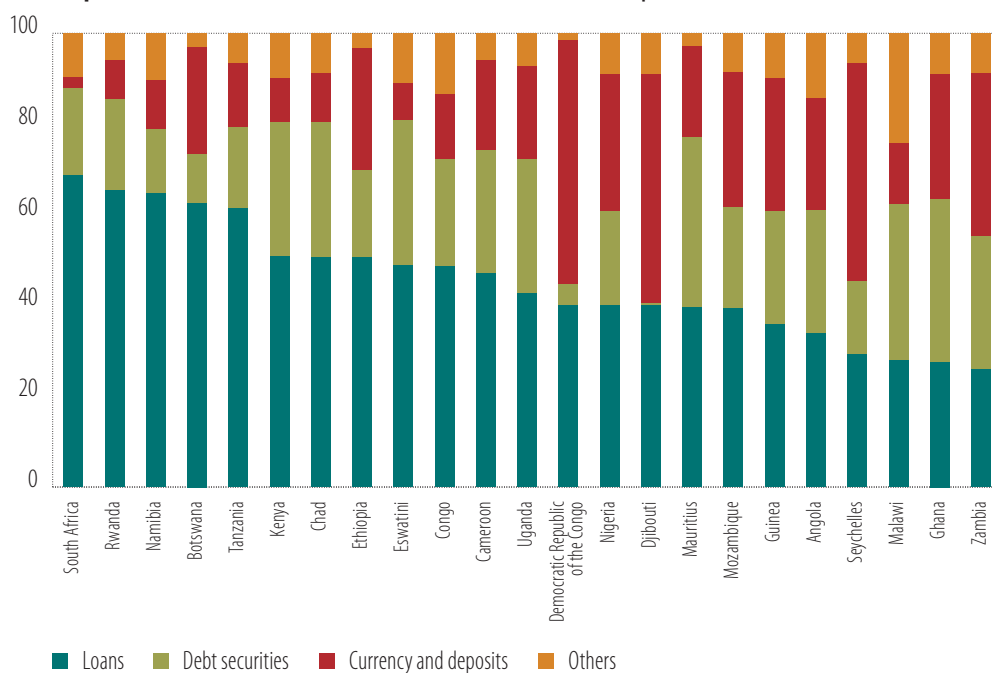
Figure 11
Ratio of non-interest expenses to gross income (in %)



Source: *IMF Financial Soundness Indicators*.

Beyond spreads, changes in business volumes and the composition of bank assets have affected profitability, as reflected in the survey. Over the last decade, banks have shifted towards increased public sector lending, typically through purchases of government paper, as shown in Chapter 1. Private loans remained the largest asset category for most banks (Figure 12), but bond holdings more than doubled in a decade. In the first quarter of 2012, the median share of debt securities in bank assets was 12%, and by the fourth quarter of 2022, this had grown to 27%. Among 24 countries, one-third of banks have bond holdings of more than 30% of bank assets. Figure 14 shows that the growth rate of bond holdings averaged 17% between 2013 and 2022, whereas the average growth rate of loans over the same period was 10%. The dark green line on the figure depicts the median growth in bank interest income over time. A slowdown in the growth of interest income between 2016 and 2019 seems to be mainly attributable to a preceding slowdown in loan growth. However, the recovery in interest income growth from 2021 seems to be linked to accelerated growth in bond purchases during the pandemic period, with the growth rate of bond holdings peaking at 29% in the first quarter of 2021. This indicates that banks were growing their bond portfolio during the pandemic while also enjoying a widening interest rate spread on bonds relative to the cost of deposits. Accordingly, interest income remained a key driver of bank profitability after the pandemic, even as spreads on traditional lending to the private sector declined.

Figure 12
Asset composition of bank balance sheets (in %, second quarter of 2022 or latest available)



Source: IMF Financial Soundness Indicators.

Figure 13
Spread between interest rate on government bills and/or bonds and deposit rates of commercial banks (in %)

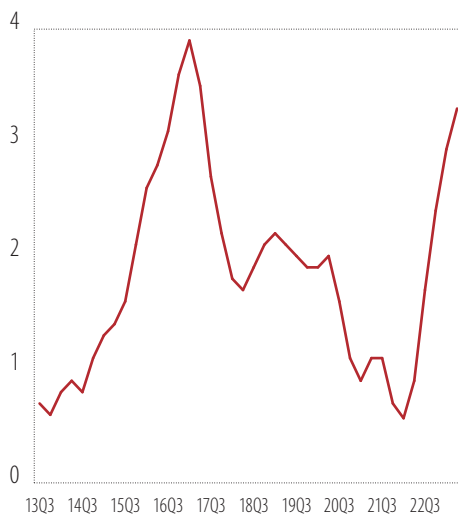
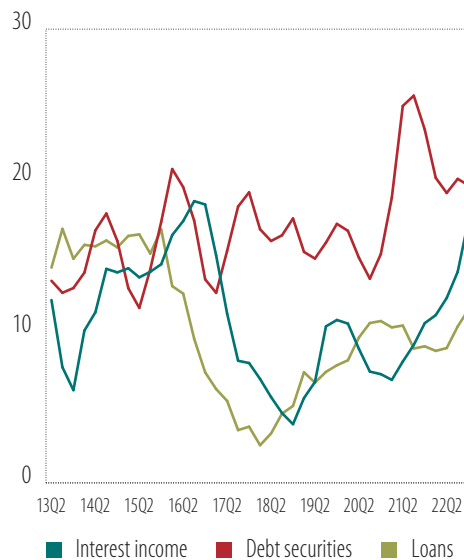


Figure 14
Interest income, public debt holdings and private loan volumes for banks in sub-Saharan Africa (annual growth rates, median, in %)



Source: *IMF Financial Soundness Indicators and IMF International Financial Statistics.*

Note: *In Figure 13, the growth rates are three-quarter moving averages of annual growth rates to smooth out volatility.*

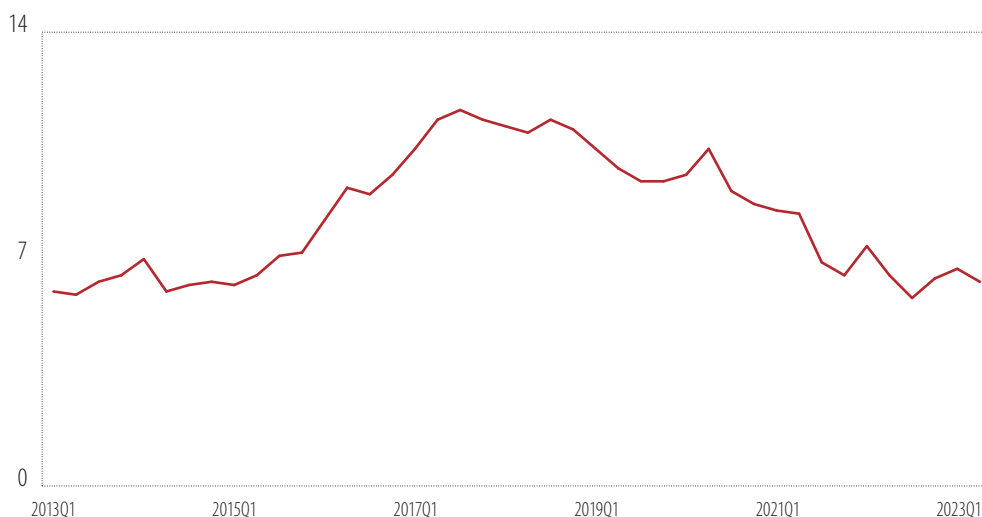
Banking sector asset quality

The relatively benign evolution of non-performing loans is another factor that has benefited banks. As shown in Figure 15, the median non-performing loan ratio has been declining since late 2017. The COVID-19 pandemic has had little impact on this trend, except perhaps a small spike in the third quarter of 2020. Figure 16 shows that non-performing loans and profitability are negatively correlated for most countries in sub-Saharan Africa, meaning profits are higher when non-performing loans are lower. However, statistically this relationship does not hold for all countries. The link between profitability and non-performing loans tends to be weak, or even reversed, in countries where non-performing loan rates are low or stable (including Seychelles, Tonga and Malawi) and where countries have large exposures to bonds rather than loans (including the Democratic Republic of the Congo, Mauritius and Djibouti).

The survey also provides evidence of declining non-performing loans despite banks appearing more worried about asset quality than in previous years. Figure 17 shows that one-third of banks have no more than 5% of their loan book for small and medium-sized enterprises classified as non-performing, with another 40% of banks having less than 10% of their loan book under this classification. This trend has been improving over time, as the share of banks with more than 10% of their loan book for small and medium-sized enterprises classified as non-performing fell from 37% in 2022 to 32% in 2023 and 27% in 2024 (Figure 18). However, as shown earlier in the chapter, the share of banks concerned about non-performing loans has increased from last year: 53% of banks cited non-performing loans as a worry in 2024 compared with 47% in 2023. This change is not large, particularly given the variability in the sample of banks surveyed from year to year, but may be notable for two reasons. First, the new options available to banks for this question in the survey reduced the share of banks citing other concerns but the share of banks citing asset quality as a concern still increased. Second, in conjunction with the worries expressed

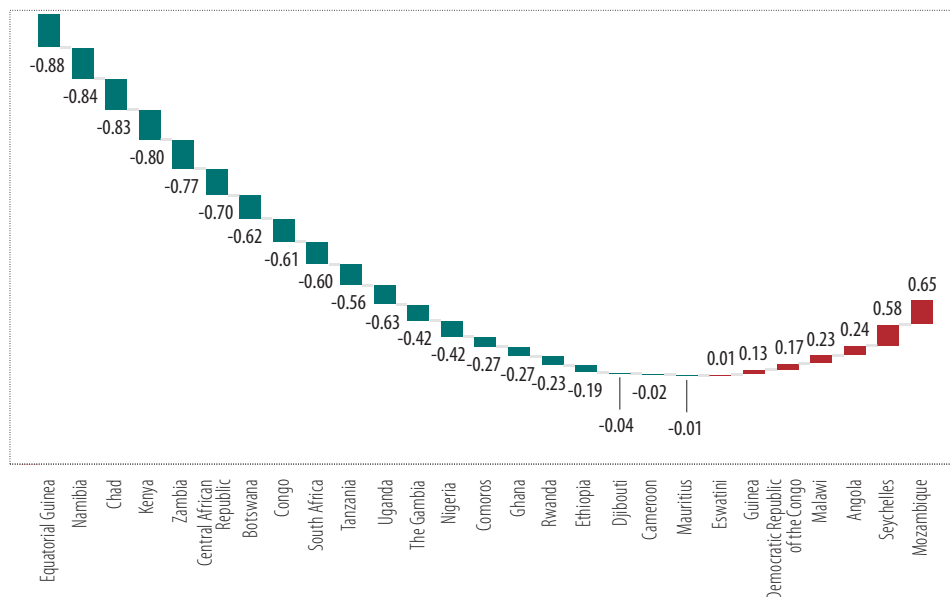
about economic conditions, the increase in concern about non-performing loans may hint at early signs that banks, at least in some countries, are worried that the combination of higher inflation and higher interest rates is going to reverse the downward trend in non-performing loans.

Figure 15
Median non-performing loan ratio (in %)



Source: IMF Financial Soundness Indicators and EIB staff calculations.

Figure 16
Correlation between non-performing loans and profitability by country (in %)



Source: IMF Financial Soundness Indicators and EIB staff calculations.

Continued tightening of credit standards could indicate some unease about asset quality. Credit standards are the terms, conditions and interest rates applied by banks when approving new loans or extending existing loans. In the past 12 months, just over 60% of banks tightened their credit standards to some degree (slightly or considerably), whereas just over 20% eased standards, leading to a net tightening

of 40% (Figure 19). This is a marked increase in net tightening from the 13% reported by banks in 2023. However, the survey last year did indicate that a higher share of banks were expecting to tighten credit standards, and the results this year confirm that banks followed through on these plans. For the next 12 months, a net tightening by 46% of banks is expected, suggesting further squeezing of credit conditions. This projected increase is mainly driven by a drop to just 11% in the share of banks planning to loosen credit standards, with all 11% planning a slight (rather than considerable) easing in lending standards.

Figure 17
Non-performing loans for small and medium firms (% of responding banks)

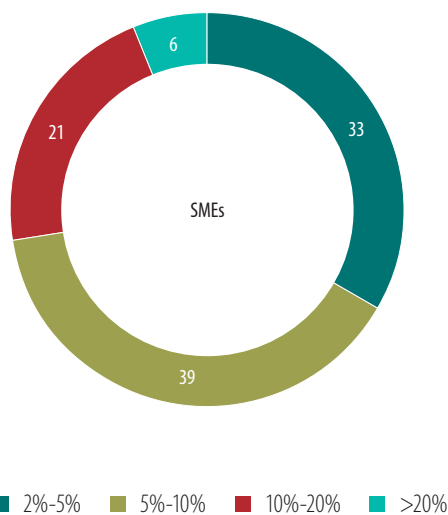
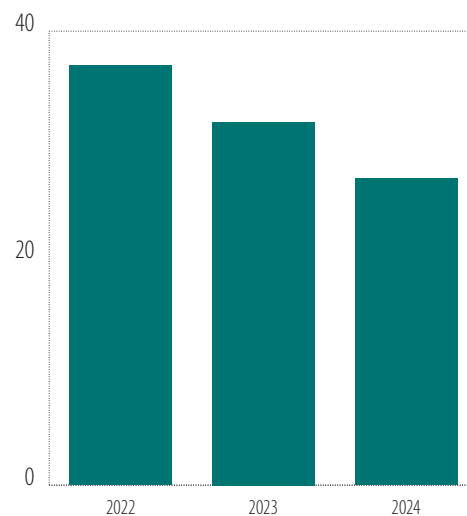


Figure 18
Share of banks with more than 10% of their loan book for small and medium businesses categorised as non-performing (in %)



Source: EIB Banking in Africa survey, 2024.

Loan growth may slow in the next year owing to the difficult conditions banks face. Banks were asked how loan growth over the last 12 months compared with that of the previous 12 months. In response, 45% of banks said they experienced slower loan growth over the last year, while 38% experienced a higher growth rate and the remaining 17% said loan growth was about the same (Figure 20). Last year, only 10% of banks said they expected slower loan growth and half expected accelerated growth, meaning that actual loan growth rates fell short of expectations for a considerable proportion of banks over the last year. Looking ahead, 38% of banks expect slower loan growth in the next 12 months and only 32% expect a higher loan growth rate. This increase in the share of banks expecting slower loan growth may reflect the current challenging conditions, including higher interest rates, pockets of high inflation in some countries, enduring issues in the cost and availability of funding and persisting concerns about asset quality. Development banks play a crucial role in such times, as they can provide a countercyclical boost to loan supply and private sector development.

Figure 19
Changes in credit standards
 (% of responding banks)

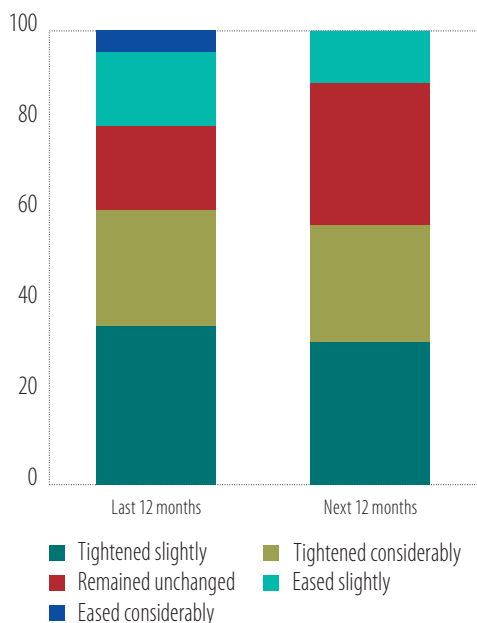
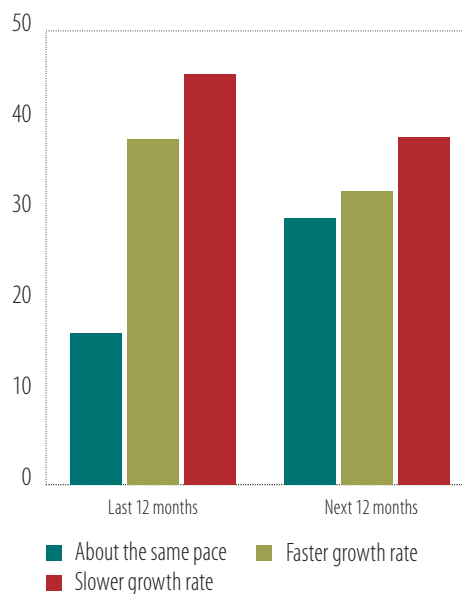


Figure 20
Actual and expected loan growth
 (% of responding banks)

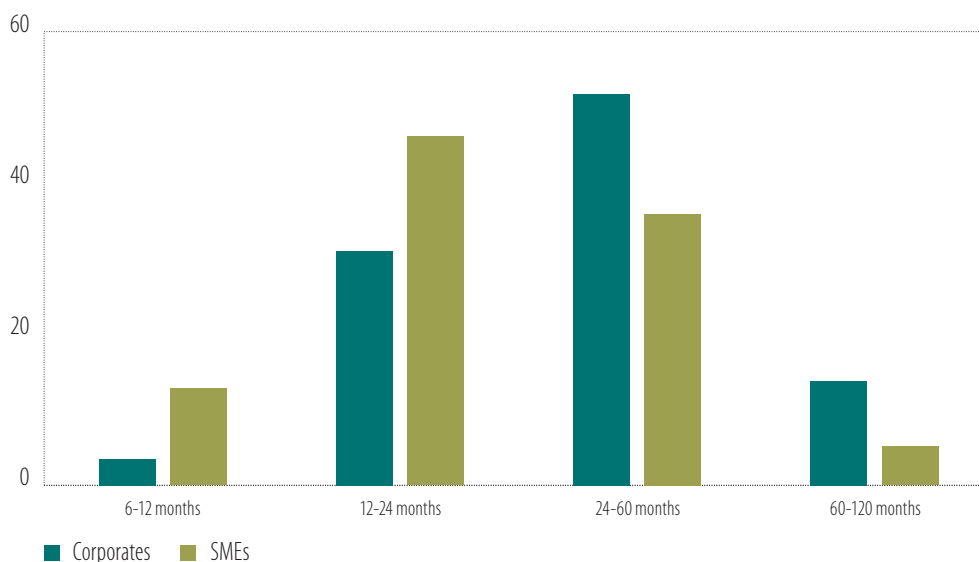


Source: EIB Banking in Africa survey, 2024.

Banking for small vs. large firms

Banks in the survey reported more activity with small and medium-sized enterprises than with large corporates, but loans to corporates benefit from more advantageous terms. In line with the higher share of small and medium-sized enterprises in the economy, banks were more likely to lend money to these businesses than to large firms. In our survey, 94% of banks had provided direct loans to small and medium-sized enterprises in the past 12 months, compared with 65% of banks that provided loans to large corporates. However, this finding also reflects the position of some microfinance institutions, which make up about 13% of survey respondents. In 2023, the survey included a question on the share of bank assets accounted for by corporate, small and medium-sized enterprise, retail and government lending and revealed the highest value of loans was for corporate borrowers. Therefore, although small and medium-sized enterprises might account for a larger number of loans, the data from last year suggest that large firms still occupy a larger share of the bank loan book. Large firms also benefit from longer repayment periods on loans. Figure 21 shows that 59% of loans to small and medium-sized enterprises had a term of two years or less compared with 34% of loans to corporates. The inability of small and medium-sized enterprises to access long-term funding can restrict the growth of these businesses. EIB loans to financial intermediaries in Africa often target small and medium-sized enterprises as the final beneficiaries. Our loans require recipient banks to confer a financial advantage to their final beneficiary and this can include maturity extension for small and medium-sized enterprises.

Figure 21
Loans by repayment period for corporates and small and medium firms (% of responding banks)

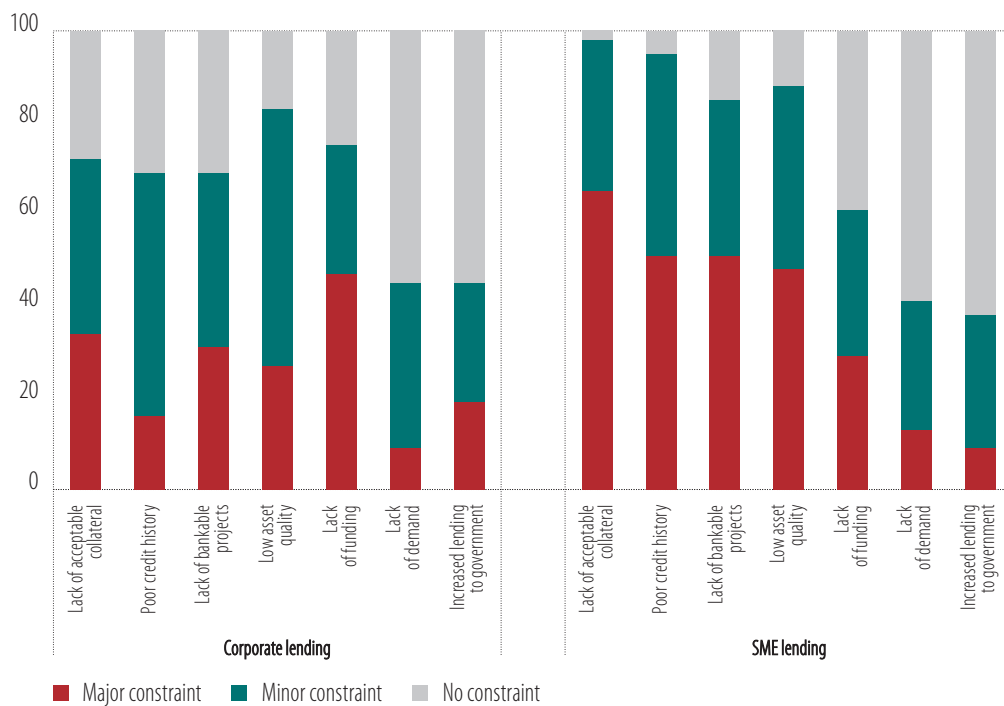


Source: EIB Banking in Africa survey, 2024.

Small firms often face more obstacles than large firms when accessing bank credit. The survey asked banks for their main constraints on lending to large corporates and small and medium-sized enterprises. The results show that such constraints are more binding for small firms than for large firms. As with previous editions of the survey, the greatest barriers for small and medium-sized enterprises in obtaining loans are lack of acceptable collateral and poor credit history – reported to be a major constraint for 65% and 51% of banks, respectively (Figure 22). For corporate lending, these issues are much less pronounced, cited as major constraints by 34% and 16% of banks, respectively. Lack of bankable projects and low asset quality are also problems and qualify as major constraints for 51% and 48% of banks, respectively, when lending to small and medium-sized enterprises. Banks report that lack of demand and increased lending to government are rarely major constraints for lending to either small and medium-sized enterprises or large corporates. The only issue that is more problematic for corporates than for small and medium firms is lack of funding, with 47% of banks listing this as a major constraint for large firms compared to 29% for small and medium-sized enterprises. Thus, although funding has dropped in the ranking of the major concerns facing banks compared with last year (Figure 1), it is still a key factor constraining lending to the corporate sector.

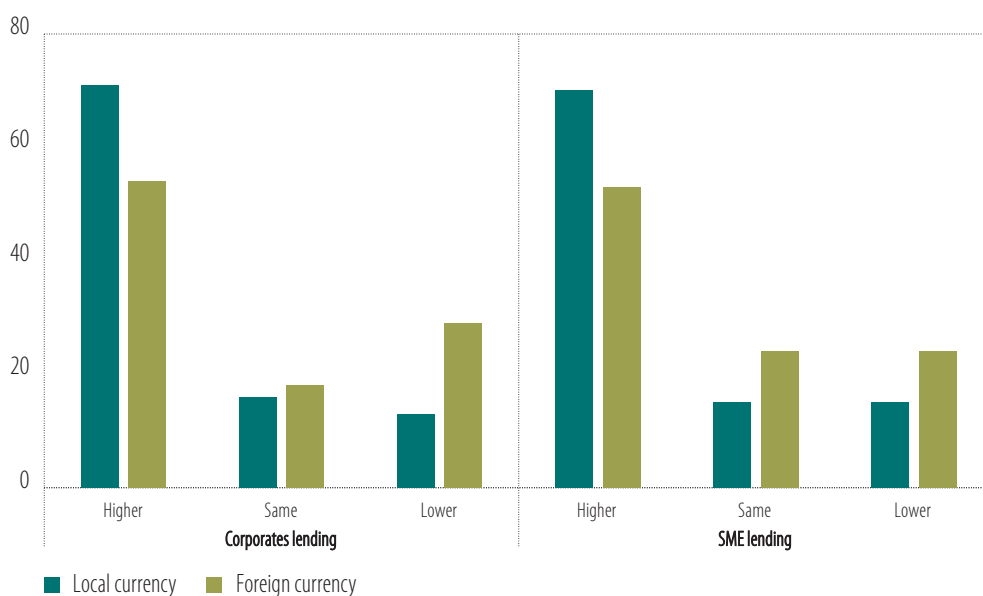
Banks expect growth in loan demand from large corporates and small and medium-sized enterprises, particularly for local currency lending. For this part of the survey, the responses about corporates and small and medium-sized enterprises are very similar. Approximately 70% of banks expect increases in local currency loan demand from both sets of firms (Figure 23), whereas just over 50% of banks expect increases in foreign currency loan demand. Only 10-15% of banks expect a decrease in local currency loan demand, but this rises to 25-30% of banks for foreign currency loan demand from corporates and small and medium-sized enterprises. The relatively high proportion of banks expecting an increase in loan demand contrasts with banks' expectations about loan growth. Thus, while demand for loans is likely to grow, it may be unmet unless funding conditions improve.

Figure 22
Factors constraining lending to corporates and small and medium firms (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Figure 23
Loan demand in the next 12 months compared with the last 12 months for corporates and small and medium businesses



Source: EIB Banking in Africa survey, 2024.

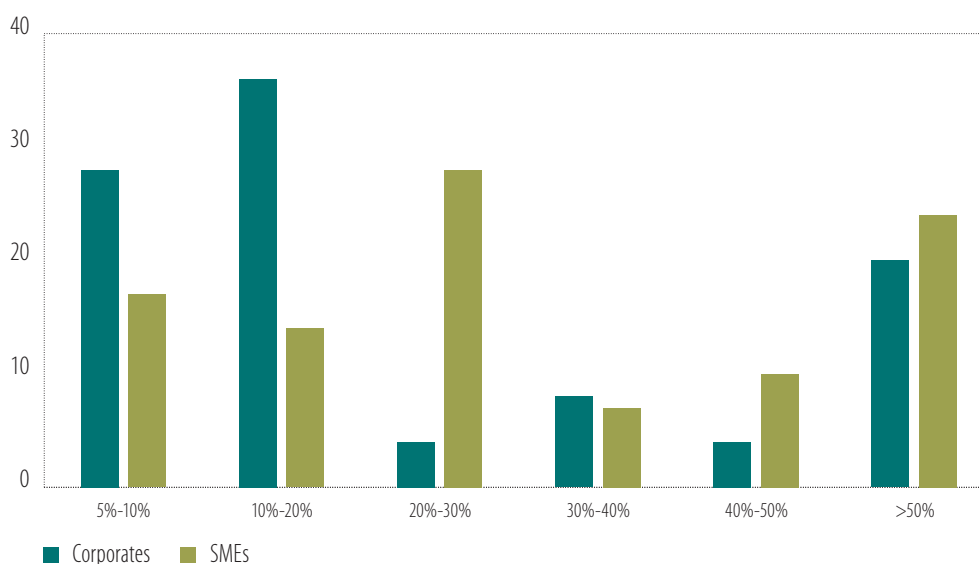
Gender finance

Banks in sub-Saharan Africa are increasing their focus on gender balance in lending. The proportion of banks with a gender strategy was 72% in our survey, with another 17% planning to introduce one, meaning nine out of ten banks in the region could soon have a gender strategy in place. In addition, two-thirds of banks have financial services or products specifically targeting women and a further 44% of banks offer preferential terms when lending to women, such as less stringent collateral requirements or lower interest rates. In this sense, banks are enhancing the amount of intermediation to female borrowers. Based on the results of the 2023 survey, the main driver for banks in pursuing increased female participation in finance was achieving desirable social outcomes, followed by improving the bank's own financial performance.

Nonetheless, considerable gender gaps persist in female employment, female firm ownership/ leadership and gender finance. Last year's *Finance in Africa* report (EIB, 2023) contained a chapter dedicated to gender issues and showed that the share of female-led firms was 33% in sub-Saharan Africa. However, the report also found that well-managed enterprises are more likely to be led by women. Female-led firms usually invest in innovation, export goods and services, and offer employee training. The 2024 survey asked banks to state their share of loans going to female-led firms, split by corporates and small and medium-sized enterprises. For corporates, the proportion of lending to female-led firms is low, with 64% of banks giving less than 20% of their loans to such companies (Figure 24). The situation is better for small and medium-sized enterprises, with 28% of banks disclosing that they gave 20-30% of loans to such firms and 41% of banks stating that they gave more than 30%. Thus, for small and medium-sized enterprises, the share of lending is broadly representative of the share of female-led firms in the economy. This pattern of loan distribution is not surprising given that the proportion of female-led firms is higher in industries typically characterised by a smaller firm size.

Figure 24

Share of loans to female-led firms by type of firm (% of responding banks)



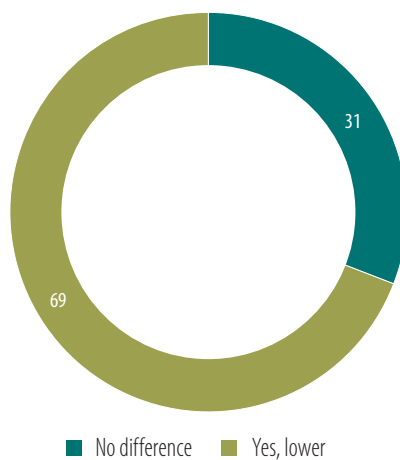
Source: EIB Banking in Africa survey, 2024.

Women also experience other challenges when accessing finance. The survey asked banks whether they perceived women to be more dependent on bank lending compared to male borrowers. Although 40% of banks see no difference, 60% of banks say women are more dependent on bank finance compared to men. Obtaining finance from sources other than banks can be difficult for women, due to reasons like lack of collateral, which is also linked to cultural barriers and land and property ownership. However, there is little evidence that banks treat female borrowers differently to male borrowers: 49% of banks observe

no difference in the rate of rejection on loans to female applicants and only 5% of banks observe a higher rate of rejection on loans to women. This mirrors data from World Bank [enterprise surveys](#), which show that issues relating to access to finance are similar in magnitude for female- and male-led firms, even though female-led firms are better managed. Moreover, the area where women face the greatest issues in terms of accessing finance is in creating new firms, where obstacles are greater.

There is evidence that loan size differs between genders. While 59% of banks reported no difference in the size of loans to women compared with those to men, 38% of banks stated that loans to female-led businesses were smaller than loans to male-led firms. Possible explanations for this difference are that women have access to less collateral and women-led enterprises are more concentrated among small and medium-sized enterprises than larger corporates. However, banks continue to report better loan performance among female-led firms, with nearly 70% of banks observing lower rates of non-performing loans among such businesses (Figure 25). In previous editions of the survey, this rate was about 40-50%. This observation highlights why lending to female-led firms can improve financial performance for banks. The superior asset quality of female-led firms is even more impressive given that these firms are concentrated in sectors dominated by small and medium-sized enterprises, which have structurally higher non-performing loan ratios than larger firms. Thus, increased lending to female-led firms is likely to improve economic outcomes and generate higher profits for banks, in addition to achieving desirable social outcomes.

Figure 25
Is the rate of non-performing loans among female-led firms different from the average (% of responding banks)?



Source: EIB Banking in Africa survey, 2024.

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Appendix 1

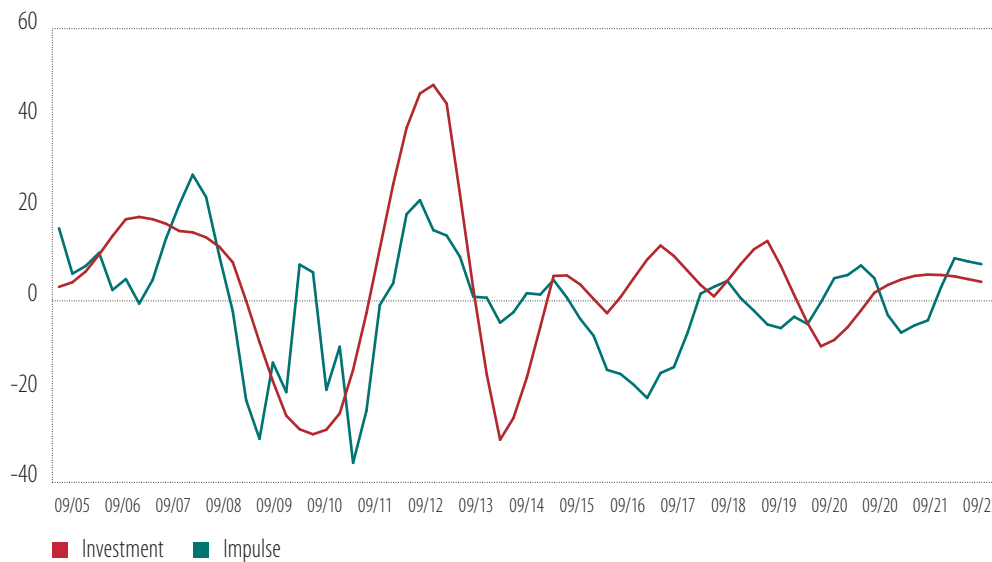
Figure A.1
Credit impulse and investment growth in South Africa (in %)



Source: IHS Markit.

Note: Impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter. Investment represents the two-quarter moving average of annual investment.

Figure A.2
Credit impulse and investment growth in Ghana (in %)



Source: IHS Markit; Central Bank of Ghana.

Note: Impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter. Investment represents the two-quarter moving average of annual investment.

Figure A.3
Credit impulse and investment growth in Egypt (in %)



Source: IHS Markit; Central Bank of Egypt.

Note: Impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter. Investment represents the two-quarter moving average of annual investment.

Figure A.4
Credit impulse and investment growth in Morocco (in %)



Source: IHS Markit; Bank Al-Maghrib.

Note: Impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter. Investment represents the two-quarter moving average of annual investment.

Figure A.5
Credit impulse and investment growth in Senegal (in %)



Source: National Statistics Office and Central Bank of West African States.
Note: Impulse is the change in the growth rate of real credit to the private sector over the previous year. To smooth out volatility, we took a four-quarter moving average, lagging by one quarter. Tertiary sector GDP refers to the growth rate of the tertiary sector of the economy, with a two-quarter moving average. The tertiary sector is chosen as it has segments accessing a considerable share of bank credit.

4

Chapter 4 was authored by Colin Bermingham, Frank Betz, Emmanouil Davradakis, Nomfundvo Dlamini, Moses Nyangu, Kevin Koerner, Ricardo Santos, and Christoph Weiss, all of the European Investment Bank. **Box 2** on pension funds in Southern Africa was written by Grakolet Arnold Gourène, of Making Finance Work for Africa (MFW4A).

Chapter 4

Regional banking performance

This chapter provides an overview of banking sector performance in the main regions of Africa. The analysis is based on economic, financial and bank-level data, including via the ninth edition of the European Investment Bank (EIB) Banking in Africa survey, carried out between February and March 2024. Banking sectors across the continent show continuing resilience, with high levels of profitability, capital ratios often well above regulatory minimums and lower non-performing loan ratios in most regions in 2023 compared with 2022. Credit markets remain shallow, with credit as a share of gross domestic product (GDP) at 37% in North Africa and 36% in sub-Saharan Africa, although the latter is inflated by South Africa. Overall, credit growth was brisk in 2023 and faster than in 2022, typically due to high rates of credit growth in some of the larger economies such as the Democratic Republic of the Congo (61%), Nigeria (45%), Ethiopia (36%) and Egypt (26%). However, credit growth slowed in more than half of the economies in Africa.

Credit remains shallow across the regions, except for in Southern Africa. The share of credit to the private sector as a percentage of GDP is 11% in Central Africa, 17% in West Africa, 21% in East Africa and 37% in North Africa (Table 1) but jumps to 65% in Southern Africa because South Africa and Mauritius have large and more developed financial sectors. However, when South Africa is excluded, credit as a share of GDP drops to 20% in Southern Africa, which is more in line with the other regions of sub-Saharan Africa.

The banking sector's soundness varies considerably across the continent. The ratio of non-performing loans to gross loans ranges from 6% in Southern Africa to 13% in Central Africa. Non-performing loans have fallen in most regions over the last year, allaying fears about delayed asset quality issues arising from the COVID-19 pandemic. Capital to risk-weighted asset ratios range from 22% in Southern Africa to 11% in Central Africa. The increasing share of government debt on bank balance sheets, which typically attracts a zero-risk weighting, is inflating capital ratios and likely giving an overly optimistic view of solvency in some countries.

Profitability has generally been buoyant across the African regions, with return on equity varying from 32% in West Africa (data are available for only a few countries) to 15% in North Africa. The latest edition of our survey finds that, as seen in 2023, the high interest rate environment and the growth in business volumes for bonds and loans are supporting profitability.

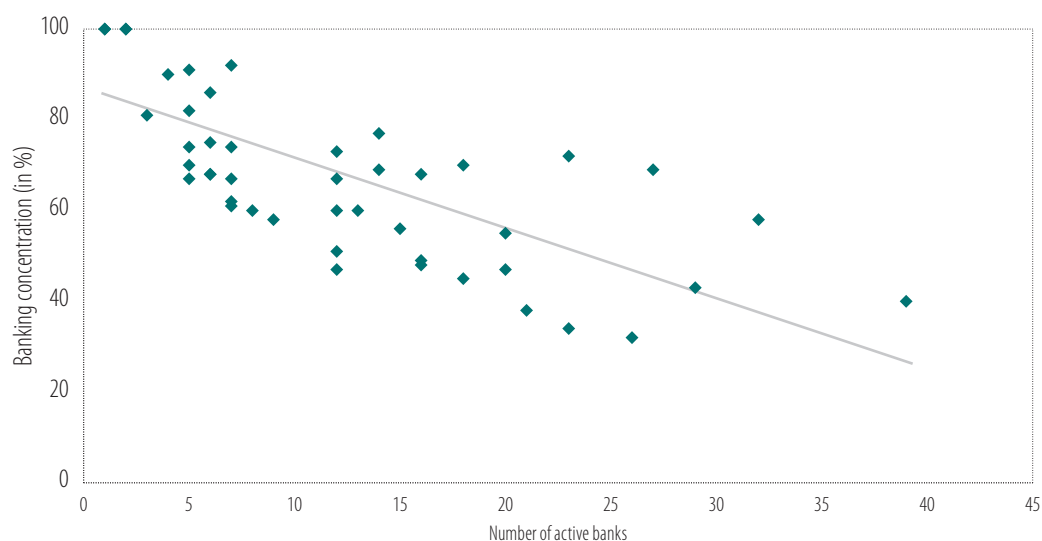
Based on results from our Banking in Africa survey, banks in Southern Africa were least likely to tighten credit conditions over the past 12 months, but are most likely to tighten them over the next 12 months. Last year, a net 14% of banks in Southern Africa tightened credit standards, compared with 44% in East Africa and 66% in West Africa. For the next 12 months, the situation is expected to deteriorate, with a net tightening planned by 57% of banks in Southern Africa, compared with 47% in East Africa and just 17% in West Africa. This planned tightening in Southern Africa might not be explained solely by banking factors, as the region has the lowest average non-performing loan ratio in Africa and the highest capital adequacy ratio (also known as the ratio of capital to risk-weighted assets). Instead, the planned tightening might partly be linked to heightened anxiety about economic conditions compared with banks in other regions of Africa.

The main factors constraining credit to small and medium-sized enterprises are poor credit history and lack of collateral, whereas lack of funding and asset quality are more prevalent for lending to larger corporates. East Africa is the only region where asset quality is one of the two main concerns for lending to small and medium-sized enterprises, probably due to the large share of Kenyan banks in the sample. For large corporates, loans are more frequently constrained by a lack of funding from banks, likely linked to the larger size of corporate loans.

A review of the pension industry in Southern Africa shows that between 2017 and 2021, pension fund assets grew steadily, led by South Africa, Namibia and Botswana. The consistent asset growth achieved by pension funds in these countries results from a good track record of returns on the investments. However, many pension funds require most of their funds to be invested locally, which is favourable to local financing but limits investment opportunities and hinders diversification. Pension funds in the region also primarily invest in traditional assets, such as equity, bonds and cash, further limiting portfolio diversification and risk management.

Competition remains weak in many regions. Key descriptive indicators are provided in Table 1 and are based on data from the International Monetary Fund (IMF), the World Bank and Moody's Analytics BankFocus. In 2023, 757 banks were operating in Africa: 228 in West Africa, 195 in Southern Africa, 140 in East Africa, 46 in Central Africa and 148 in North Africa.¹ Banking sector concentration, which is defined as the share of assets held by the three largest banks, tends to be high in Africa, ranging from 44% in West Africa to 69% in Central Africa (the average for emerging and developing economies is close to 60%). Across Africa, banking sector concentration is mainly linked to the number of banks, with more banks associated with lower concentration (Figure 1). In contrast, there is no meaningful relationship between banking sector concentration and credit depth.

Figure 1
Banking sector concentration vs. number of banks (dots represent individual countries)



Source: Bureau van Dijk and EIB staff calculations.

Note: $R^2=0.5115$ (R^2 conveys how much of the variation in banking concentration is explained by the number of active banks).

¹ Data from Moody's Analytics BankFocus. As the analysis focuses on bank lending to private sector firms, the following types of institutions were excluded: central banks, development institutions, microfinance institutions, mortgage banks, savings banks, investment banks, private banking/asset management companies, finance companies, non-banking credit institutions, securities firms, clearing institutions and investment and trust corporations.

Table 1
Key banking sector indicators, African sub-regions

| | Number of banks | Banking concentration (top three banks) | Credit to the private sector (% of GDP) | Annual credit growth (%) | Loan to deposits (%) | Non-performing loans (% of total loans) | Capital to risk-weighted assets (%) | Return on equity (%) |
|-----------------|-----------------|---|---|--------------------------|----------------------|---|-------------------------------------|----------------------|
| Southern Africa | 195 | 66.46 | 64.90 | 7.13 | 78.66 | 6.44 | 22.09 | 19.66 |
| West Africa | 228 | 44.32 | 16.69 | 28.51 | 60.27 | 8.86 | 12.01 | 31.68 |
| East Africa | 140 | 56.01 | 20.89 | 22.86 | 73.62 | 7.29 | 15.96 | 22.89 |
| North Africa | 148 | 66.55 | 37.32 | 15.97 | 50.20 | 9.66 | 18.17 | 15.14 |
| Central Africa | 46 | 69.00 | 11.19 | 29.35 | 69.20 | 13.01 | 10.52 | 24.58 |
| Africa | 757 | 60.47 | 36.00 | 20.77 | 66.39 | 9.05 | 15.75 | 22.53 |

Source: IMF Financial Soundness Indicators; World Bank DataBank data for sub-Saharan Africa; Moody's Analytics BankFocus data (combines content from Bureau van Dijk and Moody's Investors Service with expertise from Moody's Analytics).²

Note: Simple averages, with the exception of credit to the private sector as a percentage of GDP, which is GDP weighted, using data from the World Bank.

Based on our survey of sub-Saharan banks, profit expectations are mostly upbeat across regions, with Southern Africa having the highest share of banks (93%) expecting higher profits in the next 12 months. Although the share of survey responses for Central Africa is too low to provide reliable numbers, only 25% of banks in the region had expectations for higher profitability. Across all regions, changes in business volumes are the main factor driving increasing profits, followed by fee income and interest margins.

Economic conditions are the primary concern for banks in most areas of Africa, especially Southern Africa, where this concern is cited by 88% of banks, compared with 77% for sub-Saharan Africa. West Africa is the only region where economic conditions are not the primary concern (70% of banks), surpassed by concerns about asset quality (71%). Asset quality is also an issue for 64% of banks in East Africa, ahead of the sub-Saharan African average (53%). Another issue disproportionately affecting West Africa is lack of funding, at 44%, which is above the average for sub-Saharan Africa (35%). Cybersecurity concerns affect 29% of banks in sub-Saharan Africa. This ranges from 8% in West Africa to 48% in Southern Africa. With Nigeria as the continent's fintech hub, banks in West Africa might be more digitally advanced than other regions and have fewer cybersecurity concerns. Finally, banks in East Africa (45%) are more concerned about local currency funding costs and availability compared with the average (33%).

This chapter analyses the performance of each region in turn, reviewing market structure, balance sheet metrics and results from the 2024 EIB Banking in Africa survey. The survey only covers sub-Saharan Africa and the response rate for the survey was low for Central Africa. Therefore, the sections on North and Central Africa in this report do not include any regional survey results.

Banking in North Africa

Although North Africa has a comparatively large number of banks, banking concentration is relatively high. North Africa is not covered by the EIB Banking in Africa survey, therefore the analysis in this section relies on data from International Monetary Fund Financial Soundness Indicators, the World Bank DataBank and Moody's Analytics BankFocus (see Table A1 in the Appendix for a summary of the data). The Egyptian

² Moody's Analytics BankFocus (for subscribers).

banking sector has seen gradual consolidation, with the number of banks at 36 currently, down from 57 in 2004. Banking concentration is relatively high, as the three largest banks account for about 69% of total assets. State-owned banks control a substantial share of system assets. With total assets of about 130% of GDP, the Moroccan banking sector consists of 24 banks, including 19 conventional banks (three of which have Islamic windows, that is, a section offering financial products that are compliant with Islamic or Sharia law) and five Islamic banks. The structure of the Moroccan banking system is characterised by its high concentration, with the three largest banks accounting for about 62% of total banking sector assets. The share of public banks has been declining over the past two decades to 22% of total assets in 2023, from around 40% in 2002. With the entry of Banque Nationale de l'Habitat, the Algerian banking system comprises 28 banks and financial institutions, of which 12 offer products and services relating to Islamic finance. In 2022, Tunisia had 45 licensed banks and financial institutions, up from 44 in the previous year, following the licensing of two payment institutions and the liquidation of one bank. Activity in the Tunisian banking sector remains dominated by domestic banks, which account for 93% of total assets.

Credit provision to the private sector differs considerably across North African economies (Figure 2). Morocco boasts one of the deepest and most sophisticated banking systems in Africa, with private sector credit accounting for 88% of GDP. Large Moroccan banks have expanded their activities across North Africa and sub-Saharan Africa and are present in about 45 countries. Cross-border exposure for the three largest banks accounts for about 27% of their assets. At 62% of GDP, Tunisia also has a high share of private sector credit. Across the region, Tunisia has the highest ratio of loans to deposits, with credit at 106% of deposits in 2022, up from 104% in the previous year. Nevertheless, all banks remained below the regulatory ceiling of 120%, thanks to their efforts to mobilise deposits. At 31% of GDP, Egypt has a markedly lower volume of private sector credit compared with Morocco and Tunisia. Egyptian banks hold a significant share of their assets in Treasury bills. The high share of claims on the government reflects the high level of public debt, which is held mainly by the domestic banking system. At the end of financial year 2022/23, banks' claims on the public sector stood at 58% of GDP. In Algeria, the share of private sector credit amounts to only 21% of GDP. This reflects the state's substantial involvement in the economy as the credit attributed to the economy by public banks increased more (5% annually in 2022) relative to that provisioned by private banks (2% annually in 2022), with public banks distributing 43% of total credit in the economy, vs. 57% by private banks.

In some economies, nominal credit growth did not translate into positive real credit growth, due to elevated inflation rates. Algeria and Tunisia registered negative credit growth in real terms. Inflation rates of 9% in both countries exceeded credit growth of 5% in Algeria and 4% in Tunisia (Figure 2). In contrast, in Egypt, private sector credit grew by 26%, while average consumer prices increased by 24%. In Morocco, consumer prices and private sector credit both grew by 6%.

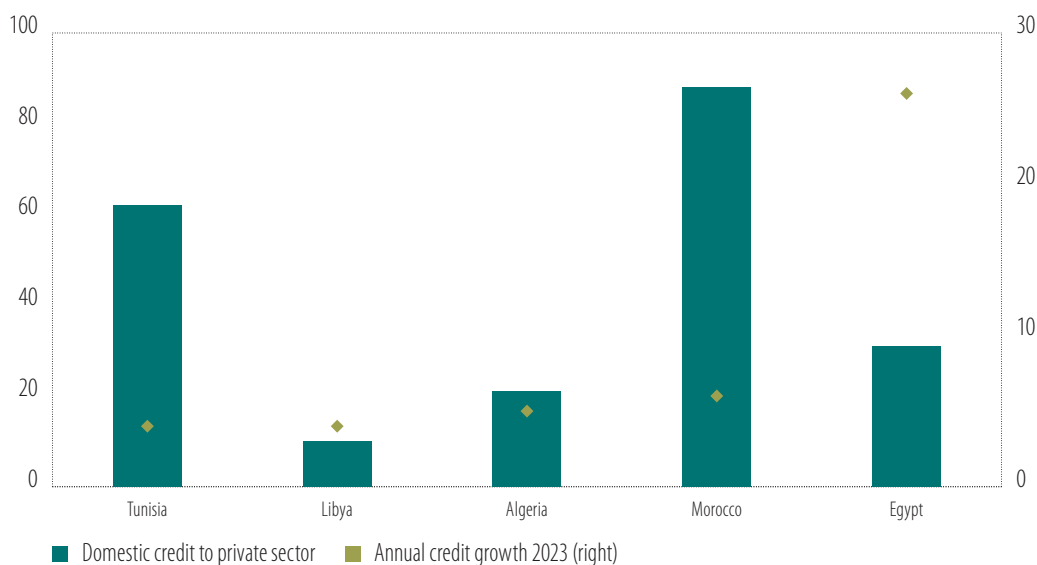
Bank capital ratios in North Africa comfortably exceed regulatory requirements. In Algeria, the total capital ratio and the Tier 1 capital ratio³ were 21.5% and 17.7%, respectively, at the end of 2022, which are stable compared with the previous year (21.6% and 17.7%, respectively) and exceed the regulatory minimum. In Morocco, aggregate capital adequacy ratios were 15.8% for the total capital ratio and 12.9% for the Tier 1 capital ratio as of the second quarter of 2023. Both ratios exceed the regulatory minimum of 12% and 9%, respectively, by a comfortable margin. In 2023, Morocco introduced capital surcharges for the three systemically important banks – those whose failure might trigger a financial crisis. Their minimum Tier 1 capital ratio will increase to 11% by 2025. The International Monetary Fund considers systemic risks to the financial system limited and does not see significant solvency risks or recapitalisation needs.

In Egypt and Tunisia, exposure to governments with weak creditworthiness raises concerns about capital adequacy. Ostensibly, Egyptian banks exhibit capital adequacy metrics that comfortably exceed the regulatory minimum of 10%. Bank capital mainly consists of high-quality Tier 1 capital. However, bank capital appears low when adjusting risk weights to reflect the risk of government securities. According to Moody's, the Central Bank of Egypt applies a 0% risk weight on banks' holdings of Egyptian government

3 This is the ratio of the bank's Tier 1 capital – comprising equity capital and disclosed reserves – to its risk-weighted assets.

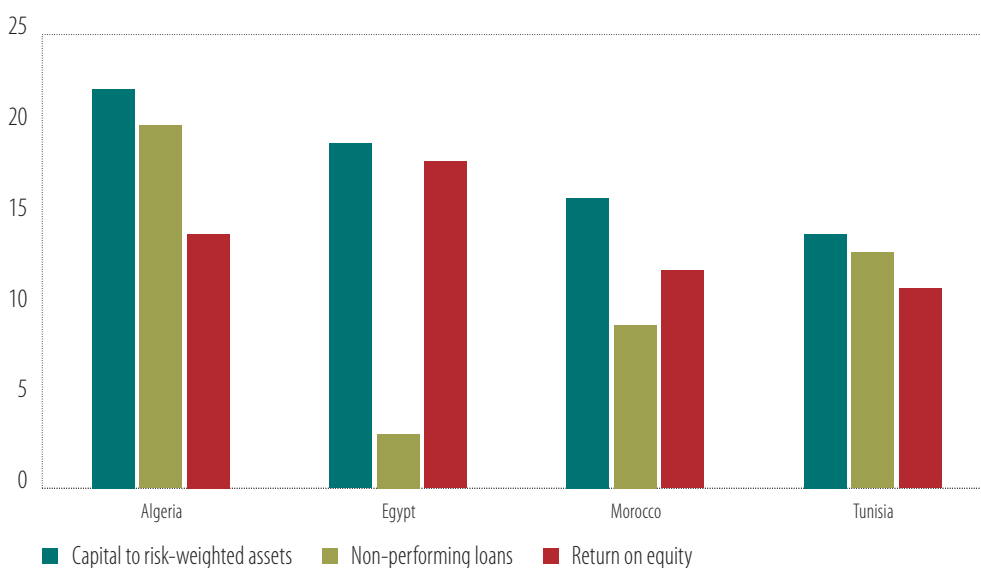
securities. Adjusting the risk weights to mimic the credit risk of Caa1-rated government securities yields a ratio of tangible common equity to risk-weighted assets of 7.6%. Similar considerations apply to Tunisia, which has a lower sovereign risk rating than Egypt. In 2022, risk-weighted assets increased at a slower pace than net equity. As a result, capital adequacy of the overall Tunisian banking system increased to 14% of risk-weighted assets in 2022 from 13.3% in 2021, and the Tier 1 capital ratio increased to 10.9% in 2022 from 10.3% in 2021.

Figure 2
Credit to the private sector (left axis: % of GDP; right axis: in %)



Source: World Bank and BankFocus.

Figure 3
Solvency, profitability and asset quality indicators, North Africa (in %)



Source: IMF, World Bank and BankFocus.
Note: 2023 or latest available data.

Asset quality varies widely across North African economies. Algeria has the highest ratio of non-performing loans to gross loans by a considerable margin (Figure 3). This reflects the high concentration of state-owned enterprises in banks' loan portfolios and supervision practices that discourage banks from writing off loans – which results in legacy non-performing loans lingering on balance sheets, causing a higher overall non-performing loan ratio. The non-performing loan ratio increased marginally in 2022 to 19.9%, from 19.6% at the end of 2021. At the same time, loan loss provisions increased to 50% at the end of 2022, from 48.7% in 2021. In Tunisia, the quality of the loan book improved over the same period, with non-performing loans dropping to 12.6% of the total loans in 2022, from 13.1% in 2021, due to write-offs. Provisioning decreased slightly to 55.1% of non-performing loans in 2022, from 57.2% in 2021. In Morocco, the ratio of non-performing loans remained stable at 8.6% in 2023. However, private sector companies recorded slightly higher loan delinquency rates, as some enterprises faced difficulties in repaying the subsidised loans extended during the COVID-19 pandemic. Egypt has the lowest rate of non-performing loans in North Africa – 3.3% at the end of the third quarter of 2023, according to the central bank. Non-performing loans in Egypt have declined steadily in recent years, including during the COVID-19 pandemic, due to government support measures, improved risk management and central bank arbitration.

The North African banking sectors display solid profitability metrics. During 2022, the Algerian banking sector continued reaping the results of various measures taken by the Bank of Algeria to contain the effects of the health crisis combined with the results linked to the resumption of economic activity. Consequently, the return on equity was 13.5% in 2022 (Figure 3), up from 11.6% in 2020. In Tunisia, accelerating economic activity, higher interest rates and improved risk profiling of loans supported the profitability of the banking system, with return on equity increasing to 10.8% in 2022, from 9.1% in 2021. Similarly, higher interest rates supported bank profitability in Morocco, which also benefited from low-cost funding through current and savings accounts. As a result, return on equity for Morocco improved to 11.8% in the first half of 2023, from 10.9% the previous year. Although Egypt experienced foreign currency shortages and weakening economic activity, the return on equity of Egyptian banks increased to 17.7% at the end of the third quarter of 2023, up from 16.1% in the previous year.

A strong connection between governments and banks is an important systemic risk in North Africa. In Tunisia, the bank-sovereign nexus has intensified over the years, with claims on the government accounting for 13% of system assets in November 2023, up from 8% a decade earlier. Likewise, the Egyptian authorities rely heavily on the domestic banking system to meet their refinancing needs. After the Egyptian revolution of 2011, banks' claims on the public sector peaked at 61% of GDP in the financial year 2015/16, resulting in a strong bank-sovereign nexus. Exposure to government securities still accounts for several times the value of bank equity today, leaving banks vulnerable to a decline in the creditworthiness of the government.

Banking in West Africa

Banking sector competition is weak among the small and fragile West African economies. The banking sector in West Africa comprises 228 banks, most of them located in the West African Economic and Monetary Union⁴ (see Table A2 in the Appendix and Figures 4 and 5 for data of key banking indicators in individual countries in West Africa). The largest countries in the region feature more competitive banking sectors, with the top three banks holding less than 50% of banking assets in Ghana (32%), Senegal (34%), Côte d'Ivoire (38%) and Nigeria (43%). Smaller, more fragile economies have highly concentrated banking systems with low levels of intermediation, signalling weaker competition and more expensive lending.

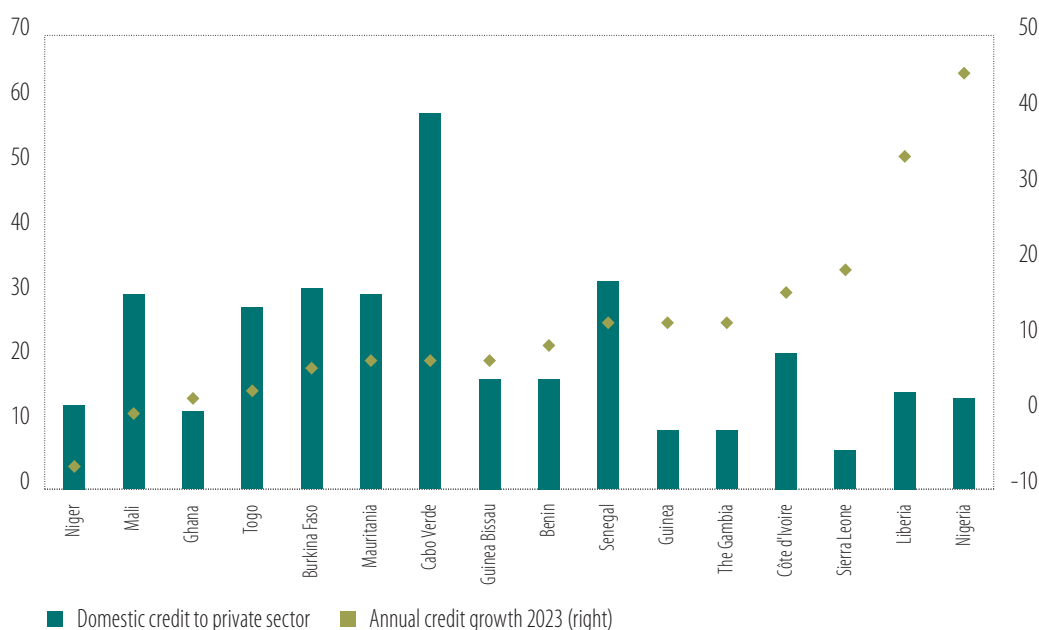
The banking sector in Nigeria – the region's largest economy – is dominated by domestic lenders, and financial intermediation is low. The stock of domestic credit is just 14% of GDP. Credit to the private

⁴ The West African Economic and Monetary Union includes Benin, Burkina Faso, Guinea-Bissau, Côte d'Ivoire, Mali, Niger, Senegal and Togo, with an average GDP per capita of \$1 710 (\$4 674 in purchasing power parity) in 2023.

sector grew by 19% in 2022, matching the rate of inflation, meaning real credit growth was close to zero. In 2023, however, private sector credit grew by 45% following a sharp acceleration in the second half of 2023, together with rapid growth in the money supply. As of March 2024, private sector credit was growing at 66% year over year, despite fresh monetary tightening. This growth has contributed to the upward trend in inflation.

The Central Bank of Nigeria announced higher capital requirements for banks that must be satisfied by the first quarter of 2026 (Central Bank of Nigeria, 2024a). The sector’s capital adequacy ratio fell to 11.2% in the second quarter of 2023, from 15.1% in 2020. This drop was driven by growth in risk-weighted assets, partly linked to currency devaluation, and growing loan loss provisions. The central bank also observes that the ability of banks to withstand losses is diminishing (Central Bank of Nigeria, 2024b). These factors have led to new capital requirements, which are likely to increase equity issuance and merger and acquisition activity in the sector. Nigerian banks have seen their non-performing loan ratio increase slightly to 4.4% in the final quarter of 2023, following a decline to 4% in 2022 from 6% in 2020. Nigeria’s non-performing loan ratio is currently one of the lowest in the region, partly due to tight lending standards by banks.

Figure 4
Credit depth and credit growth, West Africa (left axis: % of GDP; right axis: in %)



Source: World Bank and BankFocus.

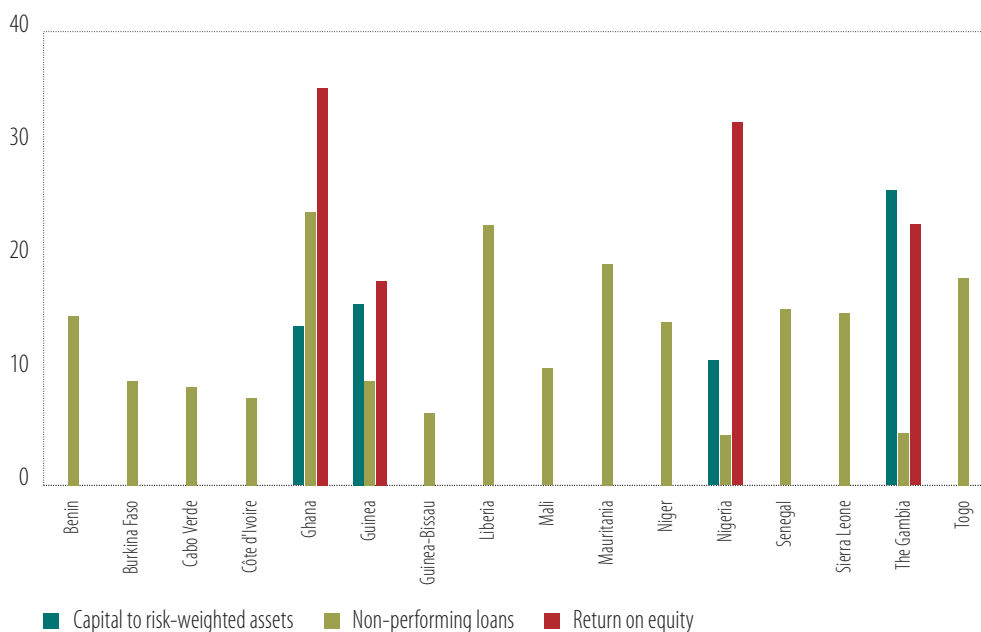
Like Nigeria, credit depth is shallow in Ghana (12% of GDP), but credit growth has decelerated rather than accelerated. Credit growth was brisk in 2022, growing at more than 30% year over year in December 2022. However, this growth partly reflected exchange rate effects on foreign currency debt. Following the sovereign default in December 2022, credit growth slowed to an average of 1.9% for 2023, even reaching a low of -9.5% year over year in October 2023. In April 2024, the central bank introduced a new cash reserve ratio for boosting credit growth to the economy, with higher reserve requirements for banks with lower loan-to-deposit ratios. The lowest reserve ratio applies to banks with a loan-to-deposit ratio above 55%, but most banks have ratios below 40% and seven banks are close to 20%. Fitch (2024) reports that if banks remain risk averse and prefer not to lend to the real economy, then the new rules might simply drain profitability in the sector.

The Central Bank of Ghana had to increase interest rates to combat inflation, which peaked above 50% year over year. Bank of Ghana data show that commercial bank lending rates increased to 34% in

December 2023, from 20% in January 2022. This indicates a high tendency for changes in the policy rate to be reflected in banks' commercial lending rates. However, lending rates declined in the first half of 2024. High interest rates and high inflation have led to a surge in the rate of non-performing loans, which were already high at 15% in December 2022 when the country went into sovereign default. The rate of non-performing loans has now increased to 24%, as of June 2024. The capital adequacy ratio declined to 14.3% in June 2024, from 19.6% in December 2021, due to a combination of mark-to-market losses on investments linked to the domestic debt exchange and an expansion of risk-weighted assets. The actual capital adequacy of banks may be weaker than conveyed by the official numbers, as Bank of Ghana gave banks four years, from 2022 to 2025, to introduce impairment charges from the domestic debt exchange on capital. Recognising the weakened capital position of banks, Bank of Ghana also reduced the minimum capital adequacy ratio to 10% from 13% on 31 December 2022.

For West African Economic and Monetary Union banks, loan book quality is improving, and provisions are decreasing, resulting in better profitability. Credit grew faster than deposits for West African Economic and Monetary Union banks, with credit at 82.2% of deposits in mid-2023, up from 76.3% in 2021. Retail and wholesale trade, restaurants and hotels absorbed the largest share of credit (28.4%), followed by other services (22.4%) and manufacturing (11.7%), while agriculture absorbed only 4.1% of total credit. Overall, the quality of banks' loan portfolios kept improving, with the non-performing loan ratio falling to 8.7% in mid-2023 from 10.3% in 2021. The provision coverage of non-performing loans dropped to 64.5% in mid-2023, from 68% in 2022, sustaining the return on assets of the banking system to 1.5% in 2022, unchanged relative to the previous year. The profitability of West African Economic and Monetary Union banks was further aided by rising interest rates that improved the banks' interest rate margins.

Figure 5
Solvency, profitability and asset quality indicators, West Africa (in %)



Source: IMF, World Bank and BankFocus.

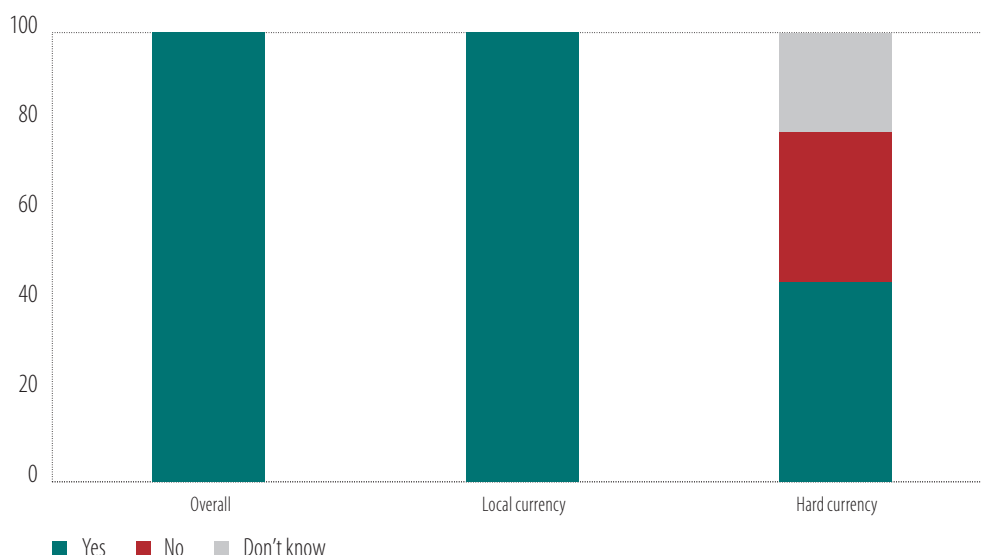
West African Economic and Monetary Union banks are mostly well capitalised, except in Guinea-Bissau and Togo. The capital adequacy ratio for West African Economic and Monetary Union banks improved to 13.2% of risk-weighted assets in mid-2023, from 12.4% in 2021, which is above the 11.5% regulatory threshold. Across the West African Economic and Monetary Union, 114 credit institutions complied with the solvency standard at the end of December 2022. These supervised institutions account for 91.3%

of banking assets and 95.2% of exposures in the union. Nevertheless, there are considerable disparities across countries in the West African Economic and Monetary Union. For example, in Guinea-Bissau only two of six banks abide by capital solvency standards, and in Togo only 11 of 17 banks are in line with regulatory capital requirements. The authorities' recent stress tests confirm banks' vulnerabilities to credit, liquidity and sovereign shocks.

The dependency between West African Economic and Monetary Union banks and governments is still strong. Banks' sovereign exposures stood at about 34% of domestic assets in 2023, up from 27% at the end of 2019. The highest increases were observed in Burkina Faso, Niger and Senegal. The International Monetary Fund's Financial Sector Stability Assessment report based on the [Financial Sector Assessment Program](#) with the West African Economic and Monetary Union recommended the use of capital surcharge requirements under Basel Pillar 2 to address these risks. These surcharges would help manage concentration and interest rate risks in the West African Economic and Monetary Union region. All systemically important banks have produced preventative restructuring plans, which were used as a basis for adopting resolution plans for 20 systemic banks in 2023, with the West African Economic and Monetary Union Banking Commission expecting to adopt resolution plans for the remaining 12 systemic banks by mid-2025. Legislative measures required for the full implementation of the resolution framework are considered in the new 2023 banking law.⁵

West African banks responding to the EIB Banking in Africa 2024 survey expect to expand their activity in the next 12 months, especially for local currency lending (Figure 6). All surveyed banks are planning to expand their operations and funding in the next 12 months, which is a higher response than in previous waves of the survey (77% in 2023, 92% in 2022 and 80% in 2021). This result might reflect an expectation among the survey participants that central banks will soon ease their policy stance as inflationary pressures abate. Funding ambitions are more modest in hard currency in the next 12 months (44% of banks) following marked local currency depreciation vs. the US dollar.⁶

Figure 6
Over the next year, do you expect to increase your overall funding? (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Note: Local and foreign currency data are the results for banks answering "yes" in the "overall" category.

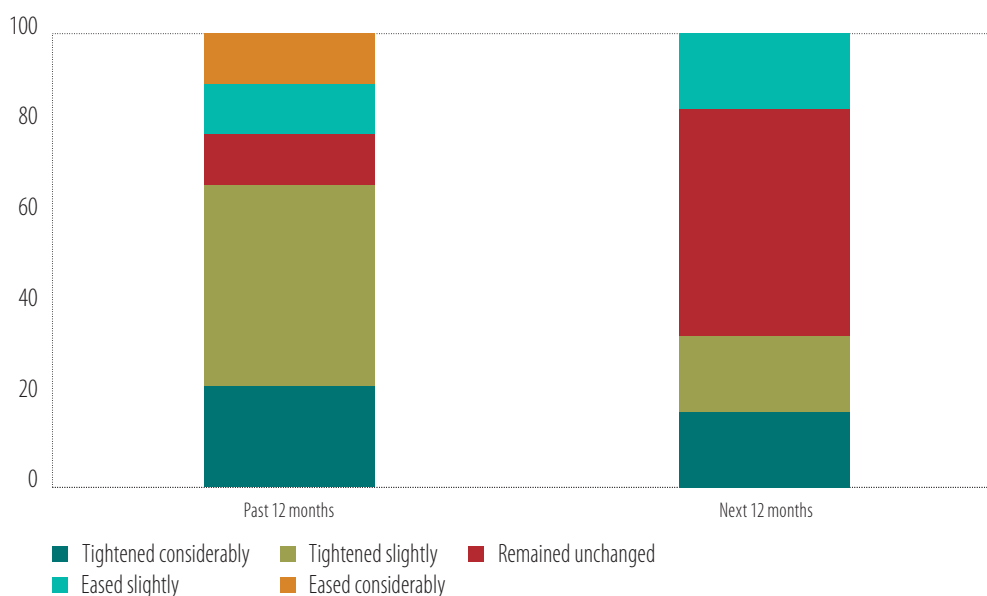
5 See the *Communiqué de presse de la session ordinaire du Conseil des Ministres de l'Union* for the decision by the West African Economic and Monetary Union finance ministers adopting the new banking law. The text of the law will not be available until all West African Economic and Monetary Union parliaments ratify it.

6 The average depreciation of African currencies vs. the US dollar was 14.5% in 2023. However, the depreciation rate was higher for currencies in West Africa, where the average depreciation relative to the US dollar was 17.5% in 2023, led by Nigeria (49.5%), Liberia (18.5%), Sierra Leone (17.2%) and Ghana (15.6%).

Credit standards tightened more than expected over the past 12 months and further tightening is anticipated. In the 2023 survey, most banks in West Africa expected their credit standards to remain unchanged in the following 12 months (58%), while one in three banks anticipated further tightening. The one-third of banks planning a tightening last year appeared to be expecting further central bank rate increases. However, 66% of the banks surveyed in 2024 reported that they had tightened their credit standards in the past year, considerably more than originally planned. Many banks in the region could not absorb higher interest rates and passed some of the cost to end-clients, which weighed on the region's credit growth. Going forward, half of the West African banks surveyed in 2024 anticipate that credit standards will remain unchanged, while one-third of the banks anticipate a further tightening in lending standards (Figure 7). Thus, further tightening is planned, but at a slower rate than last year.

Figure 7

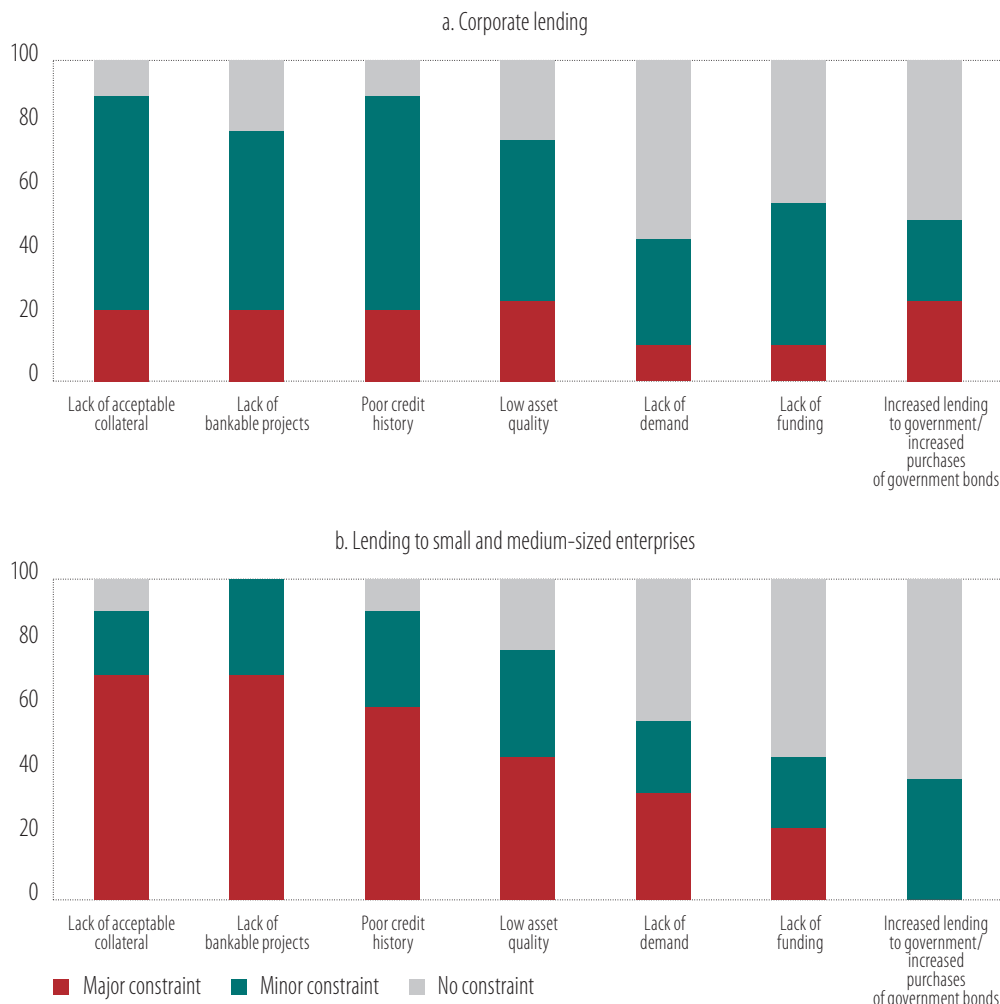
How credit standards have changed/will change (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Poor credit history and a lack of acceptable collateral are still key factors constraining corporate lending in West Africa (Figure 8). Many responding banks consider these two factors major constraints for small and medium-sized enterprises but minor constraints for large firms. Lack of bankable projects was reported to be equally problematic in the region and low asset quality was the fourth most-cited barrier to lending – although the rate of non-performing loans varies considerably among West African countries, so this issue is very country-specific. Although lending to government is not seen by banks as a major constraint to lending to small and medium-sized enterprises, a quarter of banks consider it a major constraint to lending to larger corporates. Therefore, crowding out seems to be affecting high-value loans rather than low-value loans.

Figure 8
Factors constraining credit supply, West Africa (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Banking in East Africa

East Africa has a total of 140 banks (Table A3 in the Appendix), with a bank concentration of 56%, as measured by the weighted average of the share of assets held by the three largest banks. Burundi, Djibouti, Ethiopia, Tanzania and Rwanda have a high bank concentration (over 60%), denoting weak competition, low financial intermediation and high lending rates. In contrast, Kenya and Uganda have the lowest bank concentrations, at 40% and 47%, respectively, suggesting that competition in the region tends to be higher in countries with larger numbers of banks and greater credit depth.

Credit markets typically remain shallow, although some countries are seeing considerable credit growth (Figure 9). In 2023, credit to the private sector in East Africa was 21% of GDP, with Burundi and Kenya having the highest shares at 42% and 32%, respectively, followed by Rwanda (23%) and Djibouti (20%). Conversely, Ethiopia, Uganda and Tanzania have the lowest ratios of credit to GDP at 18%, 15% and 15%, respectively, despite each having numerous banks. Kenya remains the most advanced financial

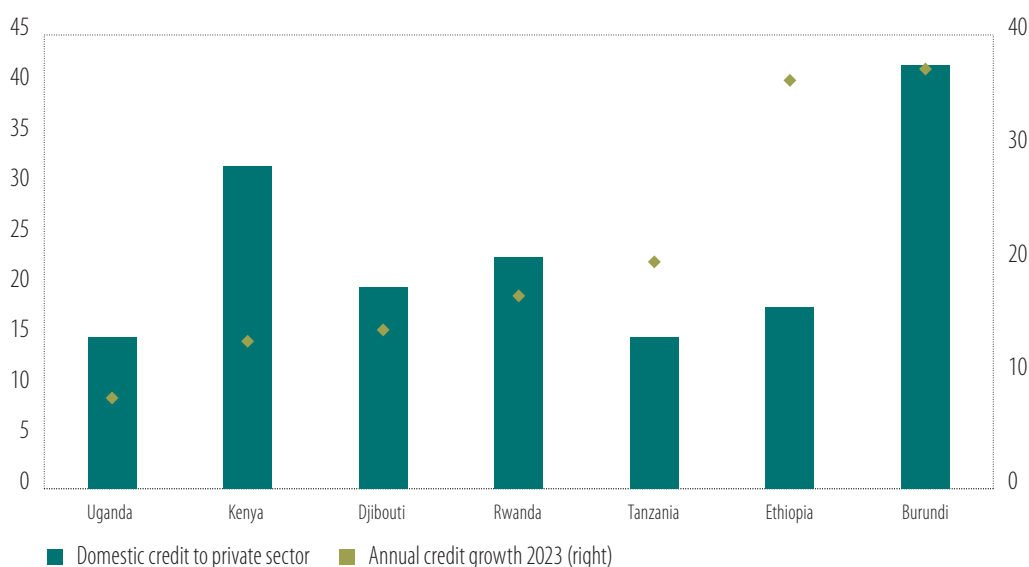
market in East Africa. According to 2022 Global Findex data,⁷ it leads the region in financial inclusion, with 79% of the adult population having an account at a bank or other type of financial institution or using a mobile money service. Kenya is followed by Uganda (66%), Tanzania (52%) and Ethiopia (46%). For the whole of sub-Saharan Africa, financial inclusion stands at 55%.

Credit growth rates accelerated in East Africa in 2023 compared with 2022. Factors contributing to this growth include better financial infrastructure, greater investor confidence and government policies aimed at promoting entrepreneurship and investment. While countries like Kenya, Tanzania and Uganda have witnessed rising credit availability for businesses, challenges persist in ensuring that credit reaches small and medium-sized enterprises and in addressing high interest rates. Although credit growth has been robust, loan-to-deposit ratios remain below 100% in almost all countries, with a weighted regional average of 74%, indicating limited risks of excessive lending.

At the country level, Burundi recorded the highest nominal annual credit growth at 37%, driven by an improving business climate. Ethiopia followed closely with 36%, rebounding due to intensified economic recovery measures following the end of the Tigray War in November 2022, although the inflation rate was 30% in 2023. Uganda experienced the lowest credit growth at 8%, due to excessive government borrowing that crowded out private sector credit, as discussed in Chapter 1 under the severity of crowding out. The surge in domestic sovereign borrowing in Uganda resulted from the World Bank freezing financing for new projects after the country passed a controversial anti-LGBTQ law in May 2023.

Figure 9

Credit depth and credit growth, East Africa (left axis: % of GDP; right axis: in %)



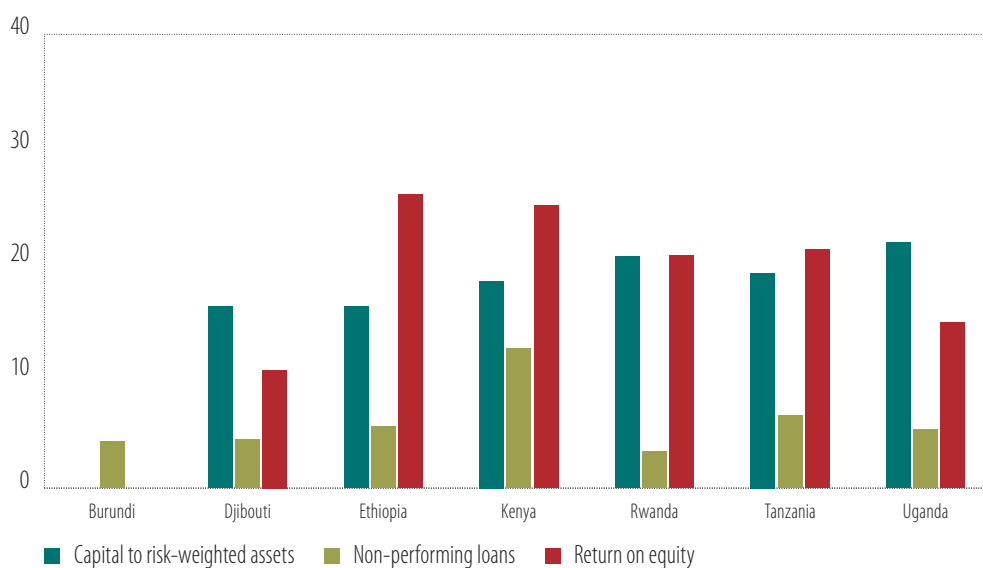
Source: World Bank and BankFocus.

The banking sector in East Africa remained resilient and stable, despite experiencing persistent global inflation, higher borrowing costs and exchange rate depreciation. The soundness and stability of the financial sector were maintained through adequate capital and liquidity levels (Figure 10), which remained above the minimum requirements. However, increased liquidity pressure caused the weighted average capital adequacy ratio for the region to decline to 16% in 2023, from 19% in 2022, with Rwanda and Uganda recording the highest capital ratios, of over 20% of risk-weighted assets.

⁷ Available in the Global Findex database.

Profitability was broadly unchanged compared with the previous year, with an average return on equity of 23% and a low non-performing loan ratio. Despite the challenging economic environment, the share of non-performing loans to total assets was 6.5% or less in all countries except Kenya, because of tight, prudent measures that ensured asset quality. However, banks showed a preference for lending to the government rather than the private sector, intensifying the bank-sovereign nexus, which could lead to a deterioration in asset quality in the event of sovereign defaults and financial stability risks due to maturity mismatches, asset concentration and illiquidity. Enhancing supervisory standards and policy measures should mitigate these risks and maintain financial sector stability.

Figure 10
Solvency, profitability and asset quality indicators, East Africa (in %)



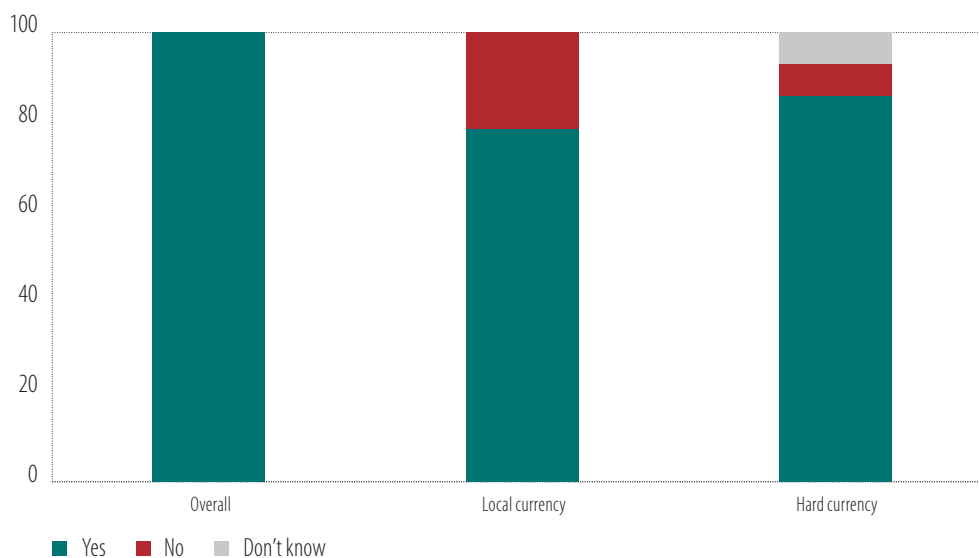
Source: IMF, World Bank and BankFocus.

All East African banks that responded to the 2024 EIB Banking in Africa survey anticipate increasing their overall funding (Figure 11), which is an increase from 2023, when 90% expected to increase their overall funding. The expansion of funding is expected in local currency (79%) and foreign currency (86%), indicating enhanced financial deepening and higher liquidity needs given that some countries are facing high debt levels. The share of banks expecting to increase hard currency funding in East Africa is considerably higher than in other regions of Africa.

Banks in East Africa tightened their credit standards over the past year and expect further tightening in the next year (Figure 12). The proportion of banks that indicated a tightening of their credit standards over the last 12 months (63%) is much higher than the proportion that indicated an easing of credit conditions (19%), implying a net tightening by 44% of banks. Similarly, over the next 12 months, banks will continue tightening credit standards, with a net tightening of 47% expected. There are several potential reasons behind this planned tightening, including scarce funding, asset quality concerns in some countries and a continued preference for lending to the government.⁸

8 Regional economic outlook: Sub-Saharan Africa 2024 (IMF, 2024).

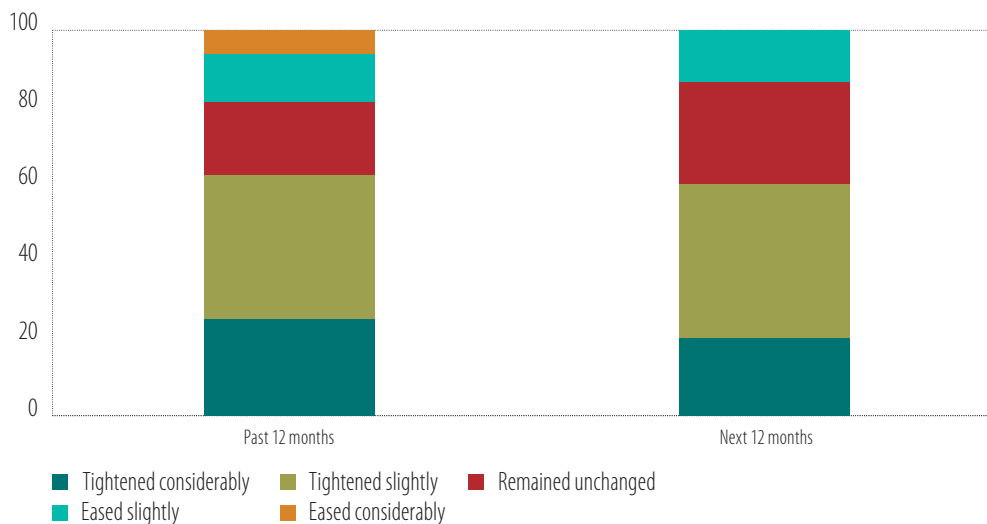
Figure 11
Over the next year, do you expect to increase your overall funding? (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Note: Local and foreign currency data are the results for banks answering "yes" in the "overall" category.

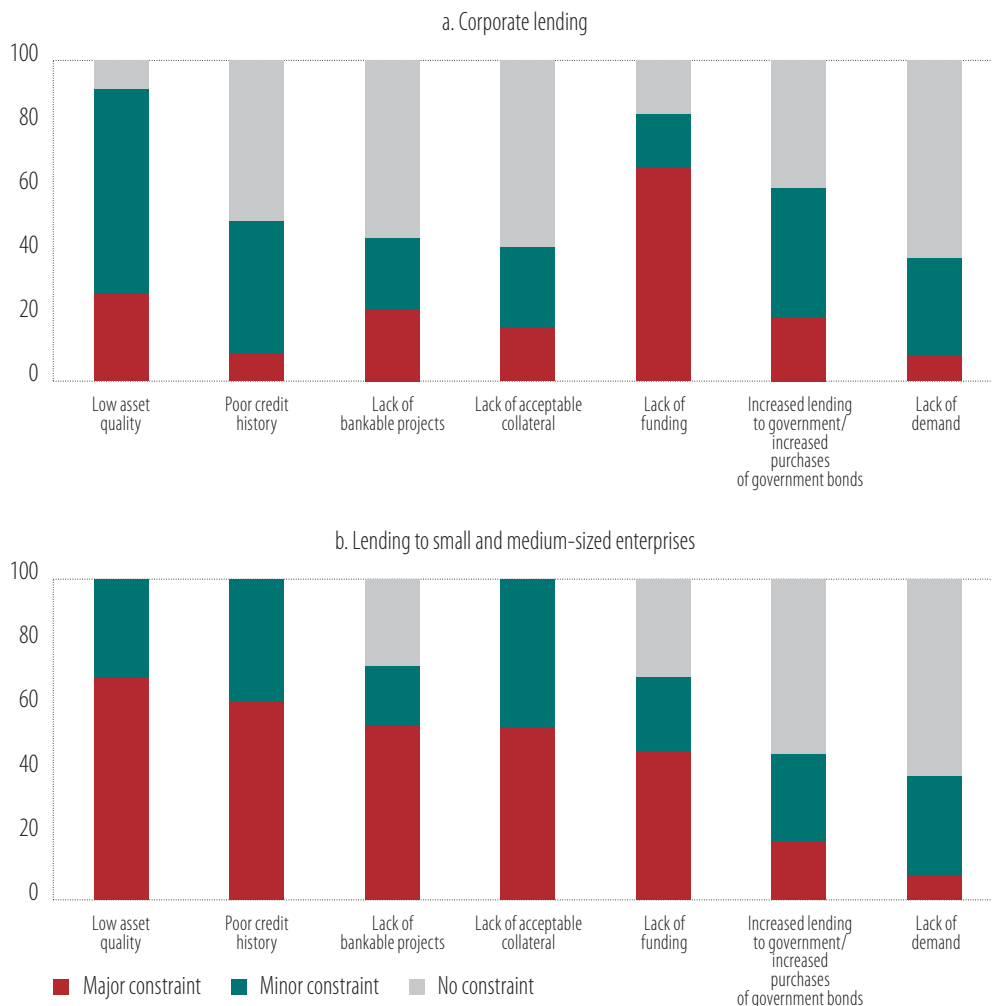
Figure 12
How credit standards have changed/will change (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

The main factor constraining credit supply to corporates in East Africa is a lack of funding, while various factors, including low asset quality and poor credit history, impede lending to small and medium-sized enterprises (Figure 13). The constraining factors are in both supply and demand, suggesting that credit supply might improve as the financial conditions ease and geopolitical risks that disrupt supply chains fade. However, it also suggests that structural policy measures might be needed to fully unlock credit supply to companies, and particularly to small and medium businesses. This need is likely to be even stronger in the current economic recovery period when there is weaker external demand amid high borrowing costs.

Figure 13
Factors constraining credit supply, East Africa (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

A detailed analysis of banking sector performance in Kenya – largely informed by the 2024 EIB Banking in Africa survey – is presented in Box 1. Seven banks from Kenya responded to our survey in 2024, which is the largest response rate for any country.

Box 1
Banking developments in Kenya and EIB survey responses

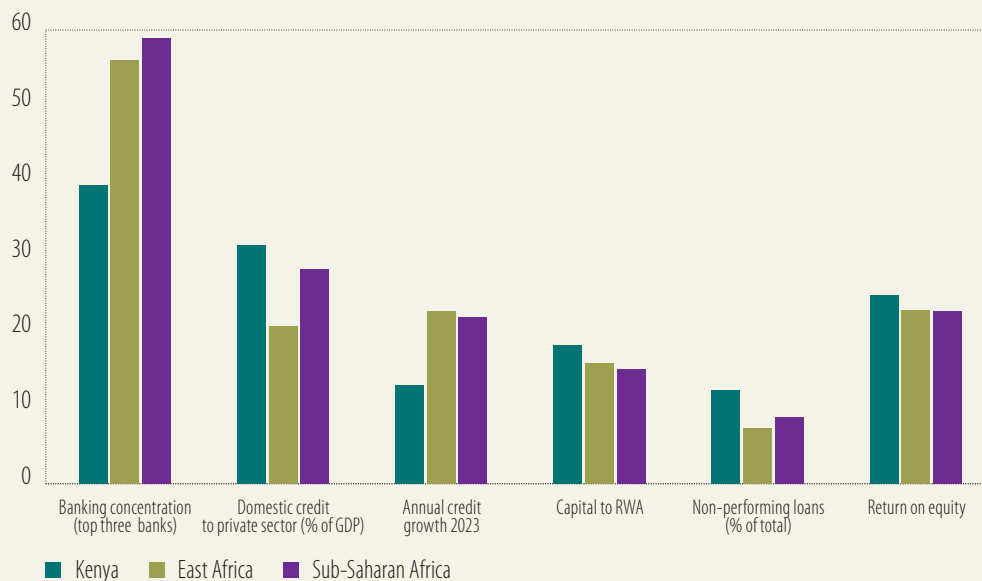
Kenya has the most developed and competitive financial sector in East Africa. Domestic credit to the private sector is 32% of GDP in Kenya, which is above the average of 21% in East Africa and just below the 36% average in sub-Saharan Africa (Figure 14). Although the Kenyan stock market was ranked as the world’s worst performer in 2023 when the All-Share stock index plunged by 43%, a swift reversal means it is now ranked as the best-performing market, with the index surging by 49%.⁹ Kenya has the

⁹ Kenya Stocks: BlackRock Says World’s Best Performer Offers Value - Bloomberg.

lowest banking sector concentration at 40%, compared with 56% and 59% for East Africa and sub-Saharan Africa, respectively, pointing to higher competitiveness. In terms of profitability, the Kenyan banking sector remains one of the most profitable, with a return on equity of 25% compared with 23% for East Africa and sub-Saharan Africa. However, asset quality remains a concern in Kenya, with the non-performing loan ratio at 13%, compared with 7% and 9% for East Africa and sub-Saharan Africa, respectively.

Figure 14

Key banking sector indicators (in %)

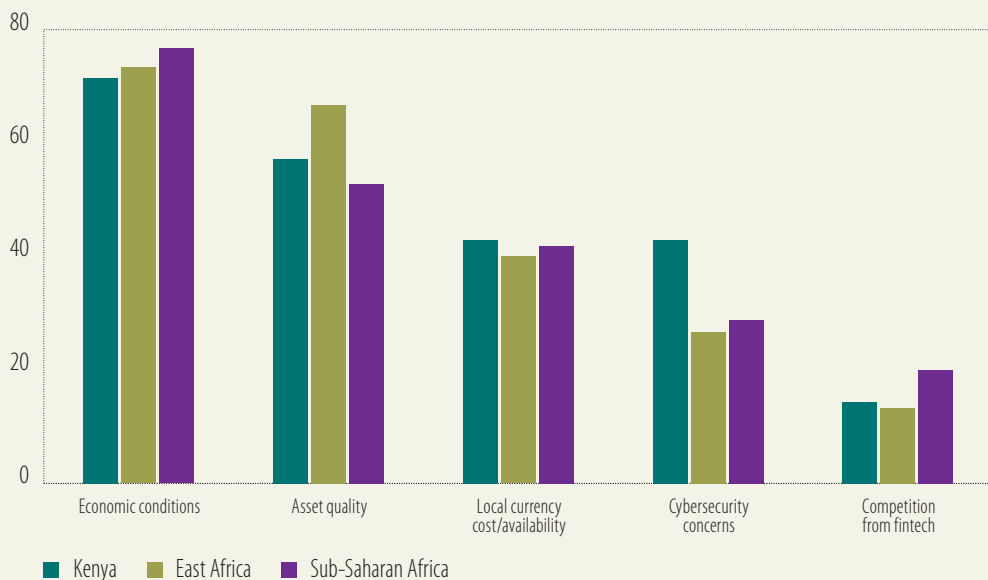


Source: IMF, World Bank and BankFocus.

According to the 2024 EIB Banking in Africa survey, economic conditions and asset quality are the main concerns for banks in Kenya. Recent global shocks coupled with persistent high inflation have left economies struggling with increased interest rates. Accordingly, 71% of Kenyan banks cite economic conditions as their main concern (Figure 15). Although asset quality is weaker in Kenya compared with other regions, it is a concern for 57% of banks in Kenya, a proportion that is marginally above the sub-Saharan African average but below the 67% of banks in East Africa that are concerned about this factor. The biggest difference in factors affecting banks is the 43% of banks in Kenya concerned about cybersecurity, compared with less than 30% of banks for East Africa and sub-Saharan Africa. This result might reflect the high penetration of digital finance in Kenya.

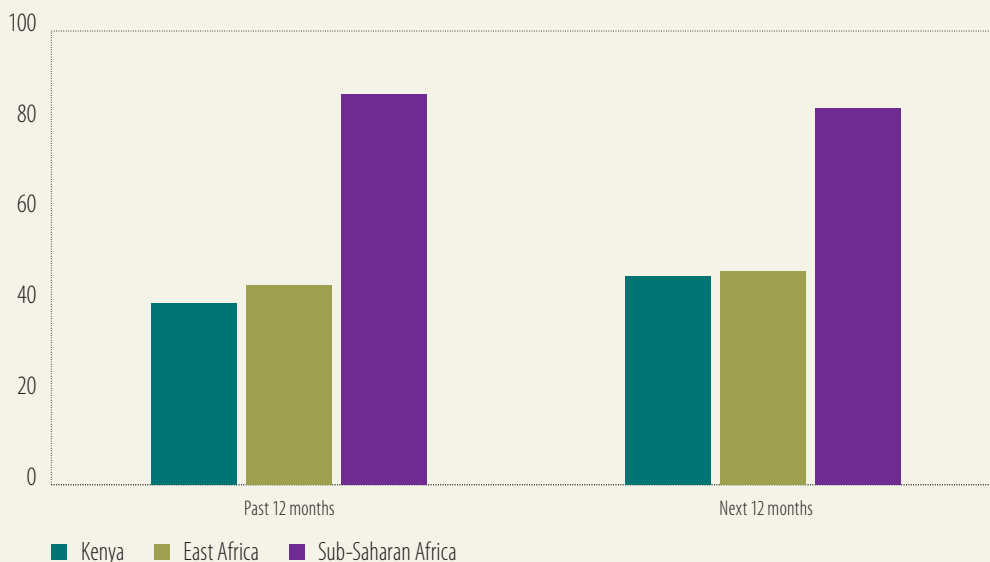
Kenyan banks are tightening lending standards considerably more than other banks in East Africa or sub-Saharan Africa (Figure 16). In the past 12 months, a net 86% of banks in Kenya tightened their credit standards, which is more than double the rate observed for East Africa or sub-Saharan Africa. This disparity is expected to persist, with a net 83% of Kenyan banks expecting to further tighten credit standards in the next 12 months, well above the 46-47% of banks planning such tightening in East Africa and sub-Saharan Africa. Although Kenyan banks do not report being more worried about asset quality than other banks in sub-Saharan Africa, lending standards are being tightened more aggressively, presumably to stabilise asset quality.

Figure 15
Over the next year, what will be the biggest factors affecting your business?
 (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Figure 16
Net tightening in credit standards by region (% of responding banks)

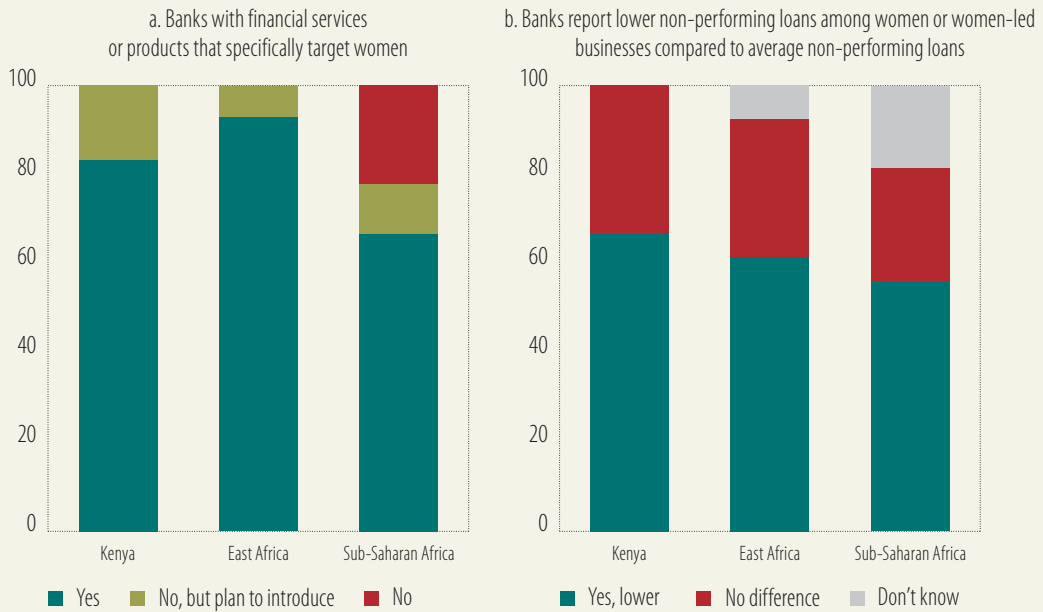


Source: IMF Financial Soundness Indicators and EIB staff calculations.

Over 83% of the banks surveyed in Kenya have a gender strategy, while 17% are planning to introduce one, reflecting the banks' commitment to gender financing (Figure 17a). These results are slightly below the East African average but ahead of the sub-Saharan African average, making East Africa the leading region in promoting gender strategies and female financing – a situation that might be influenced by greater financial inclusion in the region, driven by mobile phone money services. Banks

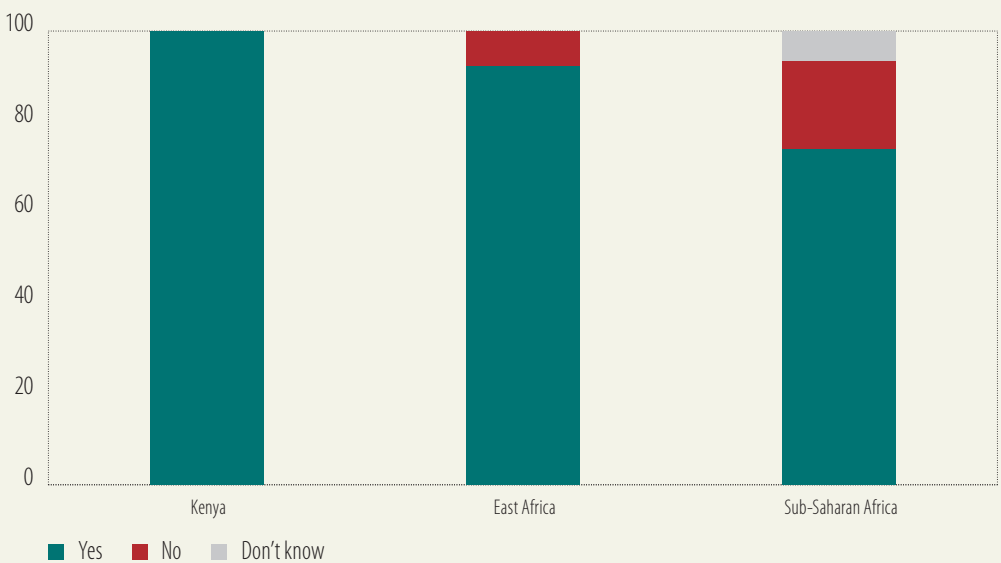
in Kenya are also more likely to report superior asset quality when lending to women compared with other regions. In Kenya, 67% of the banks report fewer non-performing loans when lending to women-led businesses, compared with 56% of the banks in sub-Saharan Africa (Figure 17b).

Figure 17
Gender inclusion (in %)



Source: EIB Banking in Africa survey, 2024.

Figure 18
Climate change strategic objectives



Source: EIB Banking in Africa survey, 2024.

All Kenyan banks have a climate change strategy in place, making the country a leader on the continent (Figure 18). Kenyan banks are at the forefront of African financial sectors in responding to climate-related risks – in mitigation and adaptation. In addition, Kenyan banks are increasing their efforts to provide green products. This situation is in line with a Central Bank of Kenya policy that requires Kenyan commercial banks to report initiatives for promoting climate-related risk management. The EIB has been providing climate-related technical assistance to the Central Bank of Kenya, helping in the development of a Green Taxonomy.¹⁰

Banking in Southern Africa

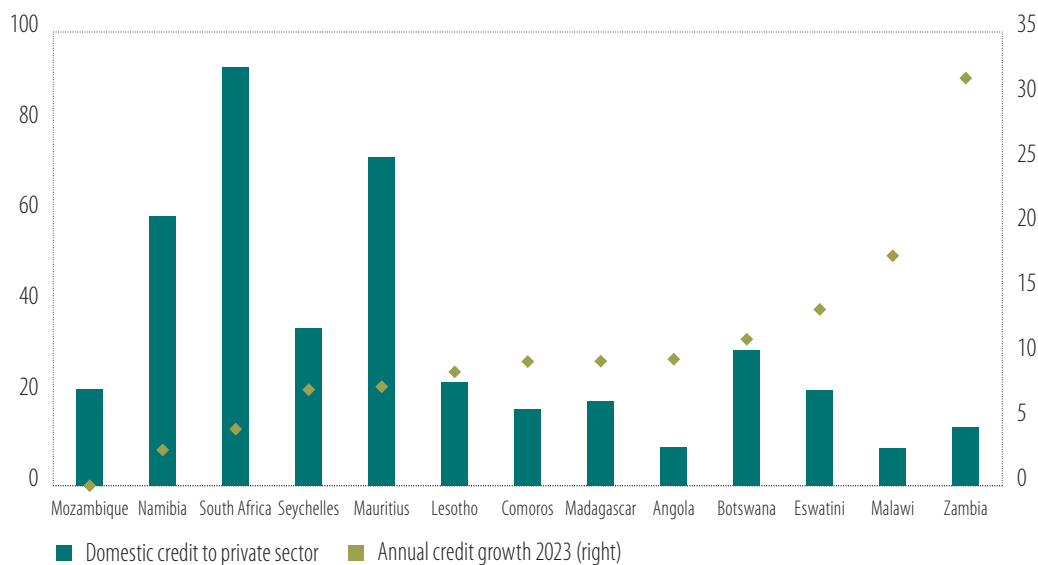
In Southern Africa, levels of financial intermediation vary substantially. Domestic credit to the private sector as a percentage of GDP is over 90% in South Africa, the continent’s most developed financial sector, and above 70% in Mauritius, an international financial centre (Figure 19). In contrast, Angola and Malawi have extremely shallow credit markets, worth less than 10% of GDP. Overall, credit depth for Southern Africa is 65% of GDP, dropping to 20% of GDP when South Africa is excluded. Zambia and Zimbabwe have relatively shallow credit markets but have some of the more competitive banking sectors, measured by the share of assets of the three largest banks.¹¹ The level of competition, which we are proxying by asset concentration, is mostly related to the number of banks in a country rather than the size of the banking sector relative to GDP. In contrast, South Africa has the largest number of banks but the top three still account for 72% of assets (Table A4). It could be the case that for some of the most competitive markets, only the most efficient banks can survive, leading to a high concentration. However, the EIB Banking Industry Risk model, outlined in the 2023 Finance in Africa report (EIB, 2023), finds that, on average, banking sector risk is lower when concentration is weaker.

Typically, credit growth was faster among the countries with more shallow markets, which is encouraging. Credit growth varies in Southern Africa (Figure 19, circles), but the eight countries with the fastest growth rates all have bank credit below 30% of GDP, and below 20% for most of those countries. However, nominal credit growth in 2023 was below 10% in many countries and typically either close to or below the rate of inflation, meaning that only a handful of countries saw credit grow substantially in real terms. Credit growth was particularly fast in Zambia, at 31% annually, largely driven by credit extension to large businesses and households rather than small and medium-sized enterprises, although small and medium-sized agricultural enterprises enjoyed rapid credit growth.

Despite the difficult macroeconomic environment, bank performance generally remained robust in Southern Africa. Data on profitability are available until the second quarter of 2023 for nine of the countries in the region and eight of these countries saw their profits grow by an average of about 20% in the first half of 2023 compared with the first half of 2022. As described in Chapter 3, higher profits were often driven by banks’ bond portfolios, although interest income from loans was also involved. Malawi, Madagascar and Zambia have the highest overall levels of profitability, with a return on equity of 42%, 35% and 34%, respectively. The share of bonds in total assets for the banks in these countries is 34% in Malawi, 40% in Mauritius and 29% in Zambia, according to the latest data available for each country. Capitalisation is generally sound and above regulatory minimums (Figure 20). The average capital to risk-weighted asset ratio across countries of Southern Africa in the second quarter of 2023 is just above 20%, broadly unchanged from a year ago. However, the relatively high capital ratios in the region are flattered by the large holdings of government bonds, which typically have a zero-risk weight, and therefore do not contribute to risk assets.

¹⁰ The draft [Kenyan Green Finance Taxonomy](#) is now available on the [Central Bank of Kenya website](#).

¹¹ This metric is below 50% for these two countries, with a lower asset share for the top three banks conveying more competitive dynamics.

Figure 19**Credit depth and credit growth, Southern Africa (left axis: % of GDP; right axis: in %)**

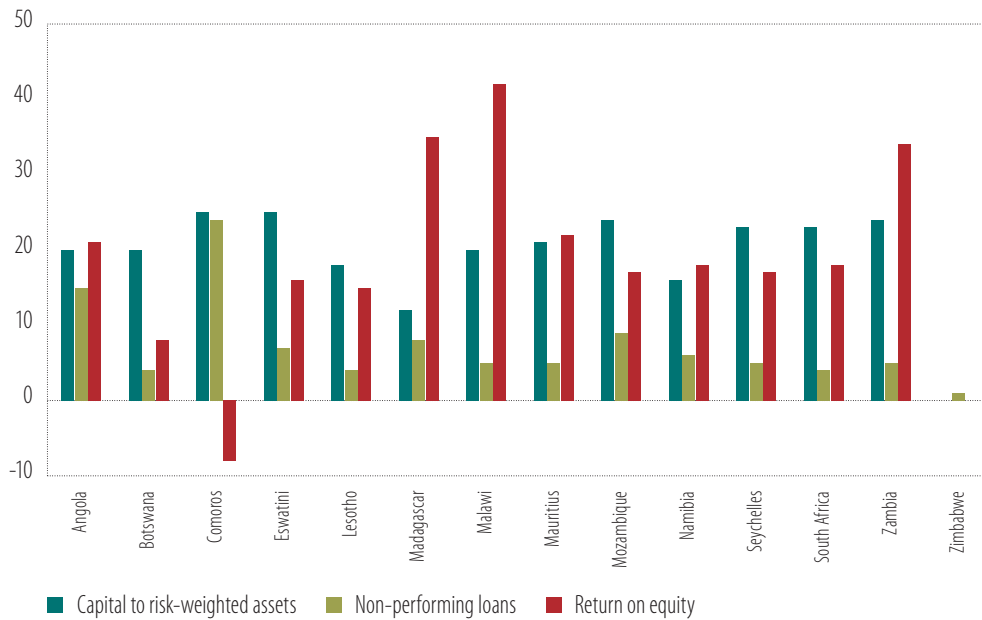
Source: World Bank and BankFocus.

In South Africa, which has the largest banking system in the region, nominal credit growth was 8-10% year over year for most of 2022 and 2023. Lending rates increased to 11.8% by the end of 2023, from a low of 7% in the third quarter of 2021. Banks have a preference for holding sovereign debt, with the growth of sovereign debt holdings outpacing that of loan growth. Sovereign debt holdings made up around 18% of the assets in the South African banking sector in 2023, compared with 13% before the onset of the COVID-19 pandemic in 2019. The central bank (South Africa Reserve Bank, 2023) notes that small banks have higher holdings of sovereign debt in relative terms, at around 37% of assets, which is particularly concerning given that the capital buffers and asset quality of small banks are much weaker than those of larger banks.

Banks in the region are mainly deposit funded, with deposits accounting for more than three-quarters of liabilities in most countries. South Africa is the exception, with deposits accounting for just 47% of liabilities. Thus, banks in South Africa remain dependent on institutional deposits, reflecting the low savings rate of South African households and the country's well developed asset management industry. Institutional deposits are shorter term, less diversified, more expensive and more confidence-sensitive than household deposits.

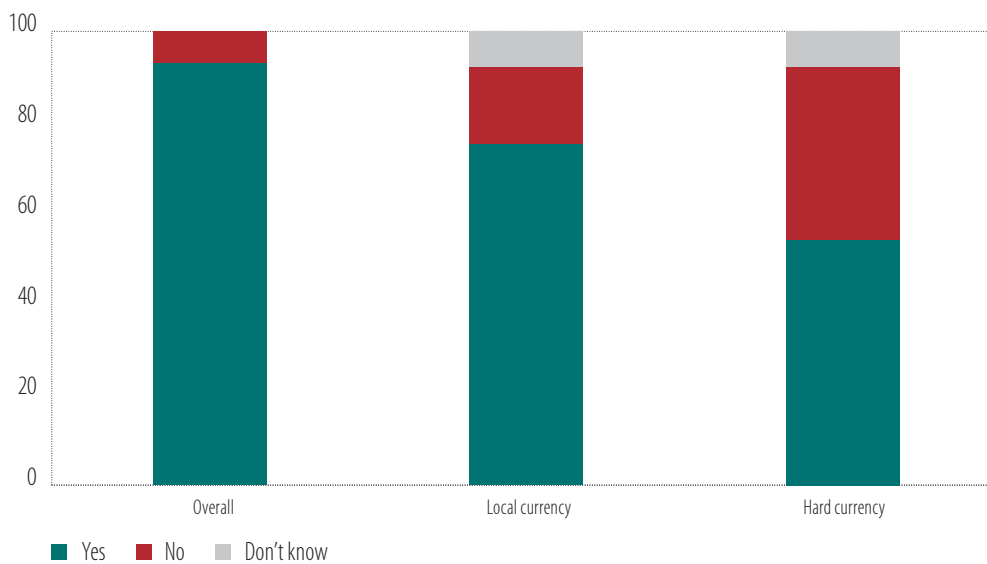
Banks in Southern Africa anticipate increasing their funding in the next year, but accelerated loan growth is unlikely. Nearly all banks in Southern Africa in the survey (93%) expect to increase their funding, particularly for the local currency (75%, Figure 21), while just over half of banks are expecting to raise funds in hard currency. However, banks in Southern Africa have the weakest expectations for credit growth for the year ahead, with only 17% of banks expecting an increase in their rate of loan growth, and another half expecting an unchanged rate of loan growth. The share of banks expecting higher loan growth is the lowest among all regions in sub-Saharan Africa. Thus, the large share increasing their funding is unlikely to translate into an acceleration in loan growth.

Figure 20
Solvency, profitability and asset quality indicators, Southern Africa (in %)



Source: IMF, World Bank and BankFocus.

Figure 21
Over the next year, do you expect to increase your overall funding? (% of responding banks)



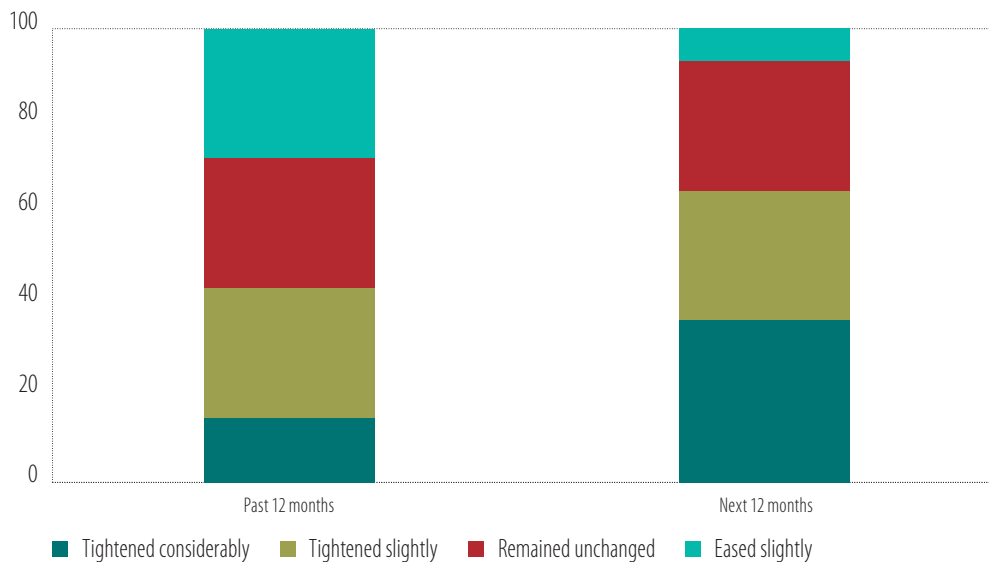
Source: EIB Banking in Africa survey, 2024.

Note: Local and foreign currency data are the results for banks answering "yes" in the "overall" category.

Credit standards tightened in Southern Africa in the last 12 months and are expected to tighten further over the next 12 months. Last year, Southern Africa was the only region with a balance between the number of banks expecting to tighten lending standards and those expecting to ease them. Ultimately, there was a net tightening by 14% of banks in the region over the last year (Figure 22). This was considerably less severe than the 40% net tightening observed for sub-Saharan Africa as a whole. For the next 12 months, the situation is expected to deteriorate in Southern Africa, with 57% of banks planning a net tightening, which is more than the 46% in sub-Saharan Africa. Southern Africa has the highest share of banks concerned about economic conditions. Moreover, as seen in Chapter 3, Southern Africa had a relatively high concentration of countries where credit spreads on lending to the private sector recently increased. The data on credit standard expectations suggest that this situation could continue for some time. Higher interest rates may also affect loan demand, as only 44% of banks in Southern Africa expect higher loan demand in local currency in the next 12 months, compared with 70% in sub-Saharan Africa. This observation again points to subdued credit growth in the region.

Figure 22

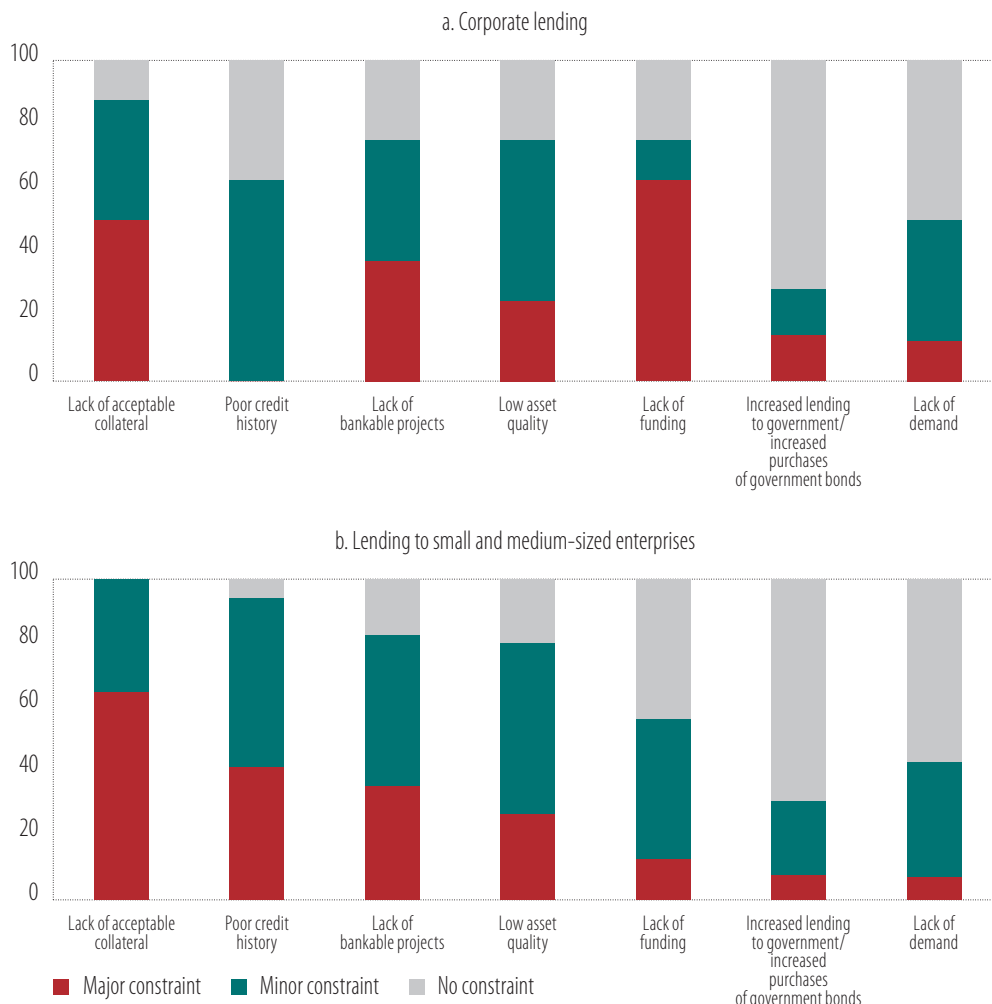
How credit standards have changed/will change (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Structural factors – particularly lack of collateral and poor credit history – remain the key constraints to lending by commercial banks in Southern Africa. Lack of collateral is a major constraint for two-thirds of banks when lending to small and medium-sized enterprises, and for half of banks when lending to larger corporates. Over 40% of banks say poor or incomplete credit history disproportionately affects lending to small and medium-sized enterprises, whereas no banks consider it an important issue when lending to large firms. Almost two-thirds of banks cite a lack of funding as a major issue in lending to large firms, but rarely a major concern in lending to small and medium-sized enterprises. This finding might reflect the larger loan sizes for large firms. Finally, although banks in the region have seen their bond portfolios expand in recent years, they do not consider this a major constraint for lending to small or large firms.

Figure 23
Factors constraining credit supply, Southern Africa (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Box 2, written by Grakolet Arnold Gourène from Making Finance Work for Africa (a partnership supporting the development of African financial sectors), provides an overview of pension funds in Southern Africa. The box draws on the financial sector profile of Southern Africa contained in Making Finance Work for Africa (2024).

Box 2
Pension funds in Southern Africa

Pension funds provide people with a decent retirement income and offer a long-term source of capital for investment. The dynamism or investment activity of pension funds varies considerably in Southern Africa. The early establishment of pension systems in countries such as Namibia, Botswana, South Africa and Eswatini, as well as their membership of the Common Monetary Area and the Southern African Customs Union, has enabled funds to build up substantial assets compared with other countries in the region due to the increased investment opportunities offered by the South African market (Table 2).

Table 2
Evolution of pension fund assets in Southern Africa (\$ million)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Angola | 901.2 | 791.7 | 848.3 | 951.1 | 1 115.3 | 1 688.7 |
| Botswana | 8 309.8 | 7 522.8 | 8 768.4 | 9 748.0 | 10 231.1 | 9 230.9 |
| Lesotho | | | | | | 164.5 |
| Malawi | 727.1 | 944.4 | 1 154.0 | 1 319.5 | | |
| Mauritius | 632.9 | 188.8 | 1 516.5 | 1 426.9 | 1 435.3 | 1 366.6 |
| Mozambique | 107.8 | 155.1 | 178.0 | 158.4 | 224.0 | |
| Namibia | 10 863.6 | 10 212.8 | 10 660.1 | 10 699.5 | 11 818.7 | 10 641.2 |
| South Africa | 196 587.4 | 175 589.8 | 187 413.1 | 171 499.7 | 202 774.0 | 119 423.3 |
| Zambia | 788.6 | 727.5 | 662.4 | 525.2 | 744.7 | 772.4 |
| Zimbabwe | | | 983.0 | 1 347.9 | 2 015.4 | 1 104.7 |

Source: OECD.

Between 2017 and 2021, pension fund assets in the region grew steadily, led by South Africa, Namibia and Botswana. However, in 2022, most pension funds in the region saw their assets decline due to high levels of unemployment and inflation in the region. South Africa, Namibia and Botswana account for a substantial proportion of Africa's total pension assets.¹² However, pension fund penetration, as measured by the ratio of pension fund assets to GDP, remains low in most countries in Southern Africa. For example, in 2022, pension fund assets in Angola, Zambia and Zimbabwe were only 1.5%, 2.9% and 5.9% of GDP, respectively, whereas those for Namibia, Botswana and South Africa were 89.4%, 50.1% and 30.6% of GDP, respectively (Table 3).

Table 3
Pension fund assets (% of gross domestic product)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--------------|-------|-------|-------|-------|--------|-------|
| Angola | 0.74 | 0.95 | 1.33 | 1.89 | 1.31 | 1.52 |
| Botswana | 49.21 | 46.48 | 51.86 | 61.49 | 57.74 | 50.11 |
| Lesotho | - | - | - | - | - | 6.67 |
| Malawi | 8.15 | 9.58 | 10.37 | 11.57 | 12.83 | 14.08 |
| Mauritius | 4.48 | 1.29 | 10.84 | 12.57 | 13.06 | 10.63 |
| Mozambique | 0.76 | 1.07 | 1.14 | 1.21 | 1.38 | - |
| Namibia | 78.47 | 81.40 | 83.08 | 89.80 | 103.33 | 89.36 |
| South Africa | 47.68 | 47.20 | 46.82 | 45.32 | 52.08 | 30.57 |
| Zambia | 3.18 | 3.15 | 3.11 | 3.35 | 2.80 | 2.89 |
| Zimbabwe | - | - | 7.77 | 8.00 | 6.88 | 5.87 |

Source: OECD.

¹² Africa's pension fund assets.

The high penetration rates achieved by Namibia, Botswana and South Africa are linked to a good track record of returns on the pension funds of government institutions, based on a diversified investment strategy combined with a sound asset allocation process. Pension funds in these countries benefit from more developed local financial markets than their counterparts, particularly for South Africa and Botswana. Smaller countries can also buy assets in these more developed markets. For example, in 2022, 45.8% of the assets managed by investment managers in Namibia were invested outside Namibia, including around 30% in South African securities. In Eswatini, by March 2023, 30% of investment funds were invested in South African-listed equities and property.

However, many pension funds require most of their funds to be invested locally. Investment in domestic equities is promoted through higher allowable investment limits. For example, in South Africa and Namibia, investment limits in domestic equities are 55% and 75%, respectively. A regulation in Namibia mandates pension funds to invest at least 45% of assets domestically, making pension funds the largest investors in the domestic market. In addition, investments in private equity and debt instruments can only be made locally. In Botswana, domestic investment limits for pensions have been raised to 50% of their total assets for a period of five years from 2023, using a phased approach,¹³ although offshore equities still represented 56% of assets in March 2023. In Namibia and Eswatini, local investments represented 49.7% and 44% of total pension assets, respectively, at the end of 2022. These local investment mandates, although favourable to local financing, limit investment opportunities for pension funds and hinder diversification.

Table 4

Three largest asset classes for pension funds by country (share of assets)

| Eswatini local (March 2023) | % | Mauritius (June 2021) | % | Namibia (2022) | % |
|-----------------------------|----|-----------------------------------|----|------------------------|----|
| Equity | 57 | Equity and investment fund shares | 55 | Equity | 46 |
| Bonds | 34 | Bonds | 21 | Bonds | 35 |
| Property | 6 | Currency and deposits | 12 | Money markets | 8 |
| South Africa (March 2023) | % | Zambia (2022) | % | Botswana (March 2023) | % |
| Equity in Africa | 54 | Government bonds | 36 | Equity | 72 |
| Domestic bonds | 33 | Equity | 23 | Fixed income | 10 |
| Other equity | 7 | Other investment | 14 | Cash and money markets | 10 |

Source: National central banks and pension fund authorities.

Pension funds in Southern Africa also invest in traditional assets, further limiting portfolio diversification and risk management. Pension funds in Zambia allocate 35% of their assets to government bonds (Table 4). Around 70% of investment in bonds in South Africa is in those issued by the government. Alternative assets¹⁴ represent a very small proportion of assets under management in the region. By March 2023, only 2% of the investment portfolio in South Africa was allocated to alternative assets. In Namibia and Botswana, 1.4% and 7.3% of the investment portfolio, respectively, was directed towards unlisted investments.¹⁵ The low levels of investment in alternative assets could be due to an inability to assess the associated risks and a lack of local products or investable assets that could match the long-term liability structures of pension funds.¹⁶

¹³ [Changes to pension funds on/offshore investments.](#)

¹⁴ Alternative assets are assets outside the traditional asset classes of equities, bonds and cash, and can include private equity, hedge funds and commodities. Real estate is an alternative asset in some, but not all, countries.

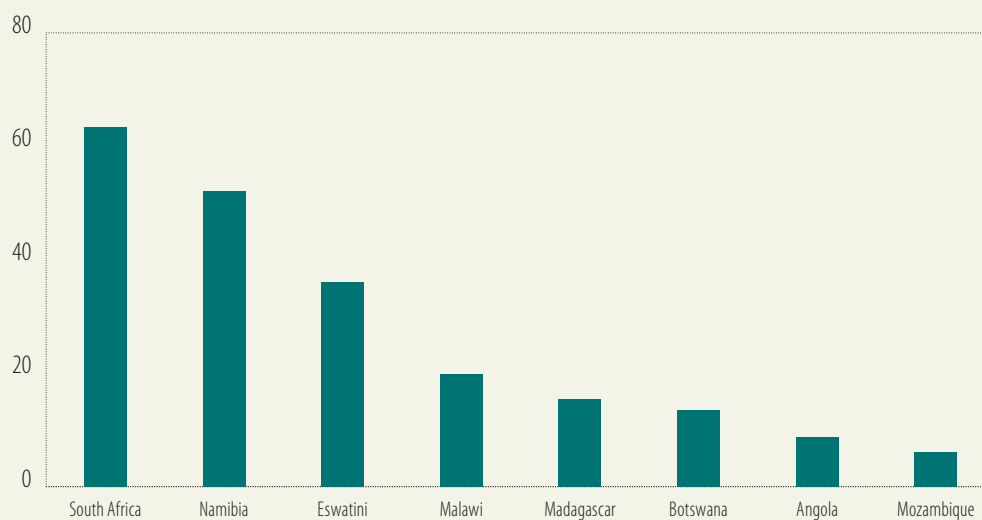
¹⁵ Unlisted investments include private equity, property investment, property syndicates and unlisted funds.

¹⁶ [Gauging the appetite of African Institutional Investors for New Asset Classes.](#)

Finally, there is room for improvement in the share of the population covered by pension funds. South Africa and Namibia have 63% and 52% of their population, respectively, covered by social security, but coverage drops for the other countries in the region. In Botswana, for example, only 14% of the population is covered by social security, even though pension fund assets represent 50% of the country's GDP. This situation may be explained by the country's middle-income status and the varying income levels of its people. However, it also shows the untapped potential of pension funds. If populations employed in the informal sector – the most numerous in the region – shifted to formal employment, it would enable the mobilisation of even more resources.

Figure 24

Social protection coverage in 2022 (in %)



Source: International Labour Organization.

Note: These figures represent the proportion of the population covered by at least one social protection benefit.

Banking in Central Africa

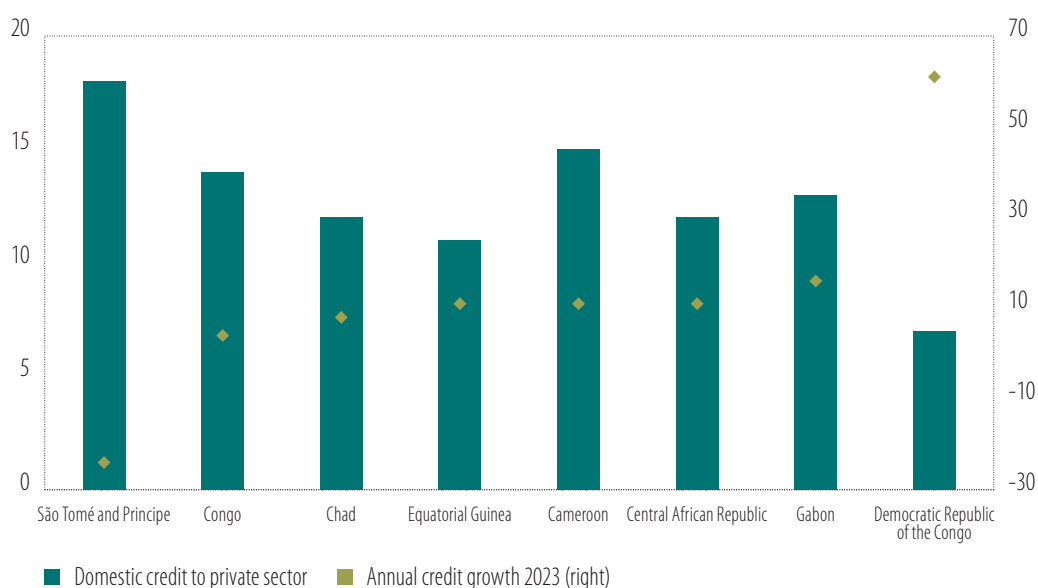
Central Africa has the lowest income in Africa, as reflected by its having the lowest number of banks and the highest banking concentration in Africa. Central Africa is the poorest region in sub-Saharan Africa for GDP per capita, accounting for 14% of the total population of sub-Saharan Africa but only about 9% of its total GDP (International Monetary Fund, 2024).¹⁷ Democratic Republic of the Congo – the largest economy in the region – is the fourth poorest country in sub-Saharan Africa according to GDP per capita, while the Central African Republic is the third poorest country. Only 46 banks (down from 48 in the 2023 survey) report data publicly (Table A5 in the Appendix). Economic size within the region is strongly concentrated, with Central Africa's three largest economies – the Democratic Republic of the Congo, Cameroon and Gabon – contributing 75% of the region's GDP. These countries also account for nearly 90% of the region's total banking assets in 2023. The high levels of banking concentration in Central Africa continue weighing on financial sector competition and efficiency. At 47%, Cameroon again reports the lowest level of banking concentration in Central Africa, followed by Congo (67%), Chad (70%)

¹⁷ International Monetary Fund (2024). World Economic Outlook Database, April 2024.

and the Democratic Republic of the Congo (73%). In the region’s smallest economies (São Tomé and Príncipe, Central African Republic and Equatorial Guinea), not all banks report their assets publicly. For these countries, the data provided from Moody’s Analytics BankFocus therefore show a banking concentration of 100%.

Credit market depth in Central Africa remains low compared with the rest of sub-Saharan Africa and varies strongly within the region (Figure 25). Credit to the private sector is still subdued in Central Africa, at only 11% of GDP in 2023, compared with an average of 36% for sub-Saharan Africa as a whole. São Tomé and Príncipe has the highest share of credit to the private sector, at 18% of GDP, compared with just 7% of GDP in the Democratic Republic of the Congo and 11% in Equatorial Guinea. Annual credit growth in Central Africa surged to 29% in 2023 from 14% in the previous year. This credit growth was mainly driven by the Democratic Republic of the Congo, where the growth rate more than doubled to 61% in 2023 compared to 2022. Credit growth also accelerated in Gabon (16%) and in Cameroon and the Central African Republic (both 11%). Furthermore, credit growth was positive in Equatorial Guinea (11%) but weakened in Chad (8%) and the Republic of the Congo (4%), and turned negative in São Tomé and Príncipe (-24%). Shallow credit markets in the region continue reflecting an interplay of several factors, including information asymmetries, poor credit history, regulatory and reporting shortcomings, crowding out through the public sector, and weak competitiveness and high levels of fragility in some countries. In the Democratic Republic of the Congo, the high dollarisation of the banking sector (around 90% of credits and deposits in the fourth quarter of 2023) continues to expose the banking sector to fluctuations in the exchange rate (which depreciated against the US dollar by around 20% over the last year), effectively resulting in a transfer of currency risk from banks to domestic borrowers.

Figure 25
Credit depth and credit growth, Central Africa (left axis: % of GDP; right axis: in %)



Source: World Bank and BankFocus.

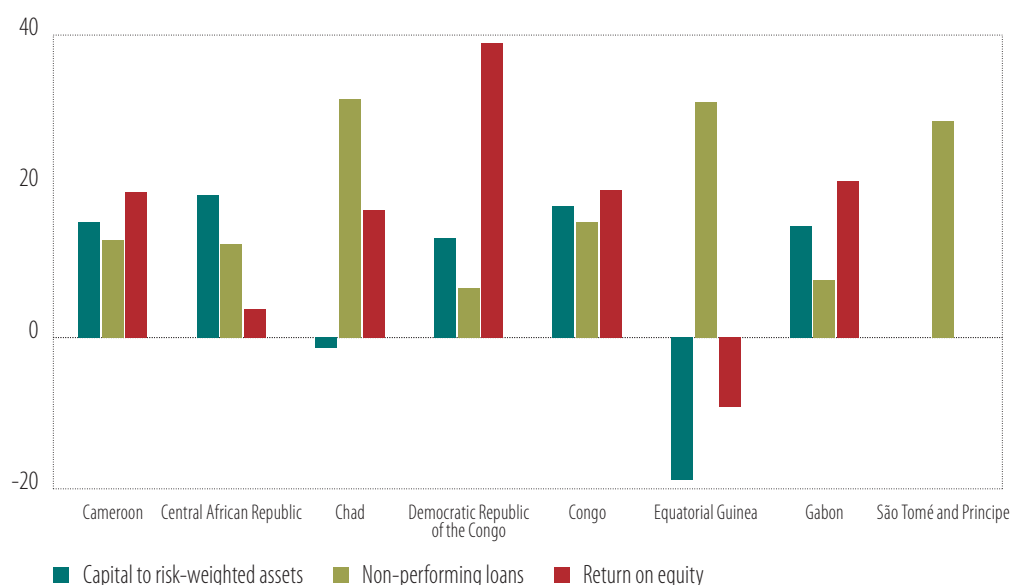
Central Africa is the region of sub-Saharan Africa with the highest rate of non-performing loans, but profitability has increased. Asset quality of Central Africa’s banking sector improved slightly but remained worse than in all other regions, with an average non-performing loan ratio of 13% in 2023, down by 2 percentage points from 2022. There are marked differences among banking sector indicators in the region, with the non-performing loan ratio ranging from 7% in the Democratic Republic of the Congo and 8% in Gabon to 29% in São Tomé and Príncipe, 31% in Equatorial Guinea and 32% in Chad. In Equatorial Guinea, this represents a pronounced decline of 24 percentage points compared with the previous year, even though progress in clearing the high levels of public sector domestic arrears (which

have driven the high non-performing loan ratio) is slow, according to the International Monetary Fund (2024). The non-performing loan ratio declined or remained unchanged in 2023 for all countries in the region, except Chad, which registered an increase of 4 percentage points in the non-performing loan ratio compared with the previous year.

Profitability of banks in Central Africa, measured by return on equity, increased to 25% in 2023, up by 7 percentage points from 2022 (Figure 26), second only to West Africa. The improvements in profitability were mainly driven by the Democratic Republic of the Congo, where return on equity surged by 14 percentage points to 39%, supported by the high interest rate environment. Return on equity was also strengthened in Gabon (21%, +2 percentage points), Cameroon (19%, +3 percentage points) and the Republic of the Congo (19%, +8 percentage points). Elsewhere in the region, return on equity declined slightly in Chad (17%, -1 percentage point), and markedly so in the Central African Republic (4%, -12 percentage points) and Equatorial Guinea, where return on equity turned negative (-9%, -11 percentage points).

Capital adequacy also differs substantially across Central Africa. For the Central African Economic and Monetary Community (comprising Gabon, Cameroon, the Central African Republic, Chad, the Republic of the Congo, and Equatorial Guinea), the capital adequacy ratio (capital to risk-weighted assets) declined marginally to 14% in June 2023, from almost 14.6% in the previous year, according to the International Monetary Fund (2023), but remained well above the minimum requirement of 10.5%. However, the capital adequacy ratio ranged from lows of -19% in Equatorial Guinea and -1% in Chad to 17% in the Republic of the Congo and 19% in the Central African Republic. In Equatorial Guinea, the ratio of capital to risk-weighted assets was again negative, reflecting ongoing restructuring and recapitalisation needs in the banking sector. Beyond the Central African Economic and Monetary Community, the capital adequacy ratio was 13% in the Democratic Republic of the Congo in 2023, an increase of about 1 percentage point compared with the previous year.

Figure 26
Solvency, profitability and asset quality indicators, Central Africa (in %)



Source: IMF, World Bank and BankFocus.

A strong bank-sovereign nexus continues to contribute to financial stability concerns in the Central African Economic and Monetary Community. The exposure to Central African Economic and Monetary Community governments on banks' balance sheets remained very high, at about 30% in June 2023, and was above 50% for some banks, according to the International Monetary Fund (2023). In addition, high levels of domestic arrears (estimated at around 5% of GDP in 2022)¹⁸ continue to weigh on asset quality and the profitability of Central Africa's banking sector, weakening financial stability. In 2022, levels of domestic arrears ranged from 1.2% of GDP in the Central African Republic and 2.2% in Cameroon to 13.6% in the Republic of the Congo.

¹⁸ [Bank of Canada & Bank of England Sovereign Default Database](#) (accessed in June 2024). Excluding Equatorial Guinea and São Tomé and Príncipe due to lack of data/data quality.

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Appendix: Tables

Table A1

Key banking sector indicators, North Africa

| | Number of banks** | Total assets (\$ thousand)** | Banking concentration (top three banks) | Credit to the private sector (% of GDP)+ | Annual credit growth (%)+ | Loan to deposits+ | Financial soundness indicators: latest available | Non-performing loans (% of total loans)± | Capital to risk-weighted assets (%)± | Return on equity (%)± |
|----------------------|-------------------|------------------------------|---|--|---------------------------|-------------------|--|--|--------------------------------------|-----------------------|
| Algeria | 28 | 128 370 000 | 0.70 | 21.10 | 5.14 | 48.48 | 2022 | 19.90 | 21.50 | 13.50 |
| Egypt | 36 | 418 993 429 | 0.69 | 30.85 | 26.24 | 36.73 | 2023 | 3.30 | 18.60 | 17.70 |
| Libya | 15 | 23 375 850 | | 10.13 | 3.71 | | | | | |
| Morocco | 24 | 166 590 000 | 0.62 | 88.03 | 6.31 | 70.09 | 2022 | 8.60 | 15.80 | 11.80 |
| Tunisia | 45 | 52 368 285 | 0.45 | 62.11 | 3.57 | 106.00 | 2022 | 12.60 | 14.00 | 10.80 |
| North Africa* | 148 | 789 697 564 | 0.67 | 37.32 | 15.97 | 50.20 | | 9.66 | 18.17 | 15.14 |

Source: **Moody's Analytics BankFocus, +World Bank and ±IMF financial soundness indicators.

Note: *GDP-weighted average. The number of banks is typically based on those reporting results on BankFocus and can be smaller than the total number of commercial banks operating in a country.

Table A2
Key banking sector indicators, West Africa

| | Number of banks** | Total assets (\$ thousand)** | Banking concentration (top three banks) | Credit to the private sector (% of GDP)+ | Annual credit growth (%) ⁺ | Loan to deposits ⁺ | Financial soundness indicators: latest available | Non-performing loans (% of total loans) [±] | Capital to risk-weighted assets (%) [±] | Return on equity (%) [±] |
|---------------------|-------------------|------------------------------|---|--|---------------------------------------|-------------------------------|--|--|--|-----------------------------------|
| Benin | 9 | 6 569 671 | 0.60 | 17.10 | 9.00 | 62.48 | | 14.90 | | |
| Burkina Faso | 11 | 13 714 322 | 0.67 | 31.32 | 5.89 | 72.29 | | 9.20 | | |
| Cabo Verde | 9 | 3 169 029 | 0.67 | 58.07 | 6.93 | 64.45 | | 8.70 | | |
| Côte d'Ivoire | 22 | 34 436 212 | 0.38 | 21.12 | 16.21 | 71.99 | | 7.70 | | |
| Ghana | 35 | 22 540 621 | 0.32 | 12.26 | 1.90 | 42.88 | Q2 2024 | 24.13 | 14.27 | 35.25 |
| Guinea | 9 | 475 560 | 0.58 | 9.22 | 11.60 | 50.03 | Q2 2022 | 9.21 | 16.48 | 17.71 |
| Guinea-Bissau | 1 | 182 111 | 1.00 | 16.60 | 6.97 | 78.35 | | 6.40 | | |
| Liberia | 7 | 1 160 417 | 0.74 | 14.79 | 34.30 | 77.19 | | 22.90 | | |
| Mali | 12 | 9 397 546 | 0.51 | 29.63 | 0.33 | 93.16 | | 10.30 | | |
| Mauritania | 15 | 2 621 450 | 0.56 | 29.60 | 6.67 | 103.23 | | 19.50 | | |
| Niger | 7 | 3 139 475 | 0.62 | 12.56 | -6.52 | 97.19 | | 14.40 | | |
| Nigeria | 33 | 104 480 000 | 0.43 | 14.09 | 45.35 | 56.01 | Q2 2023 | 4.40 | 11.23 | 31.73 |
| Senegal | 23 | 17 061 909 | 0.34 | 32.30 | 11.51 | 82.60 | Q4 2022 | 15.50 | | |
| Sierra Leone | 7 | 4 157 812 | 0.61 | 6.15 | 19.12 | 28.84 | | 15.20 | | |
| The Gambia | 6 | 369 891 | 0.68 | 8.92 | 11.74 | 18.13 | Q3 2023 | 4.56 | 25.66 | 23.39 |
| Togo | 17 | 5 556 962 | 0.92 | 27.55 | 3.47 | 65.39 | | 18.30 | | |
| West Africa* | 228 | 226 411 538 | 0.44 | 16.69 | 28.51 | 60.27 | | 8.86 | 12.01 | 31.70 |

Source: **Moody's Analytics BankFocus, + World Bank and ± IMF financial soundness indicators.

Note: *GDP-weighted average. The number of banks is typically based on those reporting results on BankFocus and can be smaller than the total number of commercial banks operating in a country.

Table A3
Key banking sector indicators, East Africa

| | Number of banks** | Total assets (\$ thousand)** | Banking concentration (top three banks) | Credit to the private sector (% of GDP)+ | Annual credit growth (%) ⁺ | Loan to deposits ⁺ | Financial soundness indicators: latest available | Non-performing loans (% of total loans) [±] | Capital to risk-weighted assets (%) [±] | Return on equity (%) [±] |
|---------------------|-------------------|------------------------------|---|--|---------------------------------------|-------------------------------|--|--|--|-----------------------------------|
| Burundi | 6 | 1 634 648 | 0.75 | 42.23 | 36.65 | 61.30 | Q2 2018 | 4.10 | 24.00 | 24.00 |
| Djibouti | 5 | 570 826 | 0.82 | 20.10 | 13.52 | 25.82 | Q3 2023 | 4.31 | 15.99 | 10.42 |
| Ethiopia | 17 | 46 986 678 | 0.68 | 17.71 | 36.18 | 59.90 | Q3 2022 | 5.41 | 16.00 | 25.86 |
| Kenya | 44 | 49 714 | 0.40 | 31.54 | 12.99 | 86.07 | Q3 2023 | 12.34 | 18.25 | 24.89 |
| Rwanda | 12 | 7 064 415 | 0.60 | 22.85 | 16.88 | 102.00 | Q2 2023 | 3.26 | 20.45 | 20.51 |
| Tanzania | 33 | 16 205 223 | 0.58 | 15.17 | 19.53 | 81.20 | Q2 2023 | 6.43 | 18.97 | 15.19 |
| Uganda | 23 | 9 964 975 | 0.47 | 14.79 | 8.15 | 71.45 | Q4 2022 | 5.14 | 21.67 | 14.62 |
| East Africa* | 140 | 132 141 476 | 0.56 | 20.89 | 22.86 | 73.62 | | 7.29 | 15.96 | 22.89 |

Source: **Moody's Analytics BankFocus, + World Bank and ± IMF financial soundness indicators.

Note: *GDP-weighted average. The number of banks is typically based on those reporting results on BankFocus and can be smaller than the total number of commercial banks operating in a country.

Table A4
Key banking sector indicators, Southern Africa

| | Number of banks** | Total assets (\$ thousand)** | Banking concentration (top three banks) | Credit to the private sector (% of GDP)+ | Annual credit growth (%)+ | Loan to deposits+ | Financial soundness indicators: latest available | Non-performing loans (% of total loans)± | Capital to risk-weighted assets (%)± | Return on equity (%)± |
|-------------------------|-------------------|------------------------------|---|--|---------------------------|-------------------|--|--|--------------------------------------|-----------------------|
| Angola | 25 | 29 518 237 | 0.48 | 8.44 | 9.76 | 37.19 | Q2 2022 | 15.00 | 20.49 | 21.44 |
| Botswana | 10 | 9 501 412 | 0.46 | 29.84 | 11.30 | 77.97 | Q3 2023 | 3.75 | 19.86 | 7.84 |
| Comoros | 1 | 46 024 | 1.00 | 16.79 | 9.58 | 57.73 | Q4 2020 | 23.66 | 25.17 | -7.82 |
| Eswatini | 5 | 794 354 | 0.81 | 21.15 | 13.60 | 71.17 | Q3 2023 | 6.65 | 24.92 | 16.39 |
| Lesotho | 4 | 1 304 810 | 0.90 | 22.84 | 8.78 | 58.22 | Q3 2023 | 4.31 | 17.70 | 14.51 |
| Madagascar | 8 | 3 782 108 | 0.74 | 18.67 | 9.61 | 86.94 | Q4 2023 | 7.60 | 12.40 | 34.88 |
| Malawi | 9 | 3 053 368 | 0.68 | 8.16 | 17.74 | 52.16 | Q4 2023 | 5.10 | 20.07 | 41.71 |
| Mauritius | 23 | 52 295 637 | 0.55 | 72.30 | 7.64 | 61.99 | Q3 2023 | 4.92 | 21.39 | 21.63 |
| Mozambique | 18 | 10 944 729 | 0.69 | 21.26 | 0.00 | 44.19 | Q3 2023 | 8.97 | 24.05 | 17.27 |
| Namibia | 9 | 7 843 923 | 0.77 | 59.39 | 2.76 | 84.11 | Q2 2023 | 5.52 | 16.44 | 17.86 |
| Seychelles | 5 | 2 272 679 | 0.91 | 34.75 | 7.41 | 34.67 | Q4 2021 | 5.45 | 22.69 | 16.87 |
| South Africa | 44 | 384 590 000 | 0.72 | 92.23 | 4.37 | 95.62 | Q3 2022 | 4.45 | 23.06 | 17.69 |
| Zambia | 22 | 8 572 118 | 0.49 | 12.98 | 31.44 | 38.23 | Q3 2023 | 4.98 | 24.13 | 33.69 |
| Zimbabwe | 12 | 3 890 590 | 0.48 | 8.79 | 914.07 | 47.24 | 2022 | 0.60 | | |
| Southern Africa* | 195 | 518 363 965 | 0.66 | 64.90 | 7.13 | 78.66 | | 6.44 | 22.09 | 19.66 |

Source: **Moody's Analytics BankFocus, + World Bank and ± IMF financial soundness indicators.

Note: *GDP-weighted average. The number of banks is typically based on those reporting results on BankFocus and can be smaller than the total number of commercial banks operating in a country.

Table A5
Key banking sector indicators, Central Africa

| | Number of banks** | Total assets (\$ thousand)** | Banking concentration (top three banks) | Credit to the private sector (% of GDP)+ | Annual credit growth (%) ⁺ | Loan to deposits ⁺ | Financial soundness indicators: latest available | Non-performing loans (% of total loans) [±] | Capital to risk-weighted assets (%) [±] | Return on equity (%) [±] |
|----------------------------------|-------------------|------------------------------|---|--|---------------------------------------|-------------------------------|--|--|--|-----------------------------------|
| Cameroon | 12 | 4 795 698 | 0.47 | 14.68 | 11.20 | 83.63 | Q4 2023 | 12.89 | 15.28 | 19.21 |
| Central African Republic | 2 | 312 624 | 1.00 | 11.92 | 11.30 | 82.37 | Q2 2022 | 12.40 | 18.90 | 3.78 |
| Chad | 5 | 1 313 867 | 0.70 | 11.92 | 8.08 | 93.97 | Q4 2023 | 31.51 | -1.39 | 16.88 |
| Democratic Republic of the Congo | 13 | 10 486 981 | 0.73 | 7.22 | 61.40 | 34.64 | Q4 2023 | 6.56 | 13.18 | 38.96 |
| Equatorial Guinea | 2 | 816 423 | 1.00 | 10.55 | 11.02 | 156.53 | Q4 2023 | 31.15 | -18.7 | -9.22 |
| Gabon | 6 | 321 289 | 0.86 | 13.38 | 16.42 | 71.51 | Q2 2022 | 7.58 | 13.87 | 20.70 |
| Congo | 5 | 480 589 | 0.67 | 13.90 | 4.44 | 83.59 | Q4 2023 | 15.22 | 17.38 | 19.45 |
| São Tomé and Príncipe | 1 | 130 514 | 1.00 | 17.69 | -24.46 | 64.64 | Q1 2022 | 28.60 | 35.60 | 3.40 |
| Central Africa* | 46 | 17 031 493 | 0.69 | 11.19 | 29.35 | 69.20 | | 13.01 | 10.52 | 24.58 |

Source: **Moody's Analytics BankFocus, + World Bank and ± IMF financial soundness indicators.

Note: *GDP-weighted average. The number of banks is typically based on those reporting results on BankFocus and can be smaller than the total number of commercial banks operating in a country.



Chapter 5 was authored by Alfredo Baldini of the European Investment Bank. **Box 1** was written by Patrick Conteh of the Africa Fintech Network and Matseliso Teele of Making Finance Work for Africa (MFW4A). Tatia Dzaptashvili, of GPCA, also contributed to the chapter and Ayushi Gupta, of Tellimer, contributed to the section on recent developments in the digital financial services ecosystem.

Chapter 5

Digital financial services in Africa

The digital financial services ecosystem (fintech) is continuing to penetrate and spread in Africa. This chapter presents new evidence, obtained from various sources and datasets, on how the rollout of digital financial services is transforming Africa's traditional brick-and-mortar (that is, face-to-face with customers) banking-dominated financial sector. Evidence is also provided to show that digital financial services are reducing costs for the consumer and, by leveraging digital technology, advancing financial inclusion in Africa.

African fintechs have grown considerably, making inroads in improving access to finance. This trend is especially evident in the largest economies of the continent (Nigeria, Kenya, South Africa, Egypt and a few others), where digital channels are improving financial inclusion. As a result, the "digital gap" has narrowed in less than a decade, with the share of people able to make or receive a digital payment rising to 50% in 2021 from 28% in 2014. However, following buoyant growth in 2021-2022, the sharp increase in funding costs for investments and private equity – resulting from global financial tightening – caused a marked slowdown in financial services investment (number of deals and amount of capital invested) in Africa in 2023.

Mobile money is still playing a key role in the development of digital financial services in Africa. Although it lags behind other less developed regions of the world in the main digital financial services, Africa has consolidated a strong lead in owning and making transactions through mobile money accounts, and the mobile phone system is driving the digital revolution on the continent. In 2022, the whole of Africa (including North Africa) accounted for more than two-thirds of global mobile financial transactions in volume and value. The predominance of mobile financial transactions in the African digital ecosystem can be attributed to its large young and urban populations, the number of smartphone connections, and the presence of digital platforms run by mobile operators.

The latest EIB Banking in Africa survey reveals that banks in sub-Saharan Africa are offering many digital services to retail clients and to firms to support economic activity. Moreover, the share of digital transactions has increased, as banks see strong incentives to partner with non-bank fintech companies. To accelerate the digitalisation of financial services, almost nine out of ten banks surveyed across sub-Saharan Africa are investing in improving the digital skills of staff and management through specialised training programmes.

Trends in financial inclusion and regulation

To explore how the rollout of digital financial services is transforming the traditional banking-dominated financial sector in Africa, we used various sources and datasets, including our proprietary 2024 EIB Banking in Africa survey and data about non-bank digital financial companies. We also examined how digital financial services are reducing costs for the consumer and, by leveraging digital technology, advancing financial inclusion in Africa.

During the last 15 years, African fintechs have grown substantially and are improving access to finance. This trend is particularly evident in the largest economies of the region (Nigeria, Kenya, South Africa, Egypt and a few others), which are providing innovative solutions to address financial inclusion challenges relating to traditional financial services. Based on the latest Global Findex report (World Bank, 2022), the share of people with a mobile money account in sub-Saharan Africa has almost tripled in the last seven years (increasing to 33% in 2021 from 12% in 2014), while the share of people with a traditional financial account has also grown, but at a much slower pace (40% in 2021 vs. 29% in 2014) (Figure 1a). As a result, the financial digital gap – the gap between people with access to digital financial services and those with just traditional banking services – has narrowed to 8 percentage points in 2021, from 17 percentage points in 2014.

Another key metric of financial inclusion is the share of people able to make or receive digital payments, which rose to 50% in 2021 from 28% in 2014 (Figure 1a). Despite these improvements, access to other financial services, such as borrowing from a financial institution, is very low (less than 10%) (Figures 1a and 1b), and cash is still predominantly used in retail trade transactions in Africa. For instance, South Africa's largest retailer by footprint (Pepkor) reported in its six-month [interim results](#) to end of March 2024 that 87% of group sales were conducted in cash and only 13% were credit sales.

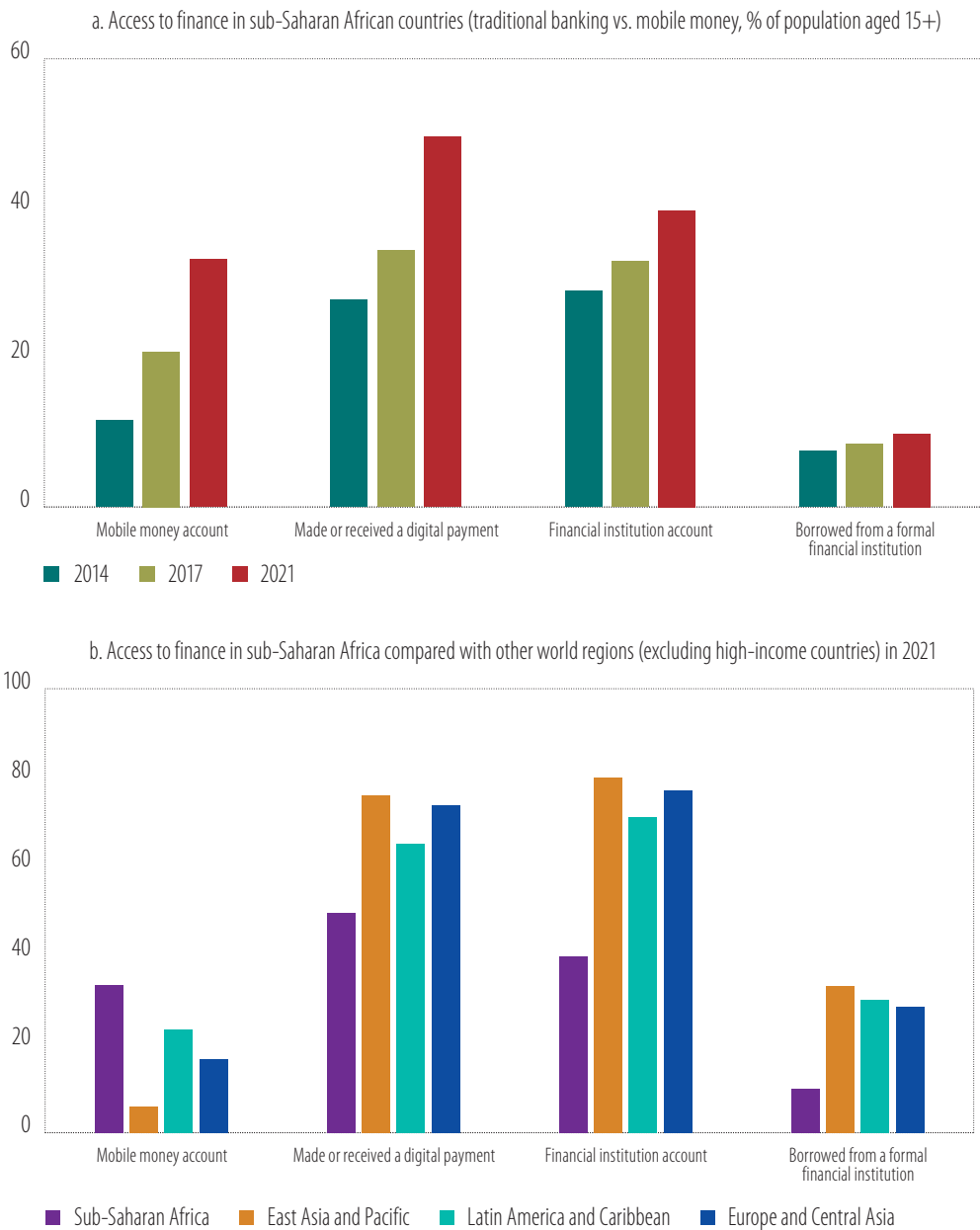
A combination of factors is driving the adoption of fintech in Africa. A McKinsey fintech report (2022) states that fintech companies in Africa are offering financial services estimated as being up to 80% cheaper than traditional bank services, and offering interest on savings up to three times higher. Other non-price factors contributing to fintech growth include: (i) increasing affordability of smartphones and mobile phone penetration; (ii) increasing penetration of internet connectivity, including 4G and 5G; (iii) an increasing pool of talented technicians; (iv) a tech-savvy young population with a huge appetite for tech-related services; (v) urbanisation and (vi) the shift from an informal to a formal economy. The fintech ecosystem is estimated to account for a considerable slice of the financial sector – at least 10-12% in revenue terms.

Access to financial services in Africa is improving, but is still behind that in other developing regions (with the exception of mobile money accounts). Compared with other regions of the world and excluding high-income countries (Figure 1b), sub-Saharan Africa remains behind in several financial services, including the share of the population making digital payments, financial account ownership, and borrowing from a financial institution. However, sub-Saharan Africa has consolidated a lead in ownership of mobile money accounts.

Other trends in inclusion and regulations relating to digital financial services in Africa are summarised in Box 1, which was written by Patrick Conteh, chief executive of Africa Fintech Network, and Matseliso Teele of Making Finance Work for Africa (MFW4A).¹

¹ Africa Fintech Network is an association of Tier-1 fintech companies active in Africa whose role is to promote advocacy work on digital and financial literacy and consumer protection initiatives. MFW4A is an initiative to support the development of African financial sectors.

Figure 1
Access to finance



Source: 2023 World Bank Global Findex.

Box 1**Fintech in Africa: A snapshot of the trend in financial inclusion and regulations**

Less than a decade after the emergence of fintech, Africa boasts seven fintech unicorns (privately owned startups valued at over \$1 billion), and hundreds of fintech startups spread across the major markets, notably Nigeria, Kenya, South Africa, Egypt, Ghana, Senegal and Cameroon. Fintechs are fundamentally redefining the landscape of financial services in Africa, with a wide variety of innovative financial services and products on offer – especially relating to mobile money, digital payments, remittances, digital lending, buy-now-pay-later, insurance and virtual assets. The traditional brick-and-mortar banking model is being challenged by mobile banking, online banking, mobile wallets, contactless services, digital payments for remittances via online platforms, mobile networks and blockchain-powered digital money.

Africa continues to dominate the mobile money world, underpinning improvements in access to finance across a range of demographics. Some of the big mobile money fintechs include MPesa, MoMo, Orange Money and Airtel Money, with several small providers across the continent. In 2023, more than 856 million people in Africa had registered mobile money accounts and engaged in 62 billion transactions valued at \$919 billion, according to [The State of the Industry Report on Mobile Money 2024](#) by GSMA. Domestic and international remittances are among the fastest-growing mobile money use cases in Africa because they offer lower remittance transfer costs than traditional financial services.

Digital payments, especially through mobile phone systems, are growing rapidly, enabling millions of previously unserved and underserved communities to securely store, transfer and pay bills, and access microloans. Nigeria – Africa's biggest economy and frontline jurisdiction on fintech, with three of the seven fintech unicorns – has seen very rapid growth in digital payment transactions. Nigeria Inter-Bank Settlement System reported that these transactions rose by 55% in 2023, to about NGN 600 trillion (about \$470 billion), up from NGN 387 trillion in 2022. With several countries in Africa having deployed or deploying instant payment systems that facilitate real-time transactions, digital payments are expected to continue growing and become increasingly inclusive, enhancing financial inclusion on the continent.

Access to credit is also growing through digital lending platforms. Individuals and micro, small and medium-sized enterprises in many countries can access loans quickly using digital lending services, which are affordable and effective. JUMO World, founded in 2015 and currently active in seven African countries, is an example of successful microlending, with a focus on assessing the creditworthiness of micro-, small and medium-sized enterprises. The financial services company collaborated with MANSA Bank and MT Mobile Financial Services to launch a short-term lending product for micro-, small and medium-sized enterprises in Côte d'Ivoire.

Central banks and other financial regulators in Africa have continued to respond to fintech products and services. Leading fintech countries in Africa (Nigeria, South Africa, Kenya, Egypt and Senegal) have reacted swiftly with various initiatives, including new laws, re-purposed regulations and guidelines, and platforms like innovation offices and sandboxes.² However, in jurisdictions outside the leading fintech hubs, regulatory development has been slower. Almost all countries have multiple regulators providing oversight of the fintech ecosystem, although the central banks are at the forefront. The prevalence of overlapping regulatory provisions and mandates in some countries is creating uncertainty and making it hard for fintechs to obtain licences and approvals.

Cryptocurrencies are another approach for furthering financial inclusion. Bitcoin has penetrated key markets in Africa and worldwide, and has become a crucial part of many residents' daily lives. Nigeria

² A regulatory sandbox is a framework set up by a financial regulator to allow small-scale testing of new financial innovations and products in a controlled environment.

ranks second in the overall [Global Crypto Adoption Index](#), and leads the region in raw transaction volume. Cryptocurrencies offer some advantages over traditional fiat currencies, such as speed and low transaction cost, bringing more people into the financial system.

There is slow but steady improvement in the regulatory landscape overall. In 2021, for instance, the Cambridge Centre for Alternative Finance (CCAF, 2021) conducted a study of fintech regulations in sub-Saharan Africa, based on four fintech verticals: digital payments, e-money, peer-to-peer lending and equity crowdfunding. Some highlights of the findings were that most of the 20 countries sampled had regulations in place on digital payments and e-money. However, only about 30% of these countries had regulations on peer-to-peer lending and equity crowdfunding.

Looking ahead, the Fintech Regulatory Framework adopted in August 2023 should ultimately create an even more favourable regulatory environment across Africa. Developed by the Committee of African Banking Supervisors, which is an arm of the Association of African Central Banks, this framework provides fundamental guidelines that all central banks in Africa should follow when developing fintech-specific regulations. These guidelines cover critical issues like the proportionality of regulations, activity-based regulations, risk-based approach to regulations, and the need for initiatives like sandboxes, as well as other proactive regulatory approaches.

Recent developments in the digital financial services ecosystem

After a period of rapid growth, the fintech sector in Africa has experienced moderate growth over the last two years.³ A sample collected by Tellimer showed more than 1 263 active fintech companies in Africa as of January 2024, up from 1 049 in April 2022 and 450 in 2020.⁴ The sector has also been diversifying in several business areas, ranging from key services like payments, lending and remittances, to new high-growth areas including software solutions, Investech, Insurtech and blockchain services.

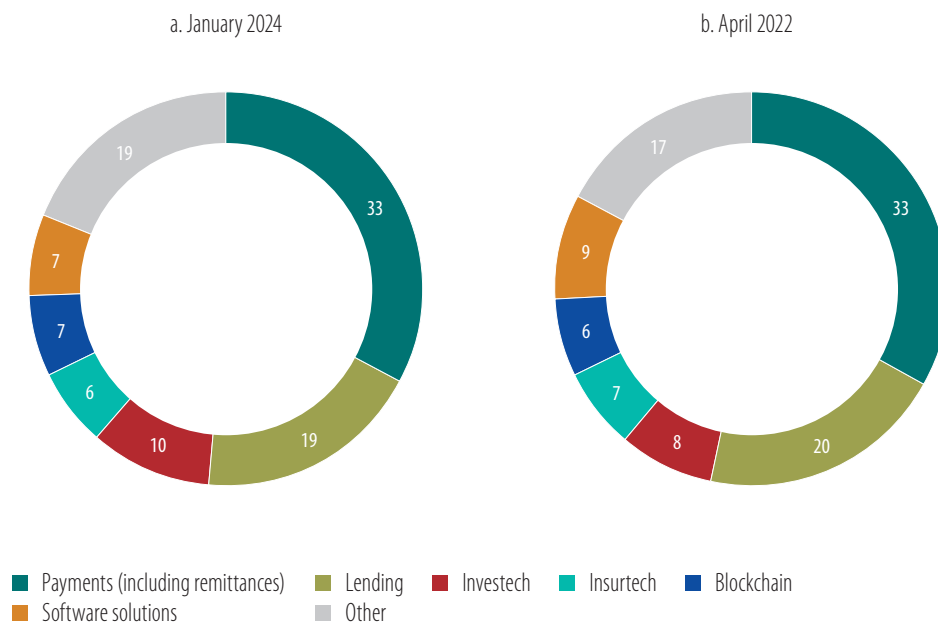
Product mix

Payments and lending services are the dominant fintech products, but the digital financial services sector includes other services. In January 2024, payments dominated the sector in Africa, and were offered by 33% of the fintech firms in the Tellimer sample. Lending was the second most popular product area, offered by 19% of firms. Some key growth areas involve the application of information technology like big data and artificial intelligence to conventional financial services. These include Investech (fintech applied to asset management services) and Insurtech (fintech applied to traditional insurance services), software solutions (for example, for data management and integrity) and the use of blockchain technology. However, although the digital financial services ecosystem in Africa has grown and diversified in line with trends in other regions of the world, the product mix in Africa in 2024 remains similar to that of 2022 (Figure 2).

³ For developments of digital financial services in Africa in previous years, see EIB Finance in Africa 2022, Chapter 4.

⁴ We gratefully acknowledge the contribution to this section by Ayushi Gupta of Tellimer, based on a Tellimer survey of digital financial services firms operating in Africa.

Figure 2
Africa's digital financial services by product area: January 2024 vs. April 2022



Source: Tellimer.

Note: The January 2024 chart is based on a sample of 1 263 African fintechs, and the April 2022 chart is based on a sample of 1 049 African fintechs.

Geographic mix: The big four and investment in fintechs

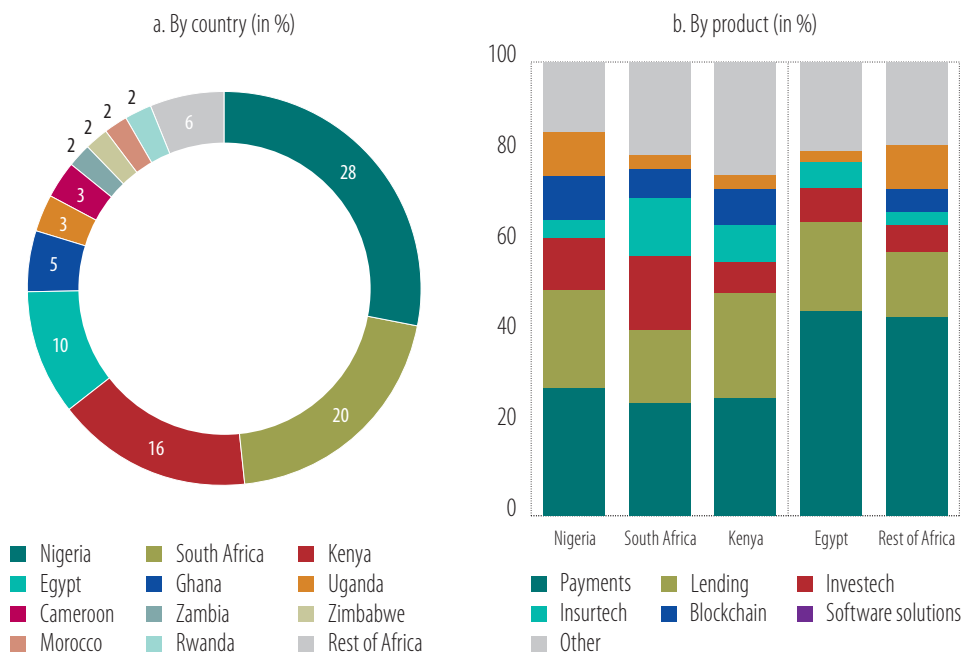
At the start of 2024, fintech firms were still heavily concentrated in Africa's largest economies. Nigeria, South Africa, Kenya and Egypt host about 70% of fintech operators in Africa (Figure 3, left panel) and attract about 80% of fintech-related funding. Nigeria has the largest individual country market, with 28% of the companies sampled; South Africa is second with 20%; Kenya is third with 16% and Egypt ranks fourth with 10%. Nigeria has emerged as a prime hub in Africa for venture capital funding, topping equity financing in African fintechs from 2000 to the first half of 2023 (Boston Consulting Group and Elevandi, 2023). According to Global Findex data (World Bank, 2022), financial inclusion in Nigeria – where 45% of people over 15 hold an account with a financial institution – is above the regional average (40%), which might have helped spur the diffusion of fintech operations there. Egypt's financial inclusion is much lower, with only 27% of the population owning a financial account. By contrast, account ownership in South Africa and Kenya, including with a mobile money service provider, is much higher, at 85% and 79% of the population, respectively. The range of fintech products offered in these four countries is similar, led largely by payments and lending (Figure 3, right panel).

According to Global Private Capital Association (GPCA), the fintech sector continued to dominate Africa's venture capital deal flow in 2022, with over \$1.4 billion invested that year. This funding – secured by African fintech startups – represented a 39.3% increase from 2021 (GPCA, 2024). According to recent reports (Disrupt Africa, 2023) the record for the largest round ever raised by an African tech startup was set in February 2022, when Nigerian fintech startup Flutterwave beat its own 2021 record and raised \$250 million. Other funding rounds above \$100 million were raised in Algeria, Egypt, Kenya, South Africa and Tunisia.

Fintech investment in Africa and other regions of the world slowed dramatically in 2023 owing to global financial tightening. After buoyant growth in 2021-2022, financial services investment from private equity and venture capital firms reached a crunch point in Africa in 2023 – for the number of deals

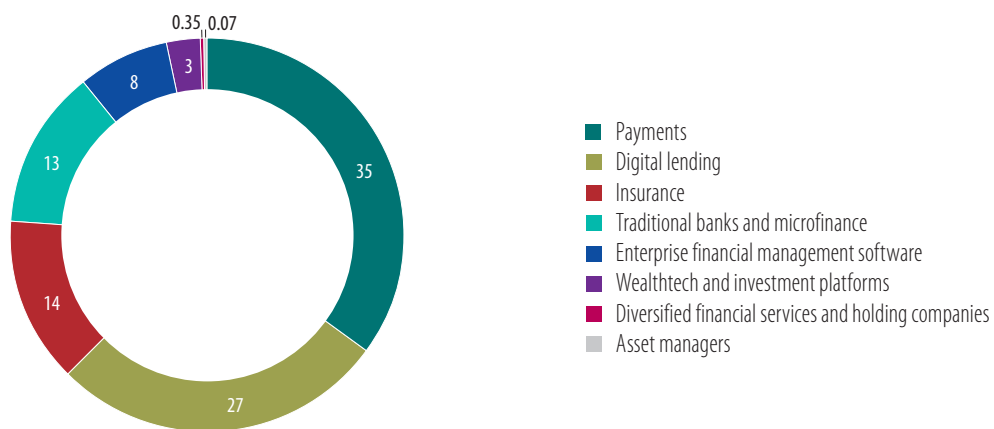
and the amount of capital invested. Global Private Capital Association research (GPCA, 2024) revealed a 78% decline in fintech investment value in 2023 year on year, mostly driven by the sharp increase in funding costs for venture capital investments caused by global financial tightening. Analysis of the share of capital deployed by focus area showed that payment and digital lending were the largest areas of fintech investment, with 35% (\$199 million) invested in payments and 27% (\$156 million) in digital lending (Figure 4).

Figure 3
Distribution of digital financial services in Africa by country and by product



Source: Tellimer.
Note: Based on a sample of 1 263 African fintechs as of January 2024.

Figure 4
Financial services investment in Africa (% of capital invested)



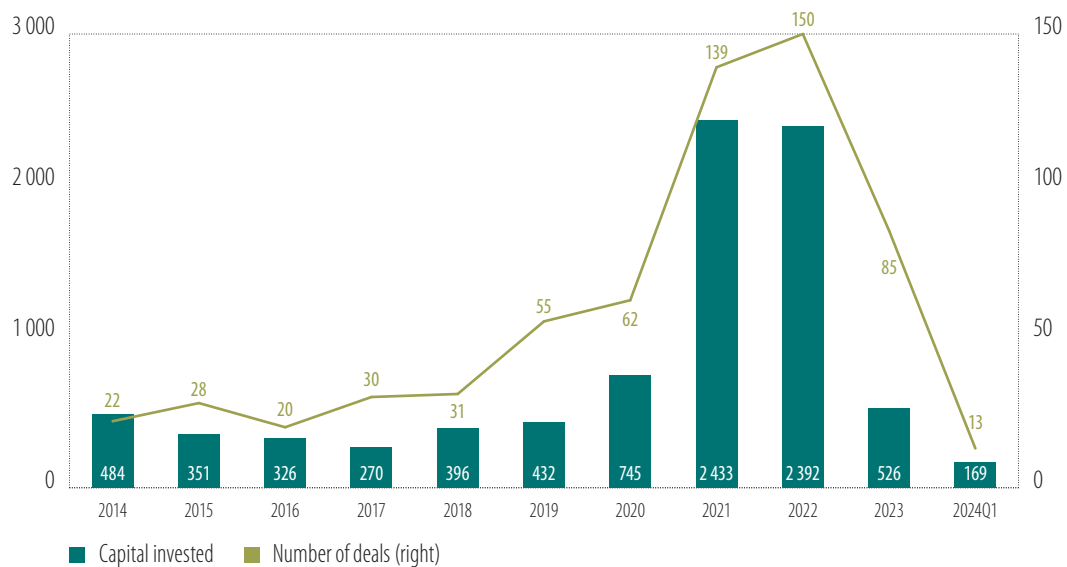
Source: Global Private Capital Association. Data as of 31 December 2023.
Note: Includes all financial service and fintech companies classified under "information technology," "consumer goods and services," "industrials" or "telecommunications" in the Global Private Capital Association's industry breakdown.

Venture capital deals for financial services fell in volume and value in 2023. Figure 5 shows that venture capital firms invested only \$0.5 billion in 73 deals for African financial services companies, which include fintech software companies. Preliminary data for the first quarter of 2024 confirm this deceleration trend, which is expected to continue throughout most of 2024. This tendency mirrors other regions, such as Southeast Asia, where the decline in investment (in value) was 74.8%, and Latin America, where the decline was 43.8%. The only exception was the Middle East, which recorded an increase of 52.7%, although this region started from a very low base of investment in 2021 (Figure 6).

Figure 5

Financial services investment in Africa, 2014 to first quarter of 2024

(left axis: \$ million; right axis: number of deals)

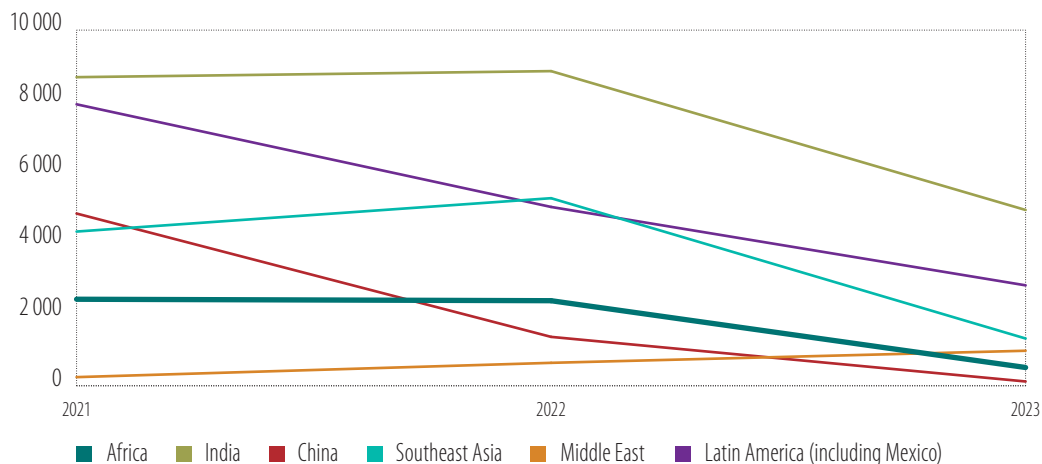


Source: Global Private Capital Association. Data as of 31 December 2023.

Note: Includes fintech software companies classified as "information technology" in the Global Private Capital Association's industry breakdown.

Figure 6

Capital invested in financial services, 2021-2023 (\$ million)

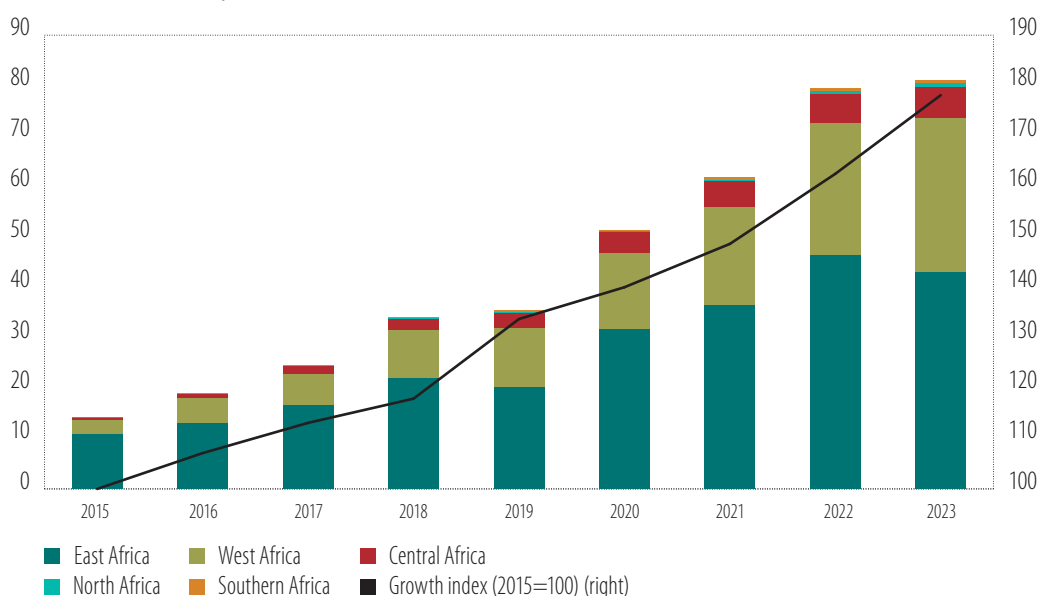


Source: Global Private Capital Association. Data as of first quarter 2024.

Note: Includes all financial service and fintech companies classified under "information technology," "consumer goods and services," "industrials" or "telecommunications" in the Global Private Capital Association's industry breakdown.

Mobile money is instrumental in the development of digital financial services in Africa. Data provided by Global Satellite Mobile Association (2024) show that in December 2023 alone, total mobile money transactions in sub-Saharan Africa increased by 2.0% in nominal value over December 2022 (to \$80.9 billion from \$79.4 billion) and by 9.6% in terms of transaction volume (Figure 7). The whole of Africa (including North Africa) accounted for about three-quarters of global mobile financial transactions in volume (74%) and two-thirds in value (66%), with North Africa, however, accounting only for 0.2% and 0.5%, respectively. In 2023, the total value of mobile money transactions for sub-Saharan Africa rose to \$912 billion from about \$832 billion in 2021, an increase of 9.6% against a global average increase of 11.5% (Table 1). For number of transactions, the annual increase was 37.8% for sub-Saharan Africa, while the global average was 32.2%. East Africa was again the continent’s leading region, accounting for about 53% of mobile money transactions in value and 61% in volume. West Africa was second at 38% and 31%, respectively, driven by Nigeria.

Figure 7
Mobile money transactions in Africa (December transactions only. Left axis: \$ billion; right axis: number of transactions)



Source: GSMA, 2024 and EIB staff calculations.

Together, East and West Africa account for about 90% of all mobile money transactions on the continent (in both volume and value). The predominance of these regions in the African digital ecosystem can be explained by their large young and urban populations, the number of smartphone connections and the presence of digital platforms run by mobile operators.

Mobile money accounts have become major enablers of financial inclusion for women in sub-Saharan Africa. Recent evidence (Brookings, 2024; World Bank, 2022) shows a substitution between traditional non-digital bank accounts and mobile money, where women accountholders retired their financial institution accounts in exchange for a mobile money account. Since 2017, financial account ownership rates for women in the region has risen 12 percentage points, driven entirely by increased adoption of mobile money accounts.

Table 1
Global and regional growth in mobile money transactions (annual)

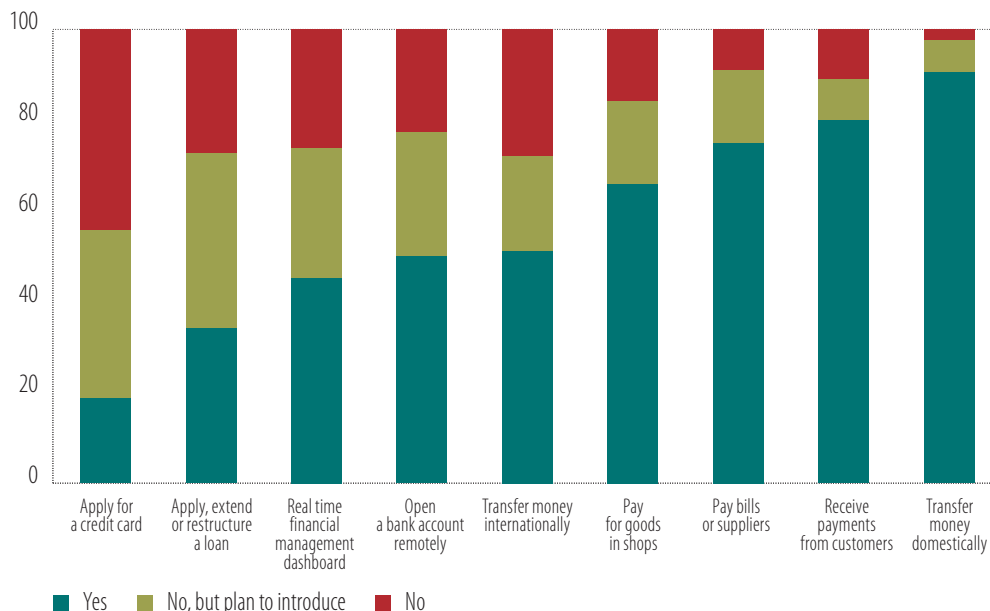
| | 2020 | 2021 | 2022 | 2023 | Change (%) 2023/2022 |
|--|------|-------|-------|-------|-------------------------|
| Sub-Saharan Africa | | | | | |
| Transaction volume (billion) | 27.4 | 36.6 | 45.0 | 62.0 | 37.8 |
| Transaction value (\$ billion) | 490 | 697.7 | 832 | 912 | 9.6 |
| East Asia and Pacific (excluding China) | | | | | |
| Transaction volume (billion) | 5.4 | 6.9 | 8.0 | 9.0 | 12.5 |
| Transaction value (\$ billion) | 111 | 141.9 | 180 | 196 | 8.9 |
| Latin America and Caribbean | | | | | |
| Transaction volume (billion) | 0.70 | 0.97 | 1.0 | 1.0 | 0.0 |
| Transaction value (\$ billion) | 19.8 | 30 | 35 | 38 | 8.6 |
| Middle East and North Africa | | | | | |
| Transaction volume (billion) | 0.15 | 0.24 | 0.36 | 0.72 | 101.4 |
| Transaction value (\$ billion) | 10.5 | 13.7 | 21 | 30 | 42.9 |
| South Asia | | | | | |
| Transaction volume (billion) | 7.5 | 8.9 | 10 | 12 | 20 |
| Transaction value (\$ billion) | 131 | 156.3 | 185 | 214 | 15.7 |
| Europe and central Asia | | | | | |
| Transaction volume (billion) | ... | ... | 0.345 | 0.391 | 13.3 |
| Transaction value (\$ billion) | ... | ... | 6 | 7 | 16.7 |
| Global | | | | | |
| Transaction volume (billion) | 41 | 54 | 64.7 | 85.1 | 31.5 |
| Transaction value (\$ billion) | 762 | 1 040 | 1 259 | 1 397 | 11.0 |

Source: GSMA, 2023 and EIB staff calculations.

Digitalisation in the traditional banking sector: Survey results

Banks in sub-Saharan Africa offer many digital services to retail clients and to firms in support of economic activities. According to the 2024 EIB Banking in Africa survey, “transfer money domestically” (90%), “receive payments from customers” (80%) and “pay bills or suppliers” (75%) are the three most common services provided digitally by survey respondents (Figure 8). These findings confirm the outcome of the 2023 survey. Half the banks in the survey provide other traditional banking operations like transferring money internationally or opening a bank account remotely, while another third of banks in the survey are planning to introduce these services. As in 2023, the services depicted in Figure 8 as being offered by the fewest banks include “apply, extend or restructure a loan” (34%) and “apply for a credit card” – with the latter being the only bank service that has seen a sharp decline (only 19% of banks include this service in 2024, vs. 40% of banks in the 2023 survey). However, the array of digital financial services offered by traditional banks is continuing to grow, and the share of banks not considering offering them (purple bars in Figure 8) is below 20% in four out of nine categories, as in the 2023 survey.

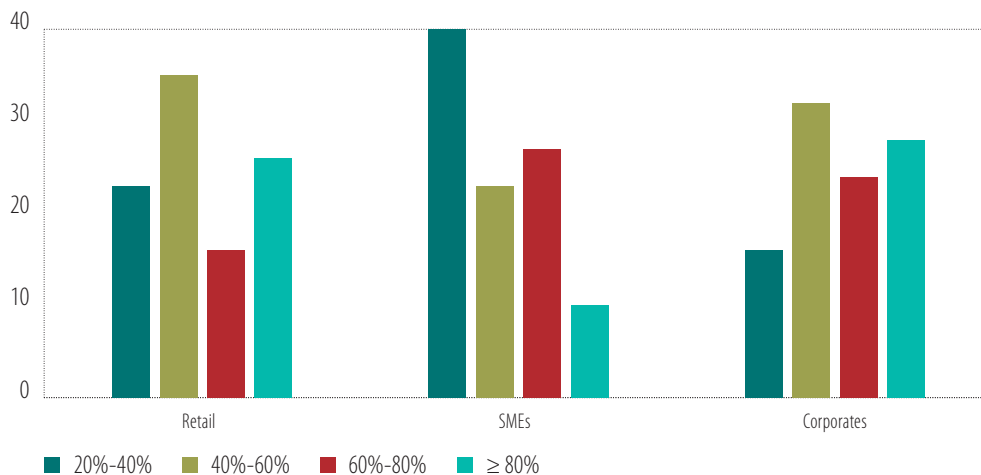
Figure 8
Provisions of digital financial services (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

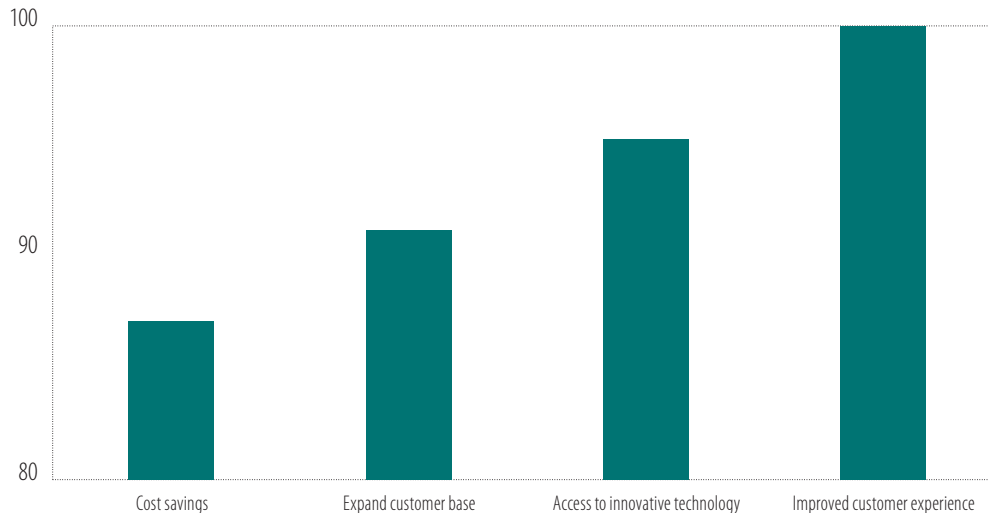
The share of digital transactions varies by region and customer group. The corporate sector is leading the integration of digital transactions, with over 40% of transactions now digital for 84% of banks surveyed, followed by the retail sector (Figure 9). By region, banks in West Africa report higher volumes of digital transactions, followed closely by those in East Africa. Across customer groups, digital transactions are more common in middle-income countries than in low-income countries, and regional differences persist. For example, while more than 50% of small and medium firms in Southern Africa conduct at least 40% of their transactions digitally, this is true of only one-quarter of these firms in West Africa, one-third in East Africa and none in Central Africa.

Figure 9
Share of transactions (in %) via digital channels, by customer type



Source: EIB Banking in Africa survey, 2024.

Figure 10
Potential benefits from partnering with fintech companies (% of responding banks)



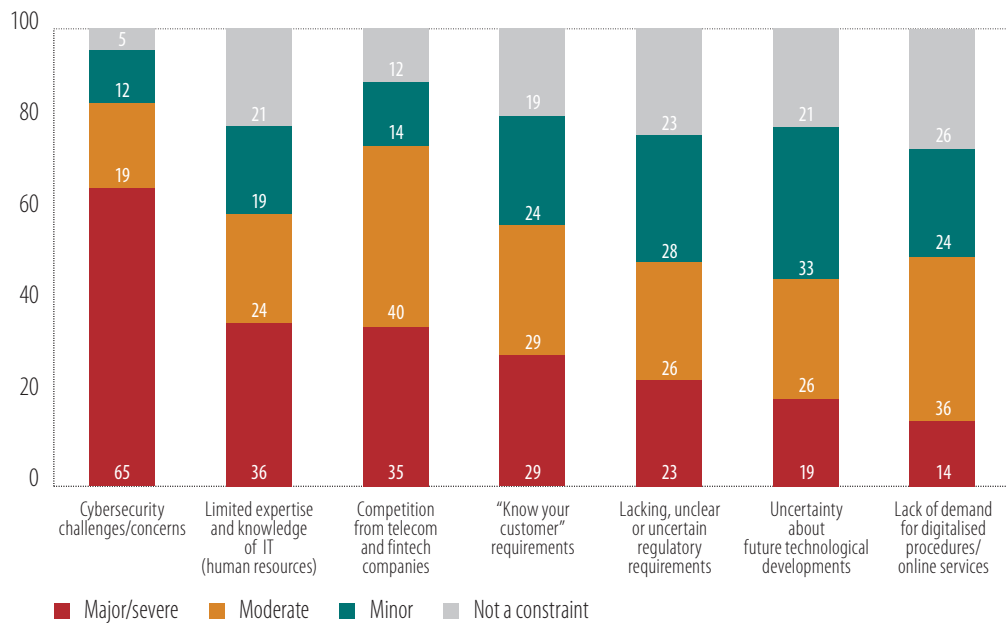
Source: EIB Banking in Africa survey, 2024.

Banks see strong incentives to partner with fintech companies. When traditional banks form partnerships with non-bank fintech companies, they do so for strategic reasons (Figure 10). The main benefits banks perceive from partnering with fintech companies are: (i) improving the customer experience (100% of the survey sample), (ii) accessing innovative technology (95%), (iii) expanding the customer base (91%) and (iv) cost savings (87%).

To accelerate the digitalisation of financial services, almost nine out of ten banks surveyed across sub-Saharan Africa are investing in improving the digital skills of staff and management via special training programmes. Banks are also prioritising investments in digital infrastructure and digital tools to support their strategies. However, there are constraints on increasing digitalisation (Figure 11), including the need to address concerns around cybersecurity and improve information technology infrastructure. More than 65% of banks surveyed rank cybersecurity risks as the most common constraint across all regions. Moreover, 75% of banks surveyed indicated that “competition from TELCOM and fintech companies” was a major (35%) or moderate obstacle (40%), while 60% of banks surveyed see “limited expertise and knowledge of IT” as a major (36%) or moderate constraint (24%). The surveyed banks are demanding more clarity on regulatory requirements in the provision of digital financial services. Unclear regulatory requirements, a lack of demand, and uncertainty over future technological developments are perceived as major or moderate constraints by about half of the banks surveyed.

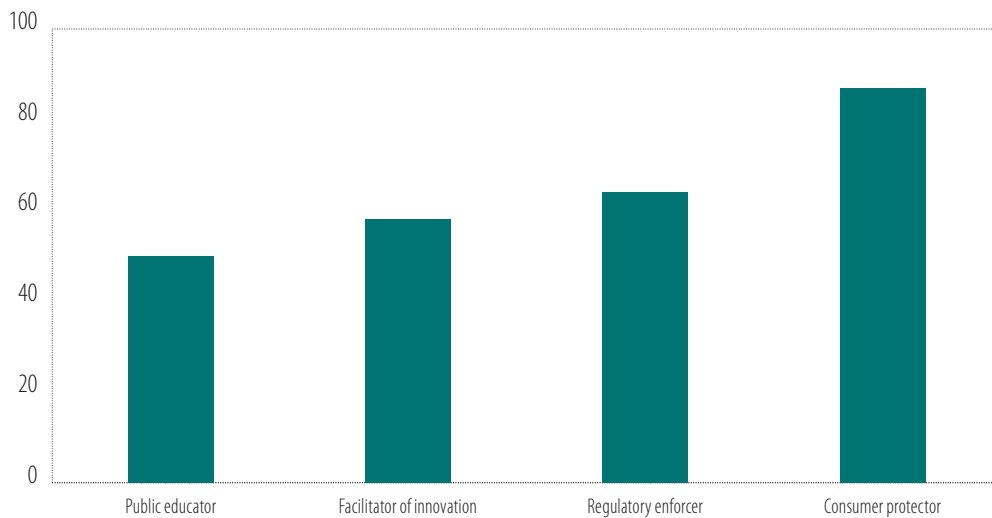
For the first time, we asked banks how they perceived the role of their country’s central bank for the fintech industry. The vast majority of banks (87%) say the main role adopted by their central bank in relation to the fintech industry is that of consumer protection, followed by that of regulatory enforcement (64%). Over half of banks (58%) see the central bank as a facilitator of innovation, and 50% see it as a public educator (Figure 12). These responses are consistent with the regulators’ perspective. Briefly, survey-based research by Cambridge University (CCAF, 2021) on a sample of financial services regulators in sub-Saharan Africa found that 40% of the regulators perceived the need for increased consumer protection as the main risk related to fintech, especially during the COVID-19 pandemic. This was in addition to a perceived increase in risk around market integrity and financial stability (reported by 24% and 16% of surveyed regulators, respectively). The perceived harmful effect of fintech on consumer protection in light of COVID-19 (40%) was far higher than the global average (13%). The regulators surveyed in sub-Saharan Africa considered that COVID-19 increased risks related to cybersecurity (69%), operations (35%) and consumer protection (23%). Accordingly, 85% of sampled jurisdictions in sub-Saharan Africa have a general regulatory framework for cybersecurity in place, and 65% of them have a general data protection framework in place, with a further 20% planning to introduce one.

Figure 11
Factors hindering further development of digitalisation (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Figure 12
Role of the central bank in relation to fintech (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

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Chapter 6 was authored by Joana Conde and Ricardo Santos, both of the European Investment Bank. **Box 1** was written by Nxalati Baloyi and Dr Stuart Theobald, both of Krutham. **Box 2** was written by Paola Casati of the University of Bari, Taranto, Italy, and Fotios Kalantzis of the European Investment Bank.

Chapter 6

Climate finance and investment in sub-Saharan Africa

Climate change and climate risks are increasingly affecting Africa, with sub-Saharan Africa being the most exposed region in the world according to European Investment Bank (EIB) climate risk country scores. Extreme climate events have so far had a limited impact on banks. In the EIB Banking in Africa 2024 survey, only 7% of banks in sub-Saharan Africa report damage to their physical assets due to climate risks. The limited damage to physical assets experienced by banks reflects the type of physical climate risk facing Africa. African countries tend to encounter chronic physical risks related to higher temperatures, drought, desertification and rising sea levels, all of which can have a major economic impact, particularly on agriculture and productivity more broadly, but do not necessarily damage physical assets. In other regions of the world, physical climate risk is due to extreme weather events and storms.

About a third of responding banks in our survey report declines in asset quality due to climate, with the vast majority of banks identifying micro, small and medium enterprises as the most affected borrowers. On a positive note, however, 59% of banks say climate has not had a material impact on asset quality. This can be explained by the fact that banks tend to have low exposure to climate sensitive sectors, notably agriculture, in many countries.¹ Although many banks are not yet seeing the effect of climate change on asset quality, a considerable share of banks are planning on reducing their exposure to sectors that are vulnerable to climate risk, particularly physical climate risk. So even though asset quality has been partially insulated from climate risk so far, banks are already taking steps to protect themselves.

The survey reveals that offering climate products to clients or issuing green bonds on financial markets remain the exception rather than the rule for banks in sub-Saharan Africa. This is contributing to a shortage of climate finance on the continent, making the region highly reliant on international sources. Climate-related financial flows to Africa represent only 12% of the annual climate financial flows the continent needs to implement nationally determined contributions and meet its 2030 climate goals. Climate finance is dominated by public funding (90% of the total) and international funding (99% of the total). Multilateral development banks have a crucial role to play in supporting domestic market development and attracting domestic financing if Africa is to catalyse private climate financing and meet its climate finance needs.

The climate perceptions of individuals and banks have a significant bearing on climate finance outcomes. There are many barriers to scaling up green finance products offered by banks and, according to our survey, banks in sub-Saharan Africa perceive demand-side barriers (barriers originating with their clients) to be more problematic than supply-side barriers (banks' own limitations). Among client constraints, the one most relevant to green lending is the low priority attached to climate change and hence low demand experienced by banks for green products. In the survey, banks were also asked to rank themselves according to their climate ambitions. For the banks that are sceptical about climate change or only weakly engaged, internal barriers to increasing green finance are amplified, including a lack of climate-related skills. The perceptions of banks and clients of climate change are therefore a determining factor in green financing.

The chapter also contains analyses aimed at understanding the factors shaping these perceptions in different countries. Although countries in sub-Saharan Africa face significant climate risks, investment in climate transition is limited by economic and social factors such as political risks, widespread poverty and lack of affordable access to clean sources of energy. To support the greening of the financial sector,

¹ European Investment Bank (2023).

policymakers should focus on improving climate awareness and supporting the development of skills, tools and processes for banks and clients. Governments should also pursue reforms that enhance climate awareness and increase the issuance of green bonds, which, in turn, can catalyse issuance by the private sector.

Climate finance in Africa

Africa is more exposed to climate risk – especially chronic physical risk – than any other region in the world.² African countries tend to face chronic physical risks stemming from higher temperatures, wildfires, desertification, drought and rising sea levels, all of which can have a major economic impact, particularly on agriculture, but do not tend to damage physical assets. In other regions, physical climate risk is more often due to extreme weather events and storms. An analysis of climate risk on bank balance sheets in the 2023 [Finance in Africa](#) report found that banks in Africa are exposed to climate risk predominantly through lending to sovereigns and households. In contrast, the transmission of climate risk from the corporate sector to bank balance sheets is limited by the low exposure of banks to high-risk economic sectors, such as the agricultural sector. Physical risk remains, on average, a bigger issue for banks than transition risk.

As climate risks intensify, the EIB lending survey of sub-Saharan African banks sheds light on how banks perceive climate risks, where they stand on their climate strategy and what is holding them back from increasing green finance. The survey covers the green portfolio of banks and the type of products on offer, their climate strategy, the tools available for climate risk management and impact measurement, and the role of the regulator. The main findings from the survey are that despite the potential opportunity of climate financing, most banks do not see themselves as trendsetters, and the lack of client demand and technical capacity are discouraging many banks from increasing green lending.

Bank green strategies

Although African countries are seen as being among those most exposed to physical risks in the world, African banks are not yet feeling the material consequences of extreme weather events. Only a negligible share of banks (7%) say they experienced damage to their own physical assets due to events such as storms, floods, droughts or landslides in 2023 (Figure 1). This finding³ could be explained by the high levels of physical risk in sub-Saharan Africa, mostly as a result of its chronic components (for example, water shortages or extreme heat), which are not necessarily captured by the extreme weather events mentioned in the question. Furthermore, retail banking in sub-Saharan Africa does not rely solely on branches but depends on representatives or brokers and online banking, which is widespread in some countries. Clients are therefore less reliant on traditional brick-and-mortar locations for accessing banking services. However, when comparing banks that had some damage to physical assets or some deterioration of asset quality with those that did not, we see that, on average, the former are based in countries with higher EIB country climate physical risk scores (Figure 2).

Similarly, physical risks have not materially affected asset quality for 59% of banks (Figure 3). This is a surprising result given the country climate risk scores mentioned above, but can be explained by one of the results highlighted in [Finance in Africa 2023](#) and Figure 4 below. Briefly, despite the agricultural sector being crucial, on average, for economic activity in sub-Saharan Africa and one of the sectors most exposed to climate risk, banks have rather low exposure to such borrowers as this sector is relatively informal and considered high-risk by banks (Figure 4). However, of those experiencing declines in asset quality linked to climate, 93% identify micro, small and medium enterprises as the most affected borrowers.

² Ferrazzi et al. (2021).

³ For comparison, in a sample of non-financial firms in 41 economies in Central, Eastern and South-Eastern Europe, and in Central Asia, the Middle East and North Africa, Benincasa et al. (2024) find that 9% of companies report losses from extreme weather events in the three years preceding the interview.

Figure 1
Exposure of banks' physical assets to extreme weather events (% of responding banks)

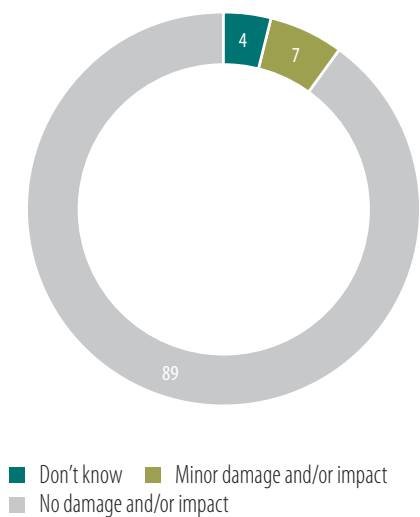
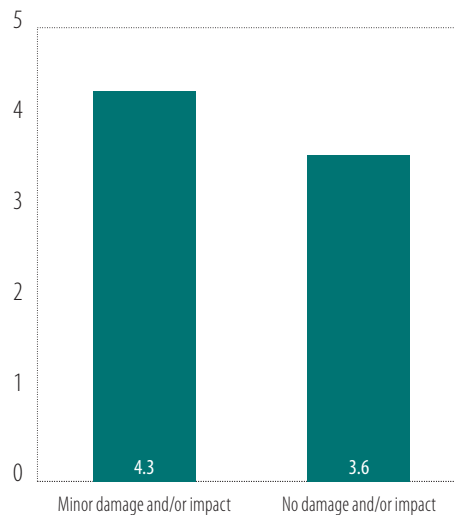
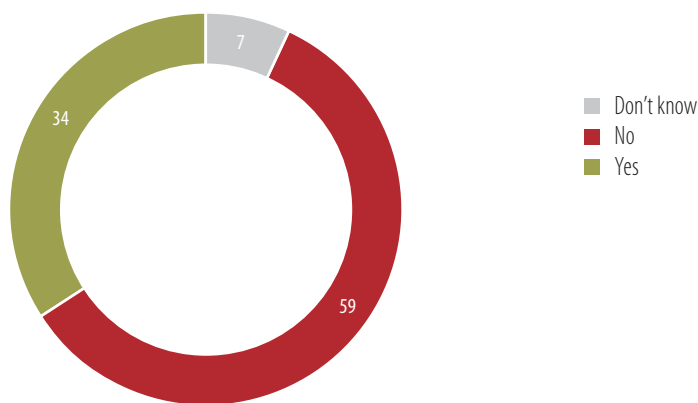


Figure 2
Average EIB country climate risk score of banks that reported no damage vs. those that reported minor damage



Source: EIB Banking in Africa survey, 2024.
 Note: In Figure 2, EIB climate country scores range from 1 (least risk) to 5 (most risk).

Figure 3
Share of banks reporting asset quality deterioration due to extreme weather events (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Figure 4
Share of bank balance sheet exposure by sector (% of total exposure)

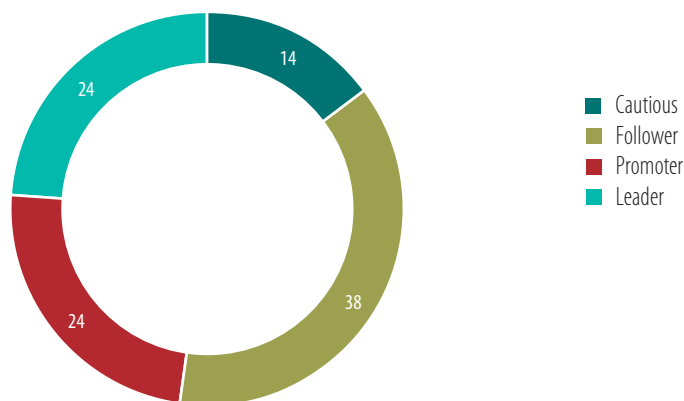
| Country | Corporate sector | | | | | | | Household | Sovereign |
|---------------|------------------|--------|----------------------------|---------------------------|----------|-------|------------------------------|-----------|-----------|
| | Agriculture | Mining | Manufacturing and industry | Wholesale or retail trade | Services | Other | Real estate and construction | | |
| Angola | 3% | 2% | 5% | 13% | 3% | 3% | 6% | 9% | 56% |
| Benin | 2% | 1% | 7% | 10% | 18% | 4% | 21% | 8% | 30% |
| Botswana | 2% | 2% | 1% | 6% | 8% | 4% | 7% | 56% | 14% |
| Burkina Faso | 1% | 4% | 9% | 13% | 15% | 8% | 13% | 13% | 23% |
| Côte d'Ivoire | 3% | 0% | 11% | 23% | 18% | 6% | 4% | 2% | 33% |
| Egypt | 1% | 0% | 10% | 4% | 9% | 0% | 0% | 11% | 65% |
| Ghana | 1% | 0% | 4% | 13% | 14% | 3% | 3% | 8% | 54% |
| Kenya | 2% | 0% | 10% | 12% | 4% | 2% | 13% | 11% | 45% |
| Mali | 2% | 2% | 8% | 29% | 11% | 8% | 6% | 1% | 33% |
| Mauritius | 2% | 0% | 4% | 6% | 20% | 0% | 8% | 25% | 35% |
| Morocco | 3% | 1% | 8% | 0% | 5% | 16% | 8% | 31% | 27% |
| Niger | 1% | 1% | 5% | 20% | 19% | 7% | 10% | 12% | 24% |
| Nigeria | 5% | 21% | 17% | 6% | 25% | 0% | 0% | 7% | 18% |
| Senegal | 2% | 1% | 9% | 13% | 20% | 7% | 3% | 11% | 34% |
| South Africa | 1% | 3% | 4% | 4% | 32% | 4% | 5% | 29% | 17% |
| Tanzania | 4% | 1% | 5% | 9% | 27% | 3% | 4% | 28% | 17% |
| Togo | 0% | 0% | 4% | 21% | 14% | 11% | 13% | 10% | 28% |
| Tunisia | 2% | 0% | 24% | 14% | 4% | 17% | 5% | 20% | 15% |
| Uganda | 8% | 0% | 9% | 11% | 6% | 0% | 14% | 12% | 39% |
| Zambia | 5% | 2% | 5% | 4% | 6% | 13% | 1% | 7% | 58% |
| Zimbabwe | 25% | 5% | 10% | 0% | 25% | 0% | 1% | 20% | 16% |

Source: EIB Finance in Africa, 2023.

Most of the banks in our survey see the climate transition as an opportunity, but are more likely to be followers rather than trendsetters in their climate strategy. The climate transition is viewed as an opportunity rather than a risk by 67% of banks and generic strategic climate objectives have been defined by 79% of banks. However, when asked which climate strategy they would identify with,⁴ roughly half of the banks were sceptical about the need for a green transition or only follow existing trends in the banking sector to remain competitive. Specifically, 14% of banks reported being sceptical about the need for the green transition, not acknowledging climate change as a significant risk and not implementing any specific policies beyond existing minimum regulatory requirements, identifying themselves as “Cautious” (Figure 5). In addition, 38% of banks class themselves as “Followers” of trends in the field, with their motivation being mostly competition-based and not driven by the results of a risk assessment. In contrast, 24% of responding banks see themselves as “Promoters” – that is, trying to address climate change to some extent – and the final 24% are “Leaders” – meaning they have climate risks fully embedded in their frameworks and strategies. Although this identification is self-selected by banks, Figure 8 shows that the banks’ climate actions tend to match their words, as there is a clear relationship between their own climate labelling and the share of green lending in their loan portfolios.

4 Among the following strategies:
Cautious: We do not acknowledge climate change as a significant risk for our bank and have not yet implemented any specific policies beyond any minimum regulatory requirements.
Follower: We have implemented some climate-related policies (for example, limiting carbon footprint, climate stress, pricing in climate on loans) following what other banks have done in order to remain competitive.
Promoter: We have a comprehensive strategy in place to address our impact on climate change and mitigate active risks in our portfolio.
Leader: Climate change is a central consideration in all our policies and operations and is embedded in all our internal processes.

Figure 5
Share of banks that identify with a specific climate strategy (% of responding banks)

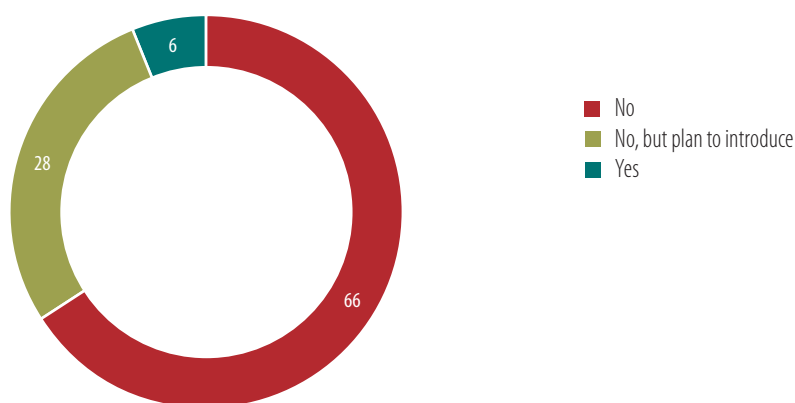


Source: EIB Banking in Africa survey, 2024.

Green funding

Only a small share of banks (6%) have issued green bonds, although another 28% of banks plan to. This leaves 66% of banks having not issued green bonds and with no plans to do so, showing that green bond issuance is still the exception rather than the rule for African banks (Figure 6). These percentages reflect results from Chapter 3, where we found that only a small group of banks with access to foreign exchange markets issued bonds in hard currency (typically the currency of issuance of environment, social and governance bonds), meaning that besides lacking an appetite for climate finance products, the small shares of banks issuing green bonds are linked to a lack of access to hard currency debt markets. This lack of private financing is also evident in the Climate Policy Initiative data on green finance flows to Africa. As detailed in Box 1 (authored by Nxalati Baloyi and Dr Stuart Theobald of the financial research and consulting firm *Krutham*), these flows to Africa only represent 12% of the amount required annually and are mostly from international and public sources, highlighting the need to diversify the sources of financing.

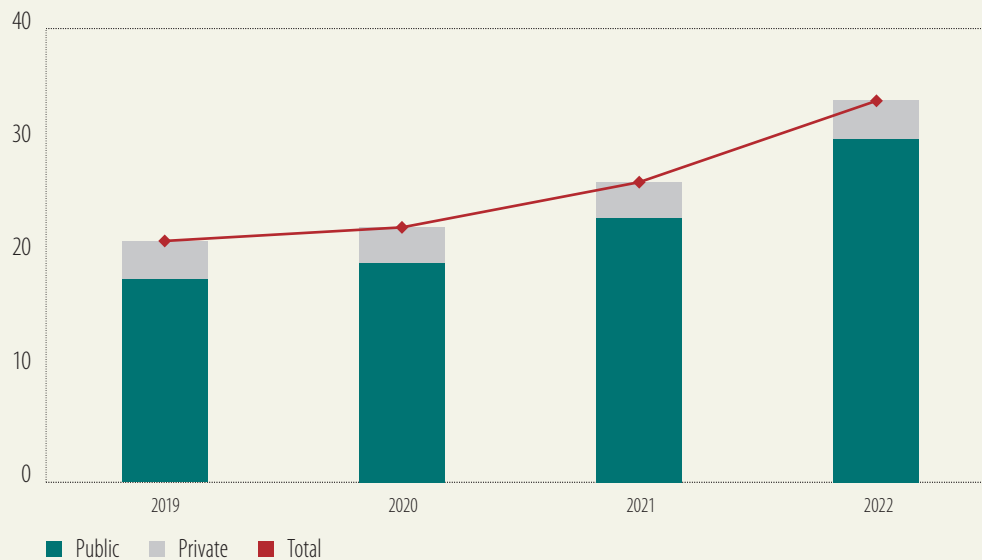
Figure 6
Share of banks that issue green or environment, social and governance bonds (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

Box 1**The role of multilateral development bank finance flows on the mobilisation of climate financing⁵**

Finance flows to Africa in 2019-2022 only represent 12% of the estimated \$277 billion a year the continent needs to implement nationally determined contributions and meet 2030 climate goals, according to data from the Climate Policy Initiative. Climate finance in Africa remains disproportionately public and international as opposed to private and domestic (90% public vs. 10% private; 99% international vs. 1% domestic). The climate finance needs of Africa may be met by including multilateral development bank flows as part of a more sustainable solution focused on supporting domestic market development and crowding in domestic financing.

Figure 7**Total climate finance: Africa 2019-2022**

Source: Climate Policy Initiative Global Landscape of Climate Finance data (2023).

Public climate finance flows

In Africa, multilateral development banks are the largest source of international public climate finance (49%), followed by bilateral development partners including bilateral development finance institutions (22%), international governments (16%) and multilateral climate funds (3.5%). Multilateral development banks channelled their investments through a variety of financial instruments. Debt accounted for 77% of the funding (47% market rate debt and 30% concessional debt), followed by grants (20%) and equity financing (3%). Climate flows from multilateral development banks are almost evenly split between mitigation and adaptation financing, with 52% going to adaptation initiatives, 46% to mitigation and the remaining 2% to projects with dual effects (Climate Policy Initiative, 2023).

Private climate finance flows

In Africa, 50% of private climate finance was mobilised from corporations, and the remainder from households (20%), commercial financial institutions (13%), institutional investors (12%) and funds (5%). About half of Africa's private climate finance was mobilised from domestic sources, 39% from international sources and the balance from undisclosed sources.

⁵ Data for the box comes from the Climate Policy Initiative (2023).

The share of private sector climate finance in Africa (10%) is much lower than the global average (50%) and other developing regions, including South Asia (37%), East Asia and Pacific (39%) and Latin America and the Caribbean (49%). Private climate finance is also concentrated in a few African countries with developed financial markets and greater investable opportunities, for example, South Africa, Nigeria, Kenya, Morocco and Egypt. In contrast, for other African countries, the actual and perceived risks – including currency instability and convertibility, information asymmetries, illiquid and nascent bond markets, the lack of a bankable project pipeline, regulatory and governance issues, and the lack of technical capacity and transparency – reduce private investor appetite for expanding investments to Africa.

Crowding in private sector investments for financing sustainable development

To reach its climate targets, Africa's climate financing must increase at least ninefold, and African government public financing alone will not suffice. Attracting private sector finance and investment is therefore crucial, with multilateral development banks catalysing the process. By design, multilateral development banks leverage other sources of funding, finance a portion of the total project costs and mobilise additional investments through syndications and other pooled funding models. This funding approach, coupled with supportive guidance and risk mitigation, attracts more project funding.

Moreover, multilateral development banks investing in new sectors or high-risk regions can lead to additional projects and new investors through a demonstration effect. South Africa's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) presents a case study to that effect and an example followed by countries such as Chile and the United Arab Emirates. As the race to meet climate goals intensifies, multilateral development banks should be supporting domestic institutional development, which is critical for increasing private sector participation in Africa.

Green lending

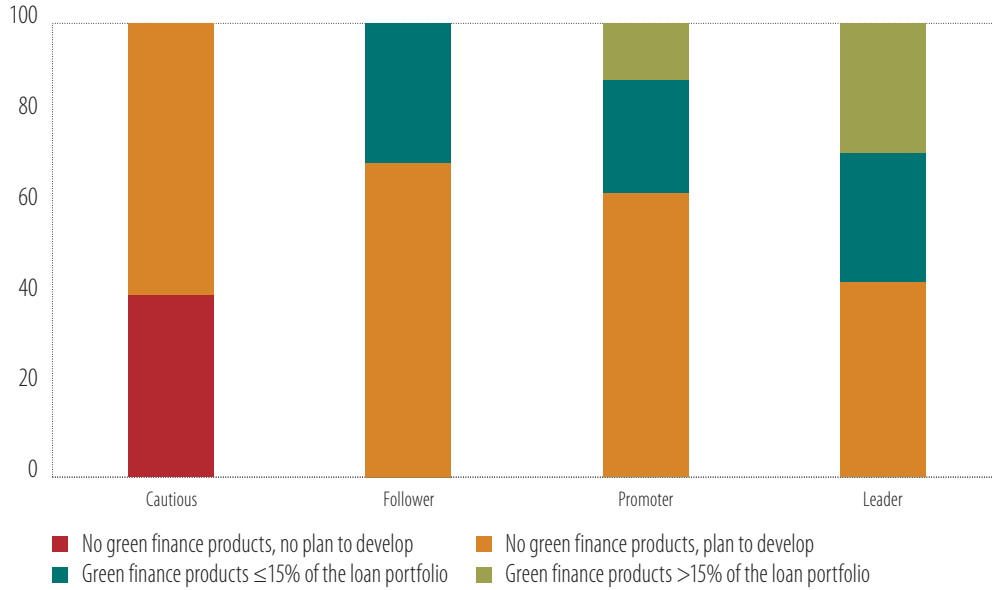
For the most part, banks still do not offer green loans, but there seems to be a relationship between the climate strategy of banks and the share of green loans in their portfolio. Among the banks responding to our survey, 61% do not offer any green finance products, although they plan to begin lending for climate-related projects. In addition, of the 21% of banks that do offer such products, green loans are a small share of the loan book (less than 15%). However, looking at the strategic label that each bank identifies with, as we move from the group of "Cautious" banks to that of "Leaders," an increasing number of banks offer green loans, and these products represent a progressively larger share of the loan portfolio (Figure 8). Indeed, no banks in the Cautious group currently offer green products for customers, whereas nearly half of the Leaders group offer green products, with green loans constituting more than 15% of the loan book for about one-quarter of the banks in this category.

Banks have made progress in established⁶ best-banking practices in the climate field but still have a long way to go in fully tackling climate risks. Given the relatively small share of banks offering green financial products, banks seem to be advanced in so-called established best practices for green banks – with 40% providing technical assistance, 63% training staff on climate issues and 73% having a board-endorsed climate strategy (Figure 9). However, the industry representativeness of these results should be viewed with caution, as this sample of surveyed banks includes a considerable share of respondents that have relationships with international financial institutions and are therefore more likely to have

⁶ To simplify, we split the actions taken by a bank to help with climate transition in two: established actions, which do not impose a structural change in banking practices and are commonly found in the banking sector; and emerging actions, of which there are fewer examples in the industry and which may require some modifications in the way business is conducted.

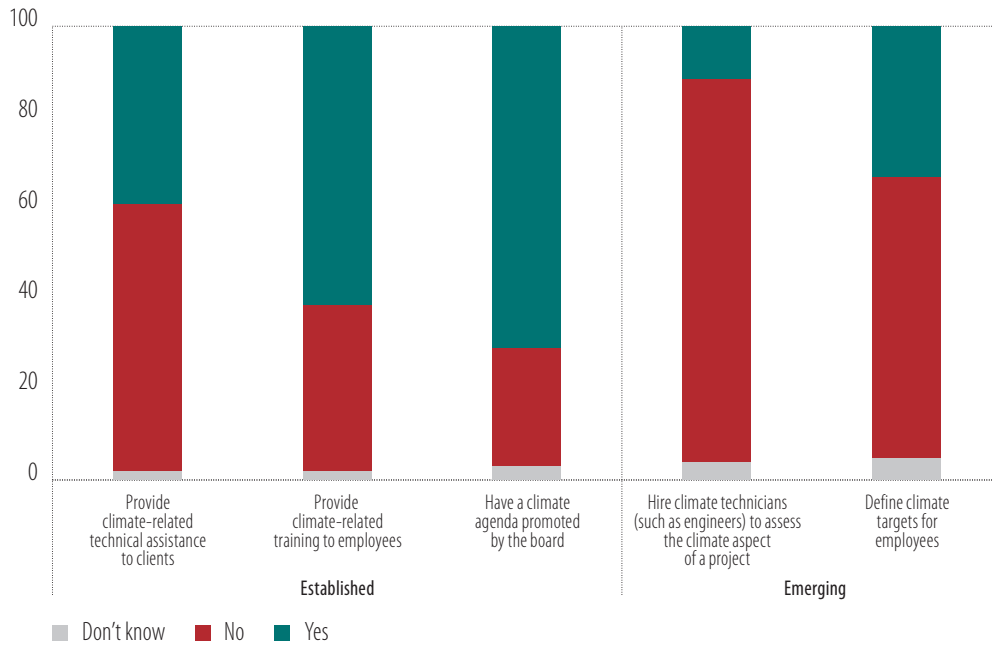
previously received credit lines destined for green projects. Nevertheless, observations on emerging trends in climate assessment, such as having specific climate targets or hiring engineers or other experts, are more in line with other results in this chapter as only 12% of banks hire climate technicians (such as engineers) and 35% include climate as a key performance indicator for staff.

Figure 8
Offering of green products (Y-axis) depending on the climate strategy label (X-axis) (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

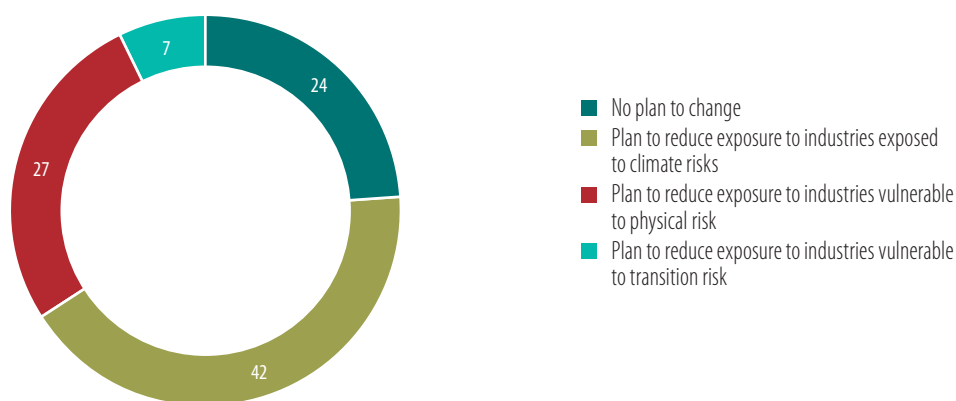
Figure 9
Prevalence of climate-related best practices (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

A large share of banks (76%) plan to curtail lending to sectors of the economy that are exposed to climate risk (Figure 10). This is particularly applicable to physical climate risk, with banks appearing less concerned about transition risk. The apparent lack of interest in transition risk may be because although the direct consequences of physical climate change are already felt, the structure of the economies has not yet changed, so banks cannot risk shifting their sector priorities to cope with transition risk without losing market share and competitiveness. This finding is in line with the results from the EIB country climate risk model (Ferrazzi et al., 2021), showing that physical risk is more prevalent than transition risk in sub-Saharan African economies, even though banks report that physical climate change has a limited effect on asset quality.

Figure 10
Banks’ plans for changing their loan exposure to climate-sensitive industries
 (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

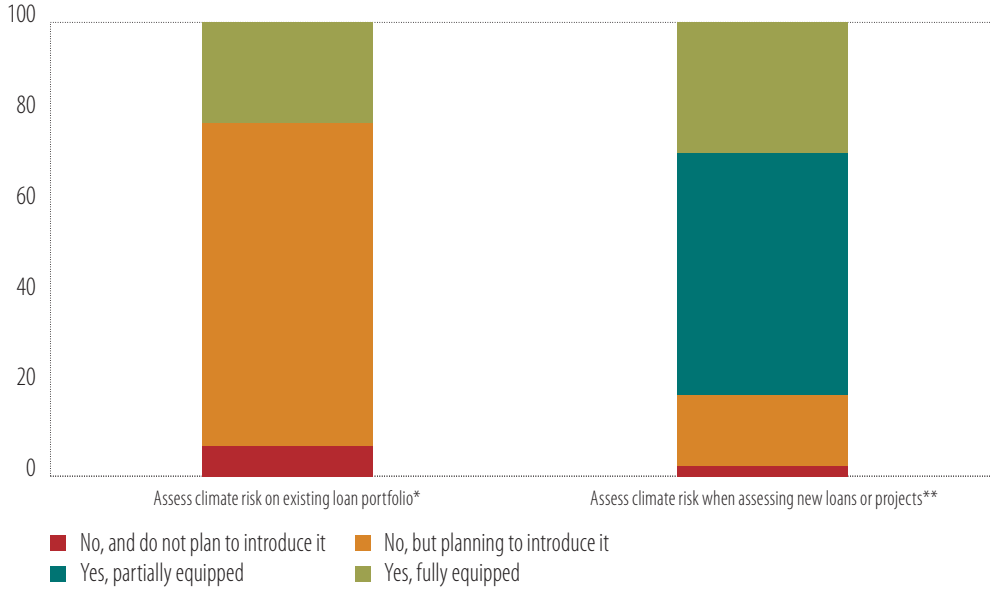
The toolkits banks use for climate risk assessment and monitoring still have gaps, particularly for assessing the climate risks of the existing loan portfolio, but banks are addressing this. Most banks (71%) do not have suitable tools (like scenario analysis or stress testing) for monitoring their evolving exposure to climate risks, but plan to introduce them. However, banks are more advanced in assessing climate risks for new projects, with 53% of banks reporting that they are at least partially equipped for evaluating the climate risks of new projects.

Banks identify client-related factors as the biggest barriers in further increasing green lending. Clients’ lack of technical capacities for making bankable climate investment proposals is cited by 56% of banks as one of their top-three barriers to lending. EIB (2024) show that this is an experience shared by a markedly different sample of public development banks in Latin America and the Caribbean in response to a similar survey. Sub-Saharan African banks say that another important constraint is clients’ view of climate adaptation as a low priority, with the largest number of banks ranking it as their biggest constraint. This finding raises various questions: Why is green loan demand low when the share of African people affected by climate change is high? To what extent are individuals’ climate preferences shaped by political and social factors? In Box 2 at the end of this section (authored by Paola Casati of the University of Bari, Taranto, Italy, and Fotios Kalantzis of the EIB), we explore these questions using data from the 2022-2023 EIB Climate Survey to assess how climate perceptions in Africa and other economic and social factors limit demand for investment in the green transition.

Beyond client-related factors constraining green lending, banks also face internal challenges. According to our Banking in Africa 2024 survey, banks lacking access to long-term capital that can match the long-term horizon of climate investments is the most significant internal challenge (Figure 12), highlighting an action point for international financial institutions. Other factors such as the banks’ own risk management and

monitoring capacities, misalignment of climate and commercial goals and uncertainty around disclosure of climate-related data also feature as constraints but not to the same extent as client-related factors.

Figure 11
Banks' climate risk monitoring for new and existing loans (% of responding banks)

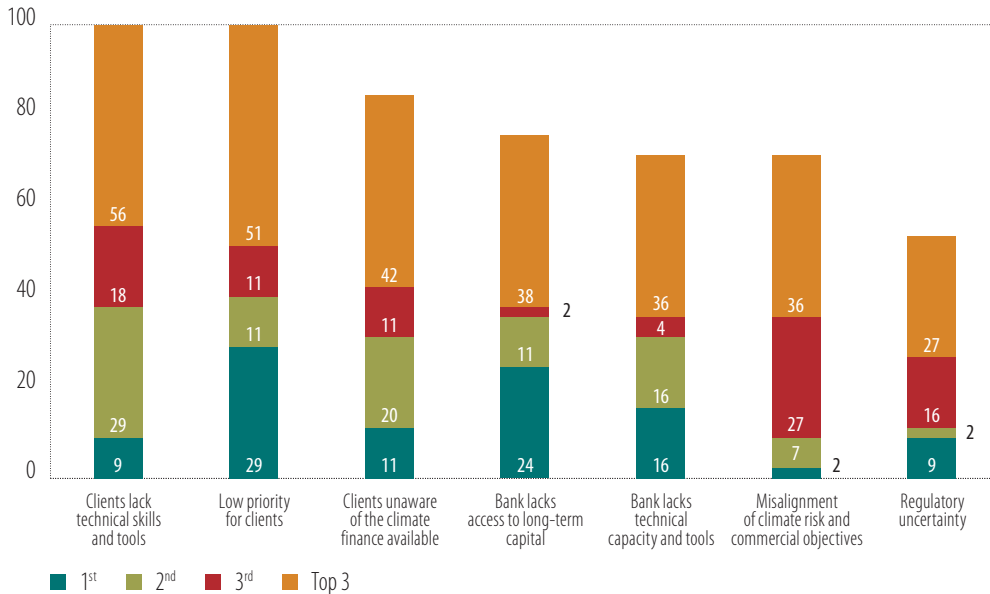


Source: EIB Banking in Africa survey, 2024.

Note: * Toolkit for this analysis includes scenario analysis and stress testing.

** Yes, partially equipped = reviews sustainability before origination, does not monitor. Yes, fully equipped = reviews sustainability before origination and does monitor.

Figure 12
Share of banks that identified each factor as a top-three constraint (% of responding banks)



Source: EIB Banking in Africa survey, 2024.

The strategic ambitions of banks appear to be related to the type of climate obstacles they face. Looking into the sample of banks and the strategic label they identified with, the groups of banks that are less engaged on climate (identifying themselves as “Cautious” or “Followers”) exhibit some differences to the banks that identify themselves as “Leaders” or “Promoters.” While the top two constraints overlap for both samples, the less-engaged segment of banks attaches greater importance to internal constraints on green lending, such as their own lack of technical capacity for managing climate risks and the lack of long-term capital. This observation again reinforces how engagement – by the clients and the banks – is having a considerable influence on green lending volumes. Furthermore, multilateral development banks and international financial institutions should support these banks, potentially via credit lines and technical assistance programmes, as they could disproportionately benefit from these initiatives.

Regulatory incentives are crucial for increasing climate disclosures. Expanding a green finance industry requires data and toolkits for predictions. Since a lack of data is a problem in many countries when trying to calibrate climate tools, increasing the availability of climate-related data would be a vital resource for the banking industry. In our survey, banks were asked about the constraints on lending, and uncertainty about regulatory reporting requirements was ranked last, possibly because most banks (56%) already make some form of climate disclosures – either in their annual report (26%) or upon the request of the central bank or supervisory entity (30%). The former most often report on a voluntary basis, whereas those that report directly to the regulator usually do so because it is a legal requirement. If more regulators slowly pushed for increased climate disclosures, the 44% of banks that do not report on climate at all would be incentivised to make information available. Such disclosures would considerably enlarge the knowledge base available to banks, increase transparency in the sector, and help banks – and indirectly, their clients – become familiar with the green taxonomy.

Box 2

How climate perceptions in Africa shape preferences and demand for investment in the green transition

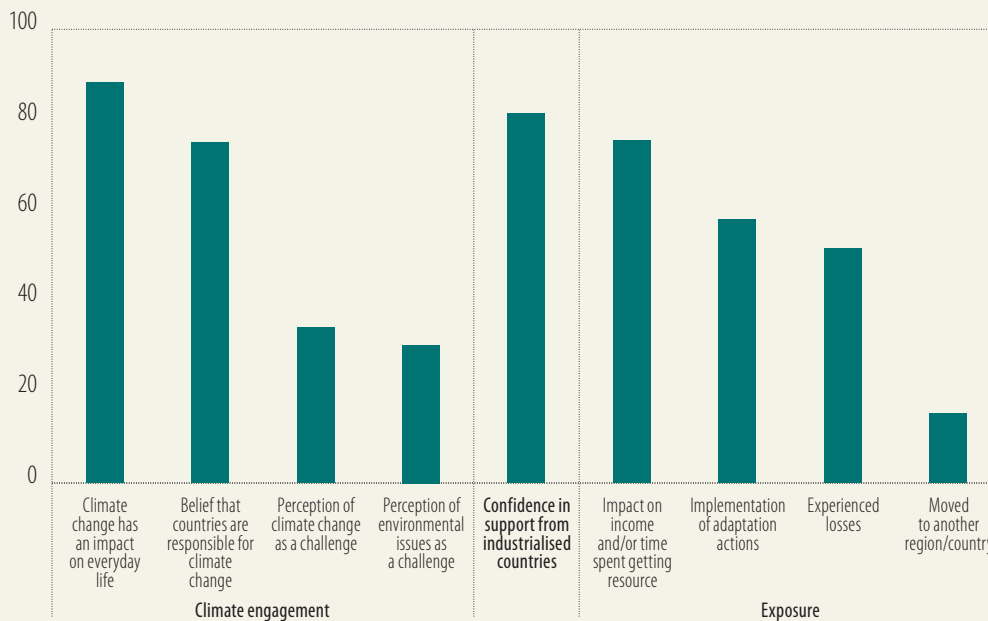
As the global community faces increasing pressure to move to cleaner energy sources, understanding the behavioural foundations of energy technology choices is key to designing effective policies and actions to promote sustainable energy transitions. Although there is a growing body of research analysing the drivers of climate change beliefs, the literature exploring the role of climate behaviours in shaping energy technology preferences remains limited. This gap is particularly evident in developing economies, where the relationship between individual climate change-related actions and the adoption of renewable energy technologies is crucial to achieving [Sustainable Development Goal 7](#) (Ensure access to affordable, reliable, sustainable and modern energy for all). In Africa – where energy access is often limited and unreliable – renewable energy technologies offer promising solutions. However, the adoption of these technologies is influenced by a complex interplay of economic, social and demographic factors. This box considers various perspectives on energy technologies and aims to connect individuals’ preferences for renewable energy with climate change awareness and exposure. By empirically examining these factors, pathways for accelerating the deployment of renewable energies and enhancing their social acceptance can be identified. The evidence and analyses presented in this box offer guidance for policymakers and stakeholders engaged in shaping the future energy landscape of Africa.

Data used in these analyses are from the EIB Climate Survey 2022, including 6 105 responses across ten countries. First, to capture the nuanced concept of climate change perceptions, a structural equation modelling approach was employed. This approach allows us to model climate engagement as a latent variable, based on responses to several questions in the survey: the perception of climate change and environmental issues as main challenges, the perceived impact of climate change on everyday life, and beliefs about anthropogenic causes of climate change. Similarly, the analysis includes a set of indicators for capturing climate change exposure (for economic and social disruptions), and perceptions related to political and social issues. The model also includes a variable that captures

confidence in industrialised countries' efforts to combat climate change. In a second step, the variables created from the survey are used to predict renewable energy preferences using a multinomial logistic regression model.

Figure 13

Climate engagement and climate exposure indicators among individuals in Africa
(% of respondents)



Source: EIB Climate Survey 2022/2023 – Africa.

According to the EIB Climate Survey 2022, most respondents (74%) recognise climate change as a human-caused phenomenon, with around 34% considering it among the top five challenges facing their country (Figure 13). A large proportion of respondents (87%) see climate change affecting their everyday life, indicating a substantial level of awareness and concern about climate change and its effects. In addition, 82% of respondents trust the efforts of industrialised countries in combating climate change, underscoring a reliance on global initiatives for climate change mitigation. This high level of trust may reflect the perception that industrialised nations, which are responsible for significant emissions, also have the resources and technology needed to address the climate emergency. More than half of the respondents have experienced climate change-related losses (51%) and 75% reported that climate change had affected their income and the time spent acquiring resources (Figure 13). Furthermore, almost 60% of respondents have already taken adaptation actions, highlighting proactive efforts at the individual level.

The results of the structured equation modelling analysis offer a detailed understanding of the factors influencing climate engagement (Figure 14a). Measuring climate exposure helps identify the extent to which individuals are affected by climate change and how this affects their attitudes

and behaviours. Climate exposure has a strong positive effect on climate engagement, indicating that higher perceived risks from climate change correlate with increased engagement with climate issues. This finding suggests that personal experiences with extreme climate-related events drive increased concern and involvement in climate action.

However, a closer analysis of whether the preferences for energy sources match this climate engagement provides surprising results (Figure 14b). The multinomial logistic regression reveals that individuals who are more exposed to climate risks (climate exposure index) still tend to prioritise fossil fuels over renewable energy sources. Conventional fuels typically have lower upfront costs, making them more accessible for small-scale and individual use than renewable energy sources. In contrast, there is a positive association between climate engagement and preferences for renewable energy, indicating that higher climate engagement correlates with greater support for renewable energy technologies over fossil fuels. This finding underscores the importance of enhancing climate engagement to foster public support for renewable energy adoption, highlighting the need for targeted educational and awareness programmes.

The analysis also highlights significant regional and socio-demographic disparities. Residing in a sub-Saharan African country is associated with lower climate engagement and a higher probability of prioritising fossil fuels. This result can be attributed to severe electricity access issues in sub-Saharan Africa, which force reliance on fossil fuel-powered generators. Moreover, men are more likely than women to prefer renewable energy technologies. This means that gender disparities and regional challenges must be addressed while raising awareness to effectively promote the adoption of renewable energy.

Perceived political challenges exhibit a significant negative relationship with climate engagement. This finding suggests that individuals in regions characterised by political instability or corruption may prioritise immediate well-being and economic concerns over long-term environmental engagement. However, although they exhibit lower climate engagement, individuals seeing political issues (such as corruption) as major challenges in their country are more likely to prioritise renewable energy. This preference likely stems from the unreliable fossil fuel electricity supply in poorly governed countries, driving a desire for renewable options that will enhance energy security and access and political stability. Similarly, social priorities emerge as a robust predictor of renewable energy preferences. Individuals prioritising improvements in healthcare, education, clean water, and food access are more likely to support renewable technologies, reflecting an understanding that sustainable energy solutions are integral to broader social and economic development goals.

In summary, although countries in sub-Saharan Africa face significant climate risks, investment in climate transition in this area is limited by other economic and social factors, and integrated policies that address climate and socio-political challenges are needed. Enhancing climate education is crucial to increasing awareness and understanding of climate change, potentially then driving support for renewable energy technologies. In addition, addressing immediate needs by providing solutions for those directly affected by climate change may help build support for long-term renewable energy adoption. The complex interplay between climate perceptions, political views and social priorities underscores the need for multifaceted strategies that consider the diverse factors influencing energy preferences. By leveraging political support, addressing social needs and enhancing climate engagement, policymakers can develop more effective and inclusive energy policies that align with environmental and socioeconomic goals.

Figure 14**Drivers of climate engagement (14a) and renewable energy preferences (14b)**

a. Drivers of climate engagement

| | Climate engagement |
|---|--------------------|
| Climate exposure | Positive |
| Political challenges | Negative |
| Social priorities | Negative |
| Confidence in support from industrialised countries | Positive |
| Age | Positive |
| Gender (female) | Positive |
| Having children below 18 | Positive |
| Location in sub-Saharan Africa | Negative |

Source: Own calculations based on the EIB Climate Survey, 2022.

Note: Climate engagement is estimated using a structural equation model, where social priorities are a latent variable capturing respondents' need to prioritise improvements in social infrastructure (access to healthcare, education, clean water and food) considered as a key challenge in their country, and where political challenges are a latent variable capturing respondents' perception of political challenges related to security, terrorism, corruption and stability. The analysis also included a set of country-level variables: gross domestic product (GDP) per capita (current US dollar), population density, share of renewable energy in total final energy consumption and the EIB transition risk and physical risk scores (EIB, 2021).

b. Renewable energy preferences

| | Renewable energy preferences vs. fossil fuels | | |
|--------------------------------|---|------------------------------|-----------------|
| | Large-scale renewable energy | Small-scale renewable energy | Nuclear energy |
| Climate engagement | Positive | Positive | Positive |
| Climate exposure | Negative | Negative | Negative |
| Political challenges | Positive | Positive | No significance |
| Social priorities | Positive | Positive | No significance |
| Age | Positive | Positive | Positive |
| Gender (female) | Negative | Negative | Negative |
| Having children below 18 | No significance | No significance | No significance |
| Location in sub-Saharan Africa | Negative | Negative | Negative |
| GDP per capita | Positive | Positive | No significance |
| Population density | Negative | Negative | No significance |
| Renewable energy consumption | Positive | Positive | Positive |
| Transition risk | No significance | No significance | Positive |
| Physical risk | No significance | Positive | Negative |

| | |
|-----------------|----------|
| Significance | Positive |
| | Negative |
| No significance | |

Source: Own calculations based on the EIB Climate Survey, 2022.

Note: Renewable energy preferences are estimated using a multinomial logistic regression. In this model latent variables are now considered as composite indicators to predict renewable energy preferences.

Policy priorities

The analyses in this chapter show that to support the greening of the financial sector, policymakers should focus on promoting climate awareness and backing the development of skills and tools for banks and clients. The main message emerging from our survey is that although banks are reporting a lack of long-term capital as an obstacle to green lending, non-finance obstacles are more significant. Tackling these obstacles with technical assistance and the development of skills and tools is as important as the provision of long-term finance.

More broadly, the greening of sub-Saharan African economies will need more than bank financing alone. Governments in the region should first pursue reforms to increase climate awareness, while addressing the economic and social priorities of their populations. Against this backdrop, multilateral development banks continue to have a critical role to play in Africa providing affordable and long-term financing, building capacity and catalysing much needed private sector investments.

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Chapter 7

Partnering with Africa

The European Investment Bank's work in Africa

The European Investment Bank (EIB) has a global reach, with operations in more than 140 countries beyond Europe – including most African countries – building on decades of development experience. The EIB has been investing in Africa since 1963, financing a range of projects that support sustainable economic development. In the current period of geopolitical fragmentation and uncertainty, Europe's partnership with Africa is vital and must be strengthened. EIB Global is a specialised EIB directorate established in 2022 that is devoted to financing investments beyond the European Union. It focuses on delivering EU development priorities in line with the Sustainable Development Goals and climate goals, including through operations that improve access to vital infrastructure, health, climate, food security, jobs and sustainable and inclusive economic and social development.

The EIB delivers all its investments through partnerships, and typically does not fund more than half of a project's total cost. EIB Global, as part of [Team Europe](#), works with the European Commission, the European External Action Service, and other European development finance institutions in funding flagship projects under initiatives such as the EU [Global Gateway](#) and the global climate transition. For example, the EIB supported the supply of COVID-19 vaccines for low- and middle-income countries eligible under the European Commission's European Fund for Sustainable Development, with many African countries benefiting from this initiative.

EIB Global is strengthening its engagement and cooperation in Africa. In 2023, EIB Global opened regional hubs in Cairo, Egypt, and Abidjan, Côte d'Ivoire, allowing for closer ties with private and public partners across Africa. The EIB has six regional hubs globally, of which four are in Africa. The Bank's financing arrangements beyond the European Union were worth €8.4 billion in 2023, with Africa attracting 37% of this financing, at €2.5 billion in sub-Saharan African and €0.7 billion in North Africa (Table 1).

The *EIB Global Impact Report 2023/2024* shows that more than half of the projects signed beyond the European Union in 2023 contributed to climate action and environmental sustainability, one of the EIB's four key public policy goals.¹ In Africa, given the broad spectrum of financing requirements, financing by the EIB was less heavily concentrated on climate and was instead directed to other vital areas. For example, private sector development remains a priority in Africa; about a third of EIB financing targets this sector, focusing on growth, job creation and supporting smaller firms (Figure 1).

There are encouraging signs in Africa, with growth accelerating, macroeconomic imbalances declining and access to financial markets improving. However, although many African economies are showing considerable dynamism, poverty levels remain extremely high – 400 million people are estimated to be living in extreme poverty² – and African countries face challenges in achieving their full potential. Currently, only 65% of the population in sub-Saharan Africa can access basic drinking water services, and only 33% have access to basic sanitation and public transport, meaning investment in vital infrastructure is needed. The EIB directs financial support where it is needed most. Around 72% of EIB lending to Africa in 2023 (78% for sub-Saharan Africa) reached the countries with the greatest need: least developed countries and fragile or conflict-affected countries.

1 See Table 1 on page 6 of the *EIB Global Impact Report 2023/2024* for more details on the share of financing directed to the four different public policy goals.

2 World Bank (2022). "Poverty and shared prosperity 2022: Correcting course." Washington, DC: World Bank.

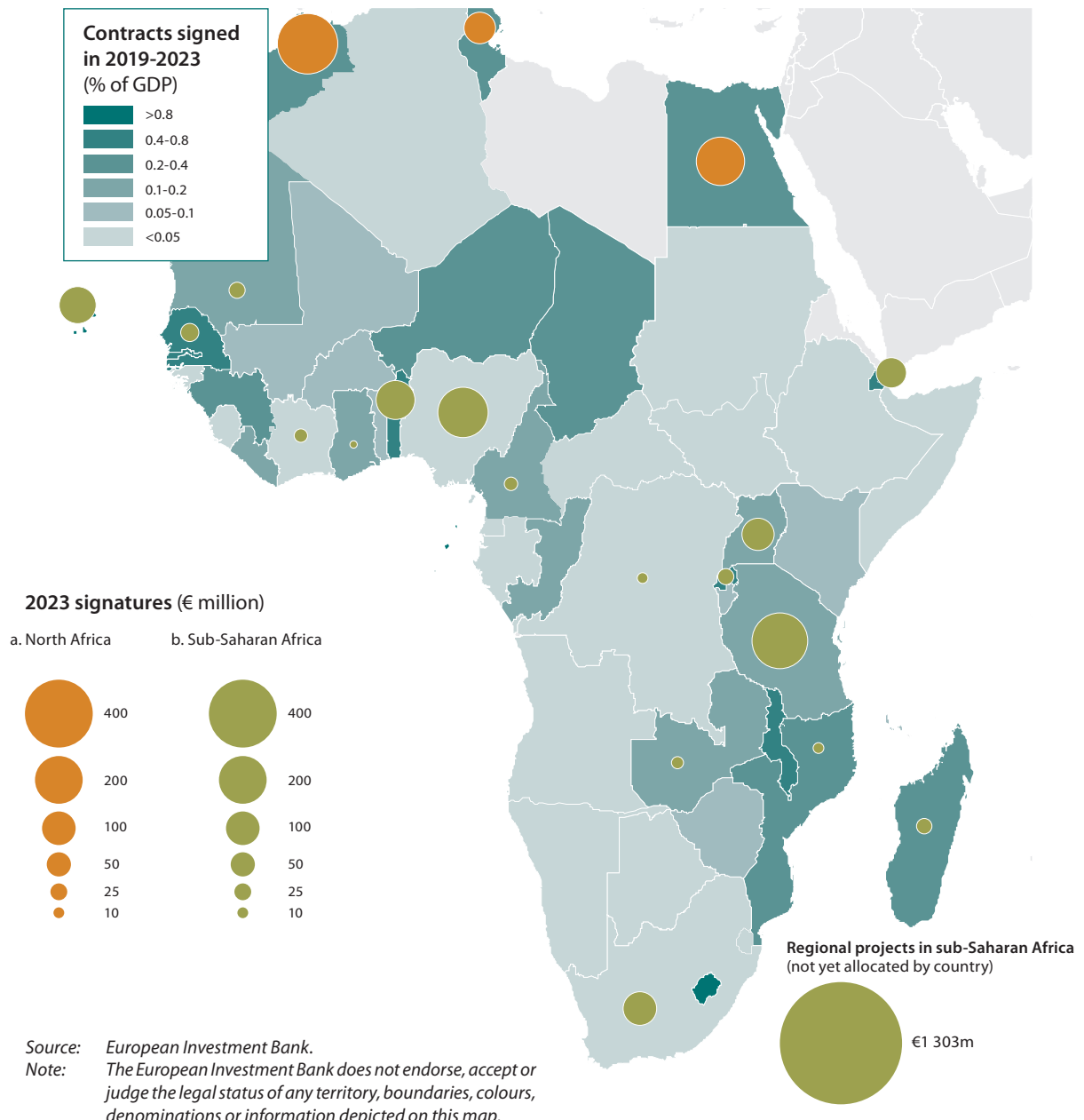
Table 1

Value and expected outcomes of projects financed by the EIB in Africa in 2023

| Signed in 2023 | Key expected results of new projects |
|---|--|
| <p>€3.1 billion</p> <p>Climate action and environmental sustainability: 32%</p> | <p>1.66 million people with access to safe drinking water</p> <p>115 800 new connections to electricity networks</p> <p>614 000 jobs sustained in micro, small and medium-sized enterprises and mid-cap firms</p> |

Figure 1

EIB lending in African countries (contracts signed in 2023 and as % of GDP over 2019-2023)



Jobs and inclusive growth

Businesses play a critical role in the development and economic convergence of low-income countries with high-income countries. Through investment, businesses can increase productivity levels, which is essential for reducing poverty and raising standards of living. In addition, the ability of businesses to create jobs for those entering the workforce and opportunities for women and men is crucial for the development of more inclusive societies. However, access to finance is a key constraint on businesses, as demonstrated in Chapter 2.

EIB Global supports businesses through credit lines that allow local banks to extend credit to small and medium-sized enterprises and some mid-cap companies that the local banks would otherwise not reach. They do this by passing on more favourable terms and conditions, such as longer loan tenors. In addition, credit lines to microfinance institutions help these institutions expand their outreach to very small and mostly informal companies, aiding microentrepreneurs in building and improving their businesses. Investment in private equity, infrastructure and venture capital funds provides much needed expertise and risk capital to green and sustainable projects and carefully selected businesses with high growth potential, developing solutions with a high degree of replicability across Africa.

As an example of this support for businesses, two EIB credit lines – one to a bank in Rwanda and one to a bank in Benin – were fully allocated in 2023. These credit lines resulted in 60 loans worth a combined €50 million directed at local companies, with 56 of these loans going to small and medium-sized enterprises. The average tenor of the loans to small firms was four years. As reported in Chapter 3, loans to small and medium businesses are often less than two years in duration, so these 56 loans represent a marked improvement in the long-term financing available to these firms. The loans are estimated to have created more than 4 100 permanent jobs in the local economy.

EIB Global's support for private sector development also focuses on disadvantaged groups and gender-responsive investments, with operations in 2023 supporting the economic empowerment of women entrepreneurs, young people and farmers in Tanzania, Mauritania, Mozambique, Uganda and Nigeria.

Rising to the challenge of climate adaptation

Adaptation to better manage the effects of climate-related migration is crucial for protecting economies and millions of lives. Severe heatwaves, deadly wildfires, violent storms and devastating floods swept across many areas of the world in the summer of 2023, which was the hottest summer on record.³ These extreme weather events – caused by climate change – threaten food security, communities, infrastructure, natural resources and entire ecosystems, and have displaced millions of people worldwide.

For least developed countries, the EIB is extending financing of up to 100% of the cost of climate adaptation projects. For example, the Bank is working with local banks in Côte d'Ivoire, Senegal and Zambia, and in a partnership with the International Fund for Agricultural Development, to finance smallholder farmers who adopt climate-resilient practices. Further loans to Nigeria will improve the climate adaptation and resilience of agricultural value chains; for example, through upgrades to rural roads and agrologistics centres.

At the Europe-Egypt Energy Interconnectivity event in May 2023, EIB Global unveiled new support for the Egypt Green Economy Financing Facility, which provides financing for business investment through local financial partners. This initiative will enable companies across Egypt to invest more in reducing energy and water consumption, improving product quality and increasing competitiveness. In Morocco, EIB Global is supporting the Moroccan forestry strategy aimed at restoring more than 600 000 hectares of forest ecosystems, combating soil erosion, regulating the flow of water, and increasing returns from forestry and tourism. The EIB-financed component will afforest 55 000 hectares, creating more than 6 800 permanent jobs.

³ NASA Announces Summer 2023 Hottest on Record – NASA.

Supporting vital infrastructure

EIB Global is financing the first electricity interconnector between Tunisia and Italy, [ELMED](#). ELMED is a strategic link encompassing a 200 km submarine cable between the Cap Bon Peninsula in Tunisia and the Italian island of Sicily. The link will spur the development of renewables and optimise the use of resources by allowing the import and export of surplus supply, improving the security of supply and increasing the operational flexibility of both electricity systems. The project contributes to the Global Gateway priorities and climate goals. Eventually, the cable will provide Tunisia with the possibility of exporting renewable energy to Europe.

In addition to financing the largest independent wind power producer project in Africa – the 310 MW [Lake Turkana wind farm](#) in Kenya (2014) – the EIB played a pivotal role in funding the first independent wind power producer project on the continent: the Cabeólica wind farm in Cabo Verde (2010). The Cabeólica project involved the development, construction and operation of four wind farms across the islands of Santiago, Boa Vista, Sal and São Vicente, with a total installed capacity of 27.2 MW. Currently, the EIB is supporting the expansion of the wind farm on Santiago island, which is expected to include a 13.5 MW capacity increase and battery energy storage systems that will enhance the reliability and stability of the energy system.

EIB Global remains committed to promoting private sector engagement in renewable energy generation. In recent years, the EIB has financed pioneering, competitively tendered, renewable energy projects in the region, including those in South Africa, Zambia and Senegal. The resulting tariffs demonstrate the marked decline in renewable energy prices brought by the competitive process, which ultimately benefit local consumers. The tariffs yielded by the tenders in Zambia and Senegal were exceptionally low.

The EIB is providing €90 million of financing for the AFR-IX [Medusa](#) cable system, a submarine data cable network interconnecting five European countries (Portugal, Spain, France, Italy and Cyprus) with four North African countries (Morocco, Algeria, Tunisia and Egypt). In addition to improving access to digital services for consumers and businesses, the system will stimulate innovation and research in the region, with around 500 universities, education institutes and research centres and about 4.5 million students expected to benefit from the project.

The EIB is also investing \$40 million in the [ACRE Export Finance Fund](#), an infrastructure fund that provides credit financing to projects in Africa in the sectors of renewable energy, health, food and water scarcity, and green transportation. The fund will implement a first of its kind investment strategy by providing unsecured commercial loans to complement long-term loans provided by international banks that are guaranteed by export credit agencies. The fund aims to raise \$200 million and finance up to 15 projects.

A boost for African startups

In partnership with the African Development Bank, and with support from the European Commission and the Organisation of African, Caribbean and Pacific States, the EIB launched the [Boost Africa investment programme](#) in 2020 with the aim of strengthening the nascent African venture capital market. The initiative combines financing via venture capital funds with technical assistance to new venture capital fund managers and African startups. By unlocking the entrepreneurial potential of Africa's young population, the programme should spur private sector growth on the continent, alleviate poverty through the creation of jobs and advance achievement of the Sustainable Development Goals. The programme focuses on fundraising targeting more fragile countries.

Financing under the Boost Africa programme has already reached 32 startups that are active across the continent. These companies are mainly headquartered in Nigeria and Kenya, which are two of the most prominent African startup hubs, but investee companies also conduct business in an average of three additional African countries. Fintech is a major area of focus, with 13 startups active in this sector. The next most important sector is logistics and transport, featuring four active Boost Africa investee companies.

Through Boost Africa, investee companies also secure more financing than startups outside the programme. Almost 94% of Boost Africa-backed founders have raised more than \$1 million, whereas only 52% of other founders have achieved this.

Advisory activities

Working as part of Team Europe and cooperating with other international organisations, EIB Global provides technical assistance and financial advice for project preparation and implementation.

In addition, EIB Global supports the development of skills for clients and other stakeholders. Besides enhancing the quality and sustainability of projects, the Bank's advisory work also improves the efficiency of implementation. EIB in-house experts design and manage the advisory programmes, often with support from external service providers or other institutional partners for technical assistance and activities that develop specific skills. Examples of some of the impactful activities of EIB Global advisory services in researching, designing and carrying out projects are outlined below.

Unblocking project delivery in the Maghreb: Based on an internal assessment of the EIB lending portfolios in Tunisia and Morocco, the Bank has deployed a consultancy team under the [Economic Resilience Initiative](#)'s envelope for technical assistance. Consultants are working with project promoters and implementation units to address implementation bottlenecks, based on priorities defined by the involved parties.

Developing strategies and project pipelines for African cities: EIB Global's African Sustainable Cities Initiative is a €7 million technical assistance programme helping secondary cities in up to four African countries prepare municipal investment plans for sustainable urban infrastructure. The programme aims to strengthen municipal capacity for raising finances and developing priority projects through private sector investments. In 2023, Côte d'Ivoire became the first beneficiary.

Coupling advisory services with blended finance: Developing clean, climate-friendly and energy-efficient solutions in Africa is the goal of the Demand-Side Management, Social Infrastructures and Renewable Energy Expansion (DESIREE) programme. Some of the projects will benefit from blended financing through technical assistance, investment grants and credit enhancement instruments under a dedicated envelope funded by the European Commission. The first, in 2023, was a €20 million loan for the West Africa Rural Electrification Expansion project.

Sharing knowledge on green financing: The [Greening Financial Systems technical assistance programme](#) provides advisory services to central banks and financial intermediaries to enhance climate risk management and scale up green investments, with the overall objective of promoting net zero and climate-resilient financial systems. A fast start in 2023 saw the approval of assignments in Armenia, Ethiopia, Georgia, Kenya, Nigeria, North Macedonia and Rwanda. The programme is supported by Germany under the [International Climate Initiative \(IKI\)](#) fund.

Preparing projects on climate-smart sustainable agriculture and food production: In partnership with the [Food and Agriculture Organization of the United Nations Investment Centre](#), another advisory programme is aiming to deliver bankable projects along the agriculture and bioeconomy value chains targeting small and medium-sized enterprises, corporates and the public sector. The technical assistance focuses on climate resilience and risk mitigation and addresses basic needs for food security, rural development, improving farmers' incomes and creating jobs to overcome current demographic challenges and promote the empowerment of women.

Supporting trade and competitiveness: EIB Global is advising financial intermediaries and businesses on developing financial products and bankable investments that will promote sustainable value chains in sectors such as food, agroindustry, manufacturing, services and tourism. Compliance with EU standards for export to the EU market is a key topic. Technical assistance has already been provided in Egypt, Tunisia and Morocco.

Promoting the economic empowerment of women: In 2023, two technical assistance programmes promoted access to finance for women entrepreneurs in sub-Saharan Africa. The [African Women Rising Initiative](#) worked with nine financial intermediaries from Côte d'Ivoire, Rwanda, Senegal and Uganda to help improve and extend both their financial and non-financial services for women. The initiative saw the number of loans to women rise by over 30% across the portfolio in the space of a year. Advisory support was further provided to complement the EIB's financing of the [Women's Entrepreneurship Development Project \(WEDP\)](#). The programme worked with 17 financial intermediaries in Ethiopia to enhance their capacity to serve women entrepreneurs.

Developing knowledge: The EIB and the International Monetary Fund, through their development partnership, created the online course [Financial Development and Financial Inclusion, FDFix](#) for training government officials and financial intermediaries on financial inclusion and access to finance, particularly for micro, small and medium-sized enterprises. Since its launch in 2019, the course has served almost 10 000 active participants (of which more than 5 500 took the final test) from 70 countries across five continents.

With operations in more than 140 countries, the EIB Group's reach is global. For more information on the EIB's activities in Africa and other regions of the world, please consult the [EIB Global Impact Report 2023/2024](#).

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