Making Finance Work for Africa

Financial Sector Regional Profile

SOUTHERN AFRICA

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Economic and Demographic Landscape

The Southern African region[1], which comprises 13 countries[2], had a population of 225 million inhabitants in 2022, with South Africa accounting for the largest share (26.6%). The region is characterized by its socioeconomic diversity, which encompasses countries with relatively high incomes per capita such as Mauritius, South Africa and Botswana (USD 10256.2, 6766.5 and 7738.9 respectively in 2022), but also countries with very low incomes like Malawi, Madagascar, and Mozambique with GDP per capita standing respectively at USD 645.2, 516.6, and 558.3 in 2022. The region also includes tourism-dependent countries like Botswana, Mauritius, Namibia and Zimbabwe, and countries in fragile situation like Zimbabwe, Madagascar, and Malawi which have the highest incidences of poverty, along with food insecurity and frequent weather-related shocks.

The COVID-19 pandemic caused the region's real GDP growth to drop by 6.5 percentage points, from 0.3% in 2019 to -6.2% in 2020. This large contraction also resulted from the sharp shrinking in South Africa's GDP (-6.3% in 2020), which reduced positive externalities for other countries in the region. The health crisis also worsened social outcomes in the region, increasing poverty and unemployment, and exacerbating income inequality. However, urgent measures undertaken at early times of the health crisis helped limit the spread of the pandemic in the region.

Growth for the region is estimated at 2.2% in 2024, from 1.6% in 2023. The region's economic landscape shows generally better economic growth as countries recover from the health crisis, fueled by the leading role of South Africa. Beyond this, the region benefits from the spillover effects generated by South Africa for being the sole African country member of the BRICS and G-20. Additionally, the abundance of natural resources in the region could help uplift the prevailing structural constraints countries are facing.

Financial Sector Overview

The financial sector of Southern Africa countries is made up of different financial intermediaries which include central banks, commercial banks, investment banks, pension funds, insurance companies, microfinance institutions, mobile money operators, as well as stock markets. Although the level of financial development varies across countries, the financial system remains dominated by the banking sector, except for countries like Namibia and Eswatini. In 2022, assets of Non-Bank Financial Institutions represented 177.5% of GDP in Namibia and 116% of GDP in Eswatini in 2023[3].

According to NAMFISA[4] the value of the total assets, of the non-bank financial institutions (NBFI) in Namibia increased to an amount of NAD 419.4 billion in 2023 (USD22.37 billion). Eswatini's NBFI

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[1] The definition of the Southern African region used here is not that of the United Nations but rather that of the regional operations of the African Development Bank. https://www.afdb.org/en/countries/southern-africa

[2] Angola, Botswana, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Sao Tome and Principe, South Africa, Zambia and Zimbabwe.

[3] Pension funds and Insurance leading the way.

[4] Namibia Financial Institutions Supervisory Authority

assets have grown steadily in recent years to about 78 percent of the total for the financial system according to the IMF.

Continued focus on implementing and strengthening AML/CFT[5] framework remains critical in some countries, to relieve pressures on corresponding banking relations. Progress in AML/CFT supervision in Botswana led to the country's exit from the Financial Action Task Force (FATF) grey list in October 2021, a situation which is expected to boost confidence in the domestic financial system. After completing its Action Plan well ahead of the set timelines, Mauritius exited the FATF list of jurisdictions under increased monitoring in October 2021. Likewise, the United Kingdom (UK) removed Mauritius from its list of high-risk countries under UK Money Laundering and Terrorist Financing. Countries that are still on FATF's grey list include Mozambique and South Africa.

The banking Sector

Structure and Ownership

The banking sector in Southern Africa presents differences across countries. Banking sectors in Mauritius and South Africa are sophisticated with features that rival the international financial architecture, whereas in countries like Namibia and Botswana banks are emerging with good record of accomplishment. In several Southern African countries, however, the banking sector remains narrow and underdeveloped. The regional banking sector's landscape remains diversified with locally-owned banks and subsidiaries of either pan-African groups or non-African foreign banks. For example, in Botswana, all commercial banks are majority foreign-owned[6] and include subsidiaries of pan-African groups, whereas the Mauritian banking sector is dominated by locally-owned banks.

South Africa's banking sector is one of the most developed in the region. Many banks headquartered in South Africa operate in various countries in the region. For example, Standard Bank operates in 10 countries in the region. Likewise, First National Bank and ABSA are found in Botswana, Lesotho, Namibia, Eswatini, Mozambique, Mauritius and Zambia.

The banking landscape also remains relatively concentrated in the region. For example, the banking asset concentration, as a share of total commercial banking assets, stood at 100%, 100% and 99.8% in 2021 for the three largest commercial banks in Lesotho, Malawi and Namibia respectively (Table 1). The high concentration of the banking sector remains an obstacle to financial inclusion in the region, due to low competition and the high cost of credit, which results in low bank credit access rates for households and SMEs. In Namibia, despite the sophistication of the financial system, a significant portion of the low-income and rural population remains excluded from formal financial services, partly due to the high concentration of the banking system, which has led to relatively reduced level of competition and innovation, with little incentive for banks to invest in innovation and expand services (IMF 2018).

[5] AML/CFT: Anti-Money Laundering / Countering the Financing of Terrorism
[6] BBS Bank is the only bank with majority local ownership.

Table 1: banking asset concentration of 3 largest commercial banks (%)

Country	2018	2019	2020	2021
Angola	57.0	64.2	63.7	68.4
Botswana	63.6	62.7	65.8	75.8
ESwatini	100.0	100.0		
Lesotho	91.7	91.6	91.0	100.0
Madagascar	72.0	74.2	81.8	
Malawi	67.7	67.9	68.1	100.0
Mauritius	52.0	55.1	55.8	59.1
Mozambique	76.8	76.4	75.3	78.7
Namibia	82.9	83.3	95.9	98.8
Sao Tome & Principe	-	-	-	-
South Africa	77.8	77.3	77.4	79.4
Zambia	45.8	44.7	58.4	65.9
Zimbabwe	57.6	54.7	59.0	81.8

Source: World Bank (Global Financial Development Database, September 2022)

Loans and Deposits in the Banking Sector

On aggregate, banks in the region kept on catering to the private sector, despite the COVID-19 crisis. Between 2020 and 2022, domestic credit to private sector, as a share of GDP, decreased in most countries, except Lesotho, Madagascar, Malawi and Zimbabwe, where credit to private sector rose by 1, 0.2, 0.5 and 3.3 percentage points respectively (Table 2). Mauritius recorded the strongest credit reduction, with a 19.5 percentage points of variation over 2020-22. In 2022, countries that recorded the highest level of credit to the private sector were Mauritius, South Africa and Namibia, with 72.3%, 58.7% and 52.6% of GDP respectively, compared with 29.8% of GDP for Botswana. The low rate of credit to the private sector in Botswana is partly attributed to the lasting effects of the COVID-19 pandemic and the tightening of anti-inflation measures, which have reduced demand for credit. The rest of countries in the region recorded a low level of bank credit to the private sector, which was well below the average of 26.7% of GDP in 2022 for Sub-Saharan Africa.

Table 2: Domestic credit by banks to private sector

Country	2015	2016	2017	2018	2019	2020	2021	2022
Angola	24.0	19.9	15.9	13.8	14.3	12.4	9.3	7.4
Botswana	36.0	32.7	33.9	34.7	35.9	39.6	34.5	29.8
eSwatini	20.4	21.0	20.8	20.8	20.8	21.7	20.6	21.1

Lesotho	18.0	17.8	19.7	19.8	21.3	21.5	22.6	22.5
Madagascar	12.3	11.8	12.6	12.9	14.0	16.3	17.5	18.5
Malawi	9.1	7.9	7.3	6.7	7.1	7.4	7.8	7.9
Mauritius	100.0	93.5	99.0	75.3	78.1	91.8	86.4	72.3
Mozambique	31.8	30.9	24.2	21.8	20.9	23.4	22.5	20.7
Namibia	54.0	54.3	52.4	53.2	56.9	60.6	58.0	52.6
Sao Tome & Principe	31.8	30.0	28.0	23.5	21.3	18.8	16.7	-
South Africa	62.5	61.0	60.1	59.7	60.2	61.9	57.9	58.7
Zambia	15.7	12.1	11.1	11.6	12.5	12.3	8.5	10.2
Zimbabwe	18.0	17.0	16.8	5.8	5.2	5.4	6.9	8.7

Source: World Bank (WDI, 12/18/2023 update)

Bank deposits (demand, time and saving deposits) registered an increase in most countries across the region between 2019 and 2020, the highest expansion being registered by Mauritius (33.9 percentage points). Mauritius also recorded the highest level of bank deposit, which stood at in 143.5% of GDP in 2021, followed by Namibia and South Africa, 70.1% and 60.4% of GDP respectively (Table 3). In countries like Botswana, commercial banks' funding structure remains concentrated in a few large depositors, mainly business deposits, highlighting potential funding risks due to the undiversified deposit base.

Table 3: Bank deposits (%GDP)

Country	2015	2016	2017	2018	2019	2020	2021
Angola	38.2	36.7	30.1	29.2	31.8	36.4	22.6
Botswana	47.4	41.8	42.3	44.3	46.4	50.6	47.0
eSwatini	23.6	27.5	27.3	28.6	26.7	29.7	28.0
Lesotho	30.2	27.6	35.7	37.0	31.0	34.4	36.2
Madagascar	15.2	15.9	17.8	17.2	17.4	19.8	20.1
Malawi	14.8	13.5	-	-	-	-	-
Mauritius	98.9	101.6	105.5	104.2	108.3	142.1	143.5
Mozambique	47.3	43.7	41.3	42.5	44.3	54.2	51.2
Namibia	53.5	52.7	55.4	56.0	62.1	70.0	70.1
Sao Tome & Principe	36.7	31.6	29.3	31.9	28.5	29.0	-
South Africa	56.8	54.5	54.4	54.3	54.3	63.2	60.4
Zambia	23.2	18.4	19.6	20.5	21.3	26.5	23.2
Zimbabwe	23.5	26.8	33.5	40.1	20.7	17.9	15.9

Source: World Bank (Global Financial Development Database, September 2022)

Banking Sector Soundness

Overall, banking sectors across the region have demonstrated a high level of resilience by maintaining sizable capital buffers because of policies put in place by Central Banks to mitigate the financial stability risks associated with the emergence of COVID-19. These measures include, among others, several key lending and reserve requirement rate cuts and increasing of liquidity provision. Prudential requirements were temporarily relaxed, in addition to loans restructuring. In South Africa for example, these include an easing of the liquidity coverage ratio (LCR) requirement from 100% to 80% for banks, a temporary reduction of banks' minimum adds on capital requirements for systemic risk from 1% to 0% and a provision of criteria to enable banks to dip into their capital conservation buffer, and credit restructure to provide temporary relief to borrowers, among others. Other policy actions undertaken to enhance financial stability include countercyclical capital buffers to help banks build additional buffers during upswing periods, and absorb losses that appear during downswing times.

Asset quality

The asset quality of the banking sector, as measured by the ratio of non-performing loans (NPLs), deteriorated over 2019-20 for most countries in the region, largely due to the COVID-19 pandemic. Except for Botswana, Eswatini, Mozambique, and Zimbabwe, the rest of the countries in the region recorded a rise in NPLs between 2019 and 2020. In Botswana, NPLs ratio fell from 4.8% in 2019 to 4.3%, 4.2% and 3.8% in 2020, 2021 and 2022 respectively, mainly because of the ongoing efforts by banks to strengthen credit assessment criteria, focusing on creditworthiness and bankable projects. However, the prevalence of high-cost unsecured lending (71.9% of household credit in November 2022) in commercial bank credit poses a danger to asset quality (Bank of Botswana, 2023), hence the NPLs ratio rose to 4% in 2023. In Namibia, NPLs ratio stood at 6.4% in 2020, an increase of 1.8 percentage points over 2019 caused by a more important use of overdrafts and credit cards, remained constant in 2021, then fell to 5.5% in 2022. However, the continuous economic impact of increased inflation rates induced by geopolitical insecurity combined with higher interest rates continued to pressure key credit risk indicators, with NPLs rising to 5.8% in 2023. In Malawi, asset quality improved as the ratio of NPLs was within the acceptable limit of 5%. Provisions to NPLs increased over 2021-22 in line with the increase in NPLs in Angola Lesotho, and Malawi (Table 4).

Table 4: Banking asset quality (%)

	2019	2020	2021	2022	2023
In %					
Angola					
NPLs to total gross loans	23.1	12.2	15.0	15.2	-
Provisions to NPLs	134.7	188.7	165.7	166.5	-
Botswana					
NPLs to total gross loans	4.8	4.3	4.2	3.8	4.0
Provisions to NPLs	59	60.2	56.6	51	55.6
Eswatini					
NPLs to total gross loans	9.4	5.4	9.6	6.7	6.9
Provisions to NPLs	35.2	86.8	56.1	54.6	54.4
Lesotho					

NPLs to total gross loans	3.3	4.2	4.1	4.3	4.2
Provisions to NPLs	55.6	63.1	53.5	61.2	65.7
Madagascar					
NPLs to total gross loans	7.3	8.5	9.1	8.0	7.6
Provisions to NPLs	60.4	60.4	49.4	53.1	61.1
Malawi					
NPLs to total gross loans	5.1	5.4	3.7	5.5	5.1
Provisions to NPLs	38.6	35.1	33.6	33.8	33.4
Mauritius					
NPLs to total gross loans	4.9	6.2	5.8	4.9	5.3
Provisions to NPLs	49.6	60	61.3	60.2	46.5
Mozambique					
NPLs to total gross loans	10.2	9.8	10.6	9	10
Provisions to NPLs	88.7	74.1	72.6	73.8	73
Namibia					
NPLs to total gross loans	4.6	6.4	6.4	5.5	5.8
Provisions to NPLs	32.8	41.2	43.3	43.9	49
Sao Tome and Principe					
NPLs to total gross loans	26.7	29.6	28.6	8	
Provisions to NPLs	83.8	77.7	86.8	84	
South Africa					
NPLs to total gross loans	3.9	5.2	4.6	4.5	
Provisions to NPLs	45.2	43.4	49.1	48.6	
Zambia					
NPLs to total gross loans	8.9	11.6	5.8	5	4.8
Provisions to NPLs	91.6	75.9	102.8	58.6	58.4
Zimbabwe					
NPLs to total gross loans	1.75	0.31	0.94		

Source: IMF Financial Soundness Indicators and Central Banks.

In countries like Angola, Eswatini, Madagascar, Mozambique and Sao Tome and Principe NPL remain above the acceptable limit of 5% in 2022 and 2023, reflecting the need to intensify efforts to achieve a bearable low level of NPLs. This situation led The Angolan authorities to initiate the restructuring of the asset management company (Recredit) and the two largest public banks, which hold half of the system wide NPLs. In December 2019, the Angolan central bank completed an asset quality review comprising 93% of total banking system assets and Recredit achieved its recovery targets for the first time in the third quarter of 2021 (IMF, 2021). In Sao Tome and Principe, the ratio of NPLs stood at 28.6% in 2021. Ongoing efforts to complete the liquidation of three banks (Energy Bank, Banco Equador and Banco Privado) were hampered by various challenges, among which the lack of a modern and legal framework. In 2022, NPLs to total gross loans significantly dropped to 8% due to the write-offs of impaired loans.

The strong interconnection between the banking system and non-bank financial institutions (NBFIs), as well as the non-financial sector (households and corporates) pose a risk of contagion in the financial system in the region. This is the case for Eswatini where loans to non-financial businesses and households were the biggest contributors to NPLs, at 55.3 % and 38.7% respectively in 2022.

NBFIs are large and closely linked to banks and foreign markets. NBFIs account for 10 % of banks' deposits (3% of GDP) and hold foreign assets of about 40% of GDP. In the event of a portfolio adjustment by institutional investors and NBFIs, this could trigger significant pressure on banks, suggesting the need to monitor these interconnections, which could create potentially significant channels of contagion risk. In Malawi, sectoral credit concentration risk remained a threat to the banking sector's stability as three sectors[7] account for more than 50% of gross loans and leases. This highlights the high proportion of bank's outstanding loans becoming non-performing which could result from a downturn in any of these sectors. Furthermore, single-name credit concentration in Malawi continues to pose huge exposures that threaten the stability of the sector. Effective regulation across the banking system, as well as proper governance and accountability structures could moderate this risk. For example, credit life protection, mortgage repayment policies and retrenchment cover policies provided by insurance companies could mitigate this risk by effectively shifting it to the insurance sector.

Banks' balance sheets show large exposure to the government and therefore crowding out lending to the economy in the region. For example, in Mauritius, the growth of banks' assets was mainly in less risky assets, such as government and central bank securities. This lower risk appetite was primarily due to the elevated credit risk profile of corporate and retail customers in the context of the pandemic. Accordingly, the share of loans in total assets decreased to 45.3% as at end-September 2021, from 46.1% as at end-March 2021. In South Africa, the exposure of domestic financial intermediaries to government remains high, at the expense of other class of assets, particularly among smaller banks. This confers a certain vulnerability to banks in case of deterioration of the country's fiscal metrics. The high yield offered by government bonds, and the favorable regulatory treatment thereof, might be supporting the rising exposure of banks to the sovereign overtime. As of November 2021, domestic banks held around 20% of all outstanding domestic sovereign bonds, up from around 17% at end-2019 in South Africa.

Capital adequacy and liquidity trends

On aggregate, the banking industry in countries across the region remains solvent with adequate capital. While some banks entered the COVID-19 crisis relatively well capitalized, supportive measures undertaken by central banks have helped the banking industry hold up throughout the health crisis. The capital adequacy ratios complied with the indicated regulatory standards for many of the countries. For example, in Botswana, although the central bank reduced the capital adequacy ratio from 15% to 12.5%, most banks remain above the threshold of 15%. In Malawi, the

[7] These sectors are the community, social and personal services sector, wholesale and retail trade sector and agriculture sector.

industry's aggregate total tier 1 capital ratios stood at 19% and 17.1% as of December 2022 and 2023 respectively, and the regulatory capital to RWA stood at 20.1% in 2023, well above the minimum regulatory requirements of 10% % and 15%. Likewise, the Namibian banking sector remained well capitalized throughout 2021, 2022 and 2023 and maintained a capital position well above the prudential requirements of 6% and 10% respectively for the tier 1 and total ratios (Table 5).

Table 5: Banking capital adequacy (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Angola										
Regulatory capital to RWA	14.4	15.3	18.1	20.7	25.7	22.0	19.5	23.8	21.7	
Tier 1 capital to RWA	15.3	15.9	19.2	22.0	26.9	18.0	17.1	20.7	20.2	
Botswana										
Regulatory capital to RWA	18.6	20.0	19.2	21.9	17.9	18.5	20.0	17.4	19.8	19.6
Tier 1 capital to RWA	13.1	14.1	13.2	15.0	13.2	13.4	13.8	12.5	12.9	13.2
Eswatini										
Regulatory capital to RWA	24.9	22.5	22.2	23.2	18.8	31.6	21.5	23.5	18.4	24.7
Tier 1 capital to RWA	21.3	20.0	20.0	20.8	16.0	22.2	18.5	20.5	16.2	22.0
Lesotho										
Regulatory capital to RWA	13.9	15.4	18.9	17.8	17.9	19.4	23.0	22.4	24.0	19.5
Tier 1 capital to RWA	13.0	13.8	17.2	20.9	20.2	21.7	24.9	24.4	25.6	20.3
Madagascar										
Regulatory capital to RWA	14.0	13.8	13.6	13.2	13.7	13.4	11.9	11.0	11.2	12.4
Tier 1 capital to RWA	14.6	14.8	14.1	12.1	11.7	11.6	11.8	11.0	10.4	11.4
Malawi										
Regulatory capital to RWA		15.8	16.8	19.4	20.8	21.0	21.3	21.2	22.4	20.1
Tier 1 capital to RWA		12.4	13.7	15.2	17.0	17.0	17.9	17.5	19.0	17.1
Mauritius										
Regulatory capital to RWA	17.1	18.4	18.2	18.8	19.2	19.6	19.7	20.7	20.6	22.1
Tier 1 capital to RWA	15.1	17.0	16.7	17.4	17.9	18.2	18.3	19.4	19.3	20.3
Mozambique										
Regulatory capital to RWA	15.1	17.0	8.8	21.5	23.8	28.8	25.9	26.2	26.9	23.6
Tier 1 capital to RWA	13.6	15.6	14.2	20.8	22.6	28.7	27.0	26.7	27.5	24.2
Namibia										
Regulatory capital to RWA	14.7	14.3	15.1	15.5	16.8	15.3	15.2	15.7	17.0	17.4
Total capital to total assets	11.9	11.8	12.4	12.6	13.9	13.0	13.1	13.7	14.7	15.9
Sao Tome and Principe										
Regulatory capital to RWA				33.6	30.7	28.5	29.2	31.7		
South Africa										
Regulatory capital to RWA	14.8	14.2	15.9	16.3	16.1	16.6	16.6	18.1	14.6	

Tier 1 capital to RWA	13.6	13.8	14.5	15.4	14.9	15.6	15.7	17.1	13.2	
Zambia										
Regulatory capital to RWA	27.0	21.0	26.2	26.5	22.1	22.2	20.1	24.6	22.8	24.2
Tier 1 capital to RWA	24.6	19.1	23.4	24.5	20.1	20.1	17.8	23.2	21.9	21.9
Zimbabwe										
Capital Adequacy Ratio				27.6	30.2	39.6	34.6	32.9	32.9	32.9
Tier 1 capital to RWA				24.0	27.7	27.9	22.6	26.5	26.5	26.5

Source: IMF Financial Soundness Indicators and Central banks

Banking liquidity remained sufficient as countries banking industries comply with the minimum liquid asset ratio requirements. For example, in Botswana, notwithstanding persistent foreign exchange outflows resulting in the fall in market liquidity from 14.7% to 12.7% over 2020-21, banks continued to comply with the minimum liquid asset ratio requirement of 10%. The liquid assets to total assets of banks in Botswana decreased from 13.4% in 2022 to 12.2% and in 2023. In Malawi, as at end December 2023, liquidity in the sector remained sufficient with the sector reporting liquidity ratios of 34.6% and 58.5%, well above the prudential benchmark of 25%, denoting a liquidity buffer of 33.5% in liquid assets to short-term liabilities (Table 6). Liquidity risk remained a threat to bank stability in the region, when it comes to the nexus between bank funding and investment structure. In many countries, the sector continues to use short-term liabilities to fund longer term assets which potentially could strain banks in case of high demand to withdraw short-term liabilities.

Table 6: banking liquidity

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
In %										
Angola										
Liquid assets to total assets	31.9	31.8	26.3	20.6	21.7	26.5	30.1	36.2	30.8	
Liquid assets to short-term liabilities	39.0	37.4	32.1	26.1	27.8	32.5	35.8	41.1	34.9	
Botswana										
Liquid assets to total assets	11.8	15.4	16.3	13.4	14.3	14.7	14.7	12.7	13.4	12.2
Liquid assets to short-term liabilities	14.1	18.5	20.0	16.4	17.7	18.0	18.1	15.4	15.6	14.2
Eswatini										
Liquid assets to total assets	20.5	20.8	22.4	21.8	25.1	13.6	32.4	44.1	28.8	26.5
Liquid assets to short-term liabilities	30.0	30.3	32.6	32.5	36.9	61.5	44.5	42.3	42.9	35.4
Lesotho										
Liquid assets to total assets	27.5	28.3	32.7	39.4	36.7	26.2	29.4	30.2	20.6	28.2
Liquid assets to short-term liabilities	37.2	40.4	48.5	57.3	53.9	39.4	43.7	44.8	30.3	40.1
Madagascar										
Liquid assets to total assets	34.1	31.3	37.3	36.8	36.9	34.9	35.2	33.7	29.8	31.7

Liquid assets to short-term liabilities	51.5	46.9	54.6	53.5	54.8	49.8	49.1	48.9	43.4	47.9
Malawi										
Liquid assets to total assets		43.9	51.8	56.2	38.2	33.9	34.2	37.6	33.7	34.6
Liquid assets to short-term liabilities		59.0	72.3	77.0	64.0	60.7	59.5	52.5	54.2	58.5
Mauritius										
Liquid assets to total assets	37.5	40.6	44.4	40.8	47.6	52.2	55.5	48.6	45.5	46.0
Liquid assets to short-term liabilities	46.9	51.5	54.0	53.3	53.8	58.9	62.3	54.3	50.8	66.9
Mozambique										
Liquid assets to total assets	28.1	32.1	31.1	37.6	39.5	39.5	42.7	48.0	50.5	33.6
Liquid assets to short-term liabilities	36.8	43.1	43.8	51.3	56.2	56.1	58.5	68.3	69.8	46.6
Namibia										
Liquid assets to total assets	11.5	11.3	11.3	13.1	13.6	13.3	13.8	14.8	15.3	14.8
Liquid assets to short-term liabilities	21.1	21.9	23.5	26.5	27.9	27.5	24.4	17.9	17.6	17.0
Sao Tome and Principe										
Liquid assets to total assets				49.7	50.1	40.1	47.7	52.2		
Liquid assets to short-term liabilities				69.1	66.3	51.6	59.6	68.1		
South Africa										
Liquid assets to total assets	20.8	21.4	19.7	18.2	18.3	18.5	18.7	19.2	15.2	
Liquid assets to short-term liabilities	39.8	42.3	38.1	36.2	36.7	37.1	35.2	34.6	35.2	
Zambia										
Liquid assets to total assets	35.8	35.5	39.1	45.9	47.0	42.1	48.6	46.6	43.3	39.2
Liquid assets to short-term liabilities	45.7	43.7	49.0	56.5	57.0	51.5	57.4	56.3	52.0	47.7
Zimbabwe										
Prudential liquidity ratio					70.7	72.4	73.1	64.4		

Source: IMF Financial Soundness Indicators and Central banks

Profitability

Bank profitability, as measured by the average return on assets (ROA) and the return on equity (ROE), decreased in most countries between 2019 and 2020, except for Malawi and Sao Tome and Principe (Table 7). In most cases, this was partly due to the effect of the pandemic. For example, in Zambia, the decrease in profitability was primarily due to impairment losses in government securities in line with the International Financial Reporting Standards (IFRS) 9 requirements. In addition, overhead costs increased because of overall health compliance related to the COVID-19. In Botswana, the overall effect of sluggish credit growth and the increase in the cost-to-income ratio was a decline in the banking sector profitability in 2020. However, most banks have seen their profitability (ROA and ROE) increase between 2021 and 2023.

Table 7: Banking profitability

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
In %										
Angola										
ROA	0.9	2.1	2.9	2.1	4.3	-1.1	-2.9	2.2	2.1	
ROE	6.0	**18.5**	**11.0**	**7.6**	**15.5**	**-5.4**	**-13.2**	**26.8**	**17.8**	
Botswana										
ROA	2.8	2.0	2.3	1.9	2.8	2.3	1.9	1.2	3.2	3.1
ROE	20.0	13.3	15.4	12.4	18.7	15.6	12.5	5.8	21.3	22.7
Eswatini										
ROA	4.0	4.7	4.0	3.2	2.5	3.8	1.5	2.6	3.0	3.6
ROE	19.6	23.3	19.0	15.3	11.1	15.9	10.3	13.8	15.3	17.5
Lesotho										
ROA	4.2	4.4	4.4	3.2	3.7	4.1	2.3	0.8	2.5	1.7
ROE	32.7	33.6	30.0	19.5	25.5	24.8	13.2	5.0	12.5	9.5
Madagascar										
ROA	4.2	4.8	3.9	4.3	4.4	4.0	3.1	3.5	3.6	4.5
ROE	30.5	34.0	28.3	32.7	33.8	31.1	25.6	28.7	29.7	34.9
Malawi										
ROA	-	5.5	4.9	4.2	3.6	4.1	4.7	5.1	6.4	8.8
ROE	-	20.2	19.7	16.8	19.1	22.7	25.4	28.0	37.1	41.7
Mauritius										
ROA	1.4	1.2	1.5	1.6	1.7	1.9	1.0	1.3	1.6	2.5
ROE	13.8	10.3	11.9	13.4	12.9	14.8	7.7	10.5	14.0	20.7
Mozambique										
ROA	2.8	2.6	1.3	3.5	3.9	3.7	2.8	3.9	4.7	4.8
ROE	14.3	12.9	5.2	17.1	17.1	15.8	12.2	17.0	19.1	19.3
Namibia										
ROA	3.4	3.7	3.5	3.0	2.9	2.8	1.8	2.2	2.7	2.9
ROE	22.9	24.9	22.5	19.3	17.7	17.6	10.8	12.8	15.8	17.5
Sao Tome and Principe										
ROA	-	-	-	-0.6	-0.1	-0.2	0.8	1.6	-	-
ROE	-	-	-	-3.0	-0.8	-1.4	4.8	9.8	-	-
South Africa										
ROA	1.5	1.5	1.8	1.7	1.7	1.5	0.7	1.4	1.5	-
ROE	13.3	15.9	18.1	15.7	15.6	14.0	7.4	13.2	14.4	-
Zambia										
ROA	3.6	2.4	2.4	2.9	2.8	3.2	1.8	5.1	5.0	5.5
ROE	15.9	13.0	11.9	14.6	14.4	15.7	12.3	30.6	29.1	33.2
Zimbabwe										
ROA	0.1	2.1	2.3	2.6	4.6	11.3	17	11.4	-	-

ROE	-	11	11	15.5	20.6	42.7	58.7	42	-	-

Source: IMF Financial Soundness Indicators and Central banks

Capital Market

Market Depth

The Southern African region has nine stock exchanges located in Botswana, Eswatini, Malawi, Mauritius, Mozambique, Namibia, South Africa, Zambia, and Zimbabwe. The Johannesburg Stock Exchange (JSE) holds the largest share of the Southern African stock markets. It is also the leading stock exchange in Africa, not only in terms of market capitalization, but also in providing a more diverse and liquid pool of investable funds. Apart from South Africa, the low market capitalization and lack of liquidity that characterizes Southern African stock markets are identified as key obstacles to investment in securities. The market capitalization of the JSE stood at USD 1025.83 trillion, representing 313% of GDP in 2023, against 51.9% and 18.6% of GDP for Mauritius and Namibia respectively. In 2023, Botswana, Mauritius, and Namibia respectively reached USD 3.59 billion, USD 8.50 and USD 2.38 billion of market capitalization (Table 8). Botswana market capitalization saw a great surge in 2022 reaching USD 31.02 billion. All licensed stock exchanges market capitalization fell in 2023, except for the Namibia.

Table 8: : Market capitalization of listed domestic companies

	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Current USD billion								
Botswana			4.43	4.03	3.56	3.30	3.16	31.025	3.59
Mauritius	7.24	7.60	9.74	9.85	8.61	6.16	8.93	8.57	8.50
Namibia	1.91	2.36	2.915	2.46	2.61	1.87	2.39	2.16	2.38
South Africa (JSE)	735.94	95.89	1230.98	865.33	1056.34	1051.53	1143.00	1171.75	1025.83
Zambia						2.72	4.03	4.04	3.46

Source: World Federation of Exchange

Capital markets in the region have a low turnover ratio, suggesting a low level of liquidity. The share turnover velocity, as a proportion of market capitalization, remained below 6% between 2015 and 2022 for Botswana, Mauritius, Namibia and Zambia (Table 9). In 2023, the turnover ratio for those countries stood at 8.4%, 3%, 1.3% and 0.61% respectively, far below that of South Africa (25.9%). In Botswana, the turnover velocity, decreased from 4.9% in 2021 to 0.3% in 2022, reflecting the challenges of implementing investment decisions due to various events such as the subdued domestic economy and Russia's invasion of Ukraine.

Table 9: Share turnover velocity

Country	2015	2016	2017	2018	2019	2020	2021	2022	2023
	% of market capitalization								
Botswana			5.5	3.9	4.5	1.9	4.9	0.3	8.4
Mauritius	6.4	4.2	4.6	4.6	4.3	5.0	3.4	2.8	3.0

Namibia	2.8	1.8	2.4	2.5	3.8	2.0	1.2	1.7	1.2
South Africa	41.3	42.3	33.3	41.9	33.1	35.3	29.4	26.7	25.9
Zambia						0.32	1.7	0.38	0.61

Source: World Federation of Exchange

Most of the stock markets in the region face relatively high fixed costs and low trade volumes. Bringing listing fees and transactions costs down to levels that are competitive could lift those constraints and enable the market to operate more efficiently.

Compared to South Africa, the breadth of stock markets in the region remains limited, highlighting a relatively small number of stocks for investors to have more diversified portfolios, necessary for risk mitigation. In 2023, the total number of listed companies in Botswana, Namibia, and Mauritius reached 31, 49, and 96 respectively, far below 284 for South Africa (Table 10). Further, except for Namibia where the presence of foreign listed companies is predominant, stock markets in the region record a small number of listed foreign companies, suggesting relatively limited cross-border[8] or inbound[9] listings in the region. In 2023, the total number of listed companies in Botswana, Mauritius, and Namibia surged, while that of South Africa decreased to 284.

Table 10: Number of listed companies

	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Botswana								
Listed companies (Domestic)		24	24	26	25	24	23	23	23
Listed companies (Foreign)		10	11	9	9	8	7	7	8
Listed companies (Total)		34	35	35	34	32	30	30	31
	Mauritius								
Listed companies (Domestic)	71	75	74	99	95	93	91	89	
Listed companies (Foreign)	1	1	2	4	4	3	4	4	
Listed companies (Total)	72	76	76	103	99	96	95	93	96
	Namibia								
Listed companies (Domestic)	8	8	10	10	11	13	14	14	13
Listed companies (Foreign)	33	34	34	34	29	27	26	25	36
Listed companies (Total)	41	42	44	44	40	40	40	39	49
	South Africa								
Listed companies (Domestic)	316	303	294	289	274	264	252	237	224
Listed companies (Foreign)	66	73	72	71	69	67	72	67	60
Listed companies (Total)	382	376	366	360	343	331	324	304	284

Source: World Federation of Exchange

8 African companies listing on any African exchange other than their local exchange.
9 Non-African companies listing on an African exchange.

IPO activities in the region remained sluggish over the past ten years. Over 2011-21, countries like Zambia, Mozambique and Malawi recorded respectively 1, 2 and 3 IPOs with USD 9, 64 and 67 million of raised capital (Table 11).

Table 11: IPO by Southern African exchanges

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	Botswana											
Number of IPOs	2	1	0	0	1	1	2	1	0	0	0	8
Capital raised (USD million)	68	47	0	0	9	42	45	28	0	0	0	239
	Malawi											
Number of IPOs	0	0	0	0	0	0	0	0	1	2	0	3
Capital raised (USD million)	0	0	0	0	0	0	0	0	20	47	0	67
	Mauritius											
Number of IPOs	1	0	0	1	0	1	3	0	0	0	0	6
Capital raised (USD million)	10	0	0	29	0	95	167	0	0	0	0	301
	Mozambique											
Number of IPOs	0	0	1	0	0	0	0	0	1	0	0	2
Capital raised (USD million)	0	0	11	0	0	0	0	0	53	0	0	64
	Namibia											
Number of new IPOs	0	0	0	0	0	0	2	0	1	0	1	4
Capital raised (USD million)	0	0	0	0	0	0	21	0	49	0	162	232
	South Africa											
Number of new IPOs	5	3	4	8	9	4	9	3	0	1	1	47
Capital raised (USD million)	790	247	261	734	640	706	2276	1383	0	467	150	7654
	Zambia											
Number of new IPOs	0	0	0	1	0	0	0	0	0	0	0	1
Capital raised (USD million)	0	0	0	9	0	0	0	0	0	0	0	9
	Zimbabwe											
Number of new IPOs	0	0	0	0	0	1	0	0	0	0	0	1
Capital raised (USD million)	0	0	0	0	0	1	0	0	0	0	0	1

Source: PWC (Africa Capital Markets Watch 2021)

Fixed Income Markets and Debts

Private bonds dominate the bond landscape in countries like Botswana, Mauritius, Namibia, and South Africa. In Botswana, the number of listed bonds stood at 122 in 2023, of which 106 were for the private sector against 15 for the public sector (Table 12). However, the proportion of Government bonds in the nominal value of the fixed-income market remained high at 74.7 %, compared to 25.3 % for corporate bonds in 2021, demonstrating the Government's ongoing efforts to deepen and develop the domestic bond market. The intensification of its domestic borrowing programs by the government of Botswana and the increase in the frequency of bond auctions, has improved the local bond market activity.

Table 12: Bonds – Number listed

	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Botswana								
Domestic private sector		22	24	30	29	27	29	28	106
Domestic public sector		19	17	17	15	14	13	16	15
Foreign		0	2	2	2	2	1	0	1
Total		41	43	49	46	43	43	44	122
	Mauritius								
Domestic private sector	14	22	39	48	57	54	54	-	-
Domestic public sector				1	1	1	0	-	-
Foreign					5	5	4	-	-
Total	14	22	39	49	63	60	58	-	-
	Namibia								
Domestic private sector	19	25	28	31	26	27	23	36	26
Domestic public sector	23	19	20	24	26	24	25	24	20
Foreign					1	1	0	0	0
Total	42	44	48	55	53	52	48	50	46
	South Africa								
Domestic private sector	1328	1289	1328	1357	1498	1468	1509	1659	1747
Domestic public sector	191	164	159	158	172	164	126	120	113
Foreign	212	213	184	204	179	184	245	266	373
Total	1731	1666	1671	1719	1849	1816	1880	2045	2233

Source: World Federation of Exchange

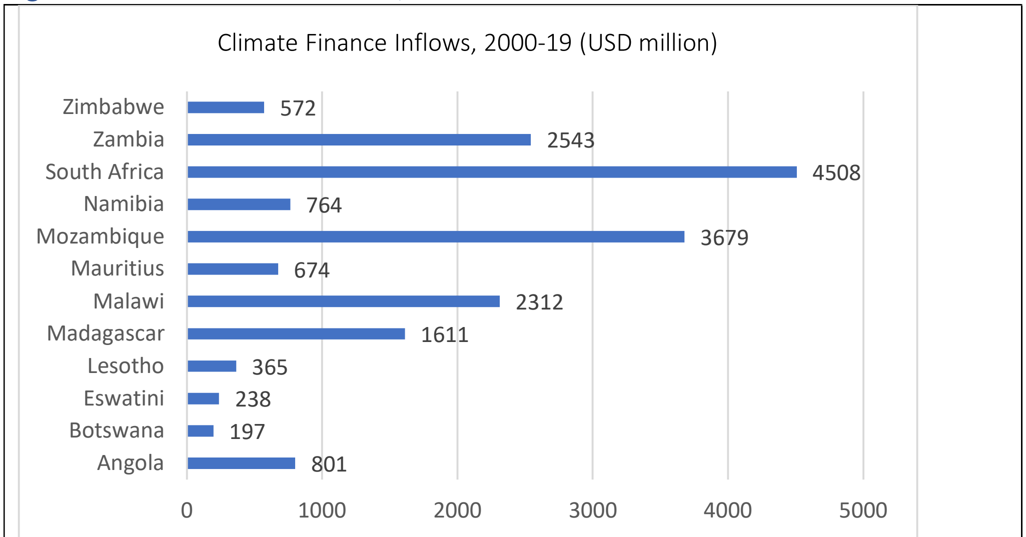
Corporate borrowers are relatively inactive in the region. This may be attributed to various factors, including the limited number of listed firms that publish financial statements, and other disclosure statements regularly, and the relatively short tenors of financing available in the local bond markets. On the contrary, South Africa has a relatively deep capital market, with a large, diversified, and professional institutional investor base. In addition, the local bond markets offer longer-term debt finance opportunities, as well as for non-government bonds.

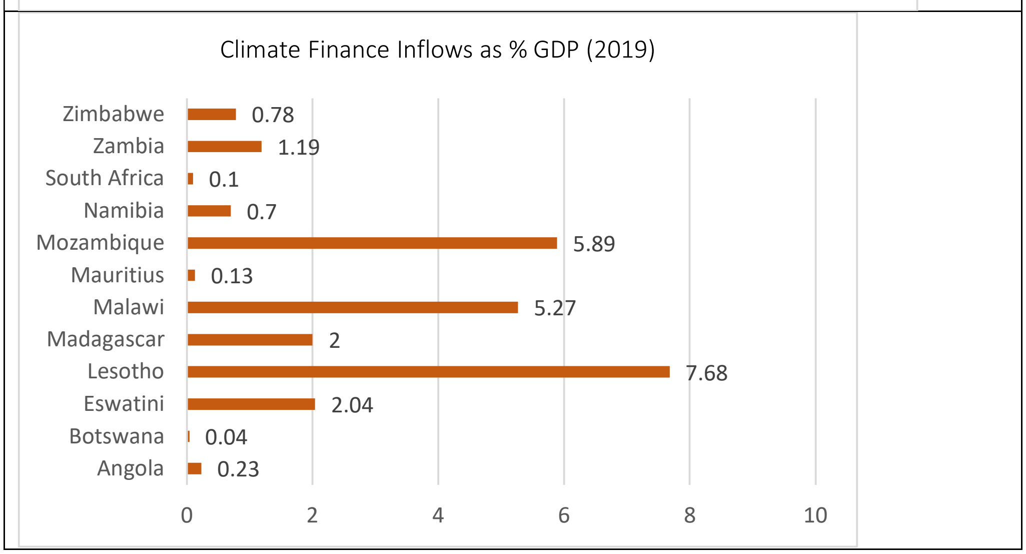
For their capital market to attract more foreign investors, countries are stepping up efforts in terms of partnerships and integration. In January 2021, Mauritius was admitted to the Bloomberg African bond index. Botswana Stock Exchange collaborated with Bloomberg to attract new investors and issuers.

Sustainability-Focus Products

The United Nations Framework Convention on Climate Change (UNFCC) recently estimated that the cumulative climate change adaptation and mitigation financing needs over the period 2020-30 in the SADC countries is estimated at approximately USD 200 billion. Central Banks and regulators in the region have been active in developing Green Bond markets. Over 2000-19, South Africa recorded the highest climate finance inflows in nominal values, which amounted to USD 4508 million. The 2019 inflows, as a share of GDP, were predominantly received by Lesotho, Mozambique and Malawi, with respectively 7.68%, 5.89% and 5.27% (Figure).

Figure: Climate finance inflows, 2000-19





Source: FSD Africa

Initiatives that have been undertaken in a view to developing green bond markets include strengthening of the legal and regulatory framework. These encompass national green-bond guidelines and governance, including independent certification and monitoring of proceeds, along with issuing benchmark sovereign green bonds. Stock exchanges in Botswana and South Africa have annual sustainability reports as well as written guidance on Environmental, Social and Governance (ESG) reporting and ESG training provided to investors. In South Africa, integrating ESG considerations in investment activities and financial markets has become a key policy agenda. In 2017, the Johannesburg Stock Exchange launched a green bond segment, which is reserved for low carbon initiatives to enable investment in securities that contribute to sustainable development and a low carbon economy. Furthermore, in 2020, the JSE introduced a sustainability segment, which enables companies to raise debt for green, social and sustainable initiatives on a trusted, global market place. This initiative is the first of the kind in Africa. Other countries in the region have relatively performed little in terms of ESG considerations, such as disclosure standards, although efforts to produce guidelines for sustainable and/or green bonds as financial products could be mentioned for some of them. For example, the Stock Exchange of Mauritius (SEM) has taken the initiative to create awareness about green bonds and to help with the local green bonds market development. Additionally, SEM has published a Guide for the issue and listing of Sustainable bonds in Mauritius. Zambia reduced the registration fees for green instruments by 50% and published guidance for the issuance of green bonds. Over 2012-20, there have been in total 20 green bond issuances in the region, which amounted to USD 3544 million, South Africa being the biggest player in the green bond market (Table 13).

Table 13: Green bond issuances in Southern African countries

Issuer	Amount (USD million)	Issuer typology	Country	Year	Use of proceeds
Investec	63	Bank	South Africa	2021	Green building, Energy
Nedbank	63	Bank	South Africa	2021	Green building
Standard Bank Group	91	Bank	South Africa	2021	Energy
ACME Solar Holdings	334	Corporate	Mauritius	2021	Energy
Nedbank	9	Bank	South Africa	2021	Energy
Bank of Windhoek	19	Bank	Namibia	2021	Green, Social
Development Bank if Southern Africa	241	DFI	South Africa	2021	Water, Energy, Green buildings, Transport
ABSA	150	Bank	South Africa	2021	Energy
Standard Bank Group	200	Bank	South Africa	2020	Water, Energy, Green buildings
FirstRand Bank	225	Bank	South Africa	2020	Energy, Water
Nedbank	116	Bank	South Africa	2019	Energy
Nedbank	68	Bank	South Africa	2019	Energy
Redstone Solar	567	Corporate	South Africa	2019	Energy
Bank of Windhoek	5	Bank	Namibia	2018	Energy, Transportation
Growthpoint	93	Corporate	South Africa	2018	Green buildings, Infrastructures
City of Cape Town	76	Sovereign	South Africa	2017	Conservation, Urban, Infrastructure
City of Johannesburg	139	Sovereign	South Africa	2014	Energy, Transportation
Nedbank	490	Bank	South Africa	2012	Energy
Industrial Development Corporation	595	Sovereign	South Africa	2012	Energy
TOTAL	3544				

Source: FSD Africa

A SADC's green bond program has been initiated in the region. The program, which consists in providing technical assistance, aims at accelerating the take-up of green bonds as a tool for SADC member countries to tap into domestic and international capital markets to finance green projects and assets.

Various barriers and constraints stand against the development of green finance. Among others, the lack of bankable projects which could be financed with green bonds. In many Southern African countries, domestic investor demand remains concentrated in governments and a few large banks, the latter being often hesitant to invest in climate change projects with long investment horizon and high perceived risks. Moreover, most potential issuers in the region are not familiar with the processes associated with issuing green bonds and do not have a clear idea about the related institutional arrangements. Adequate capacity building support will efficiently address this barrier.

A deeper pool of issuers is required for the acceleration of green bonds growth in the region, especially among corporate borrowers. The removal of hurdles such as lack of relevant technical expertise among market participants and institutional capacity constraints should be prioritized for the development of green bonds in the region. Green bonds should also be considered in the context of countries' overall climate finance and capital market development strategies.

Capacity of Local Investors (Investors base)

A key constraint, which limits accelerated deepening of the domestic capital markets in many of Southern African countries, is the shallow investor base, largely reflecting the low level of domestic savings, as well as their relatively low-income levels.

The early establishment of pensions systems in countries like Namibia, Botswana, South Africa and Eswatini, as well as their proximity to the Johannesburg Stock Exchange, enabled funds to build up sizeable assets compared to other countries in the region. Countries in the region adopted reforms that caused institutional investors to play a significant role in local investment, because of the importance of assets they manage. 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. Funds' local investment holdings represented 49.7% of total pension assets in 2022 which still fall short of the requirement, although having relatively increased over previous years. South Africa and Namibia have the largest share of their assets in listed equities. The South Africa' Public Investment Corporation, which manages the Government Employees Pension Fund (GEPF), allocates 80% of assets under management to listed assets, contributing 12.5% to the Johannesburg Stock Exchange's market capitalization. Still, pension funds in the region use to primarily invest in traditional assets, which limits them in terms of portfolio diversification and risk management. Pension funds should be encouraged to explore new forms of investment, which requires building their familiarity, skills and competencies with different investment instruments.

Pension Industry

Countries in the Southern African region show different pension scheme patterns, which are based upon either a pay-as-you-go defined benefit or a defined contribution provident Fund. Benefits offered to formal sector workers are provided either by public service pension schemes, or by national schemes covering private sector workers. Universal pension systems operate in countries like Botswana, Mauritius and Namibia, whereas a means tested public pension is available in South Africa.

The pension funds' penetration, as measured by the ratio of its assets to the GDP, remains low in most of the countries in the region. For example, pension fund assets in Angola, Zambia and Zimbabwe remain paltry, at only 1.52%, 2.89% and 5.87% of GDP respectively in 2022, particularly when compared to countries like Namibia, South Africa and Botswana, which respectively reported 89.36%, 30.57% and 50.11% in 2022 (Table 14).

Table 14: Pension Fund Assets

	2017	2018	2019	2020	2021	2022
	%GDP					
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

High penetration ratios achieved by these countries could result from the Government Institutions Pension Fund's good investment returns based on a diversified investment strategy, coupled with a strong asset allocation process. In addition to that, investment in domestic equities with long-term growth prospects are promoted through higher allowable investment limits. For example, in South Africa and Namibia, investment limits in equities stand at 54% and 75% respectively. In Namibia, Regulation n°13, which specifies investment limits applicable across asset classes, compels pension funds to hold at least 45% of contractual savings locally. Table 15 show that with an exposure of 46.4% in equities in 2022, the Namibia pension industry continued to show a strong appetite for these investments compared with other asset classes. Namibian government bonds come as the second most popular class for asset allocation. In Eswatini, local investment distribution is dominated by equity and bonds which represented the highest share of invested assets (91% in total in 2023). In 2023, 44% of pension assets were invested in the country, showing that there is still work to be done on pension fund regulation, which requires at least 50% of assets to be invested in Eswatini.

Table 15: Investment spread of Pension Industry in some Southern African countries (%)

Eswatini Local (March 2023)	**Mauritius (June 2021)**	**Namibia (2022)**

Equity	57	Equity & investment fund shares	55	Equities	46.4
Bonds	34	Debt securities with original maturity of more than 1 year	21	Fixed interest	34.6
Property	6	Non-financial assets	11	Property	5.8
Cash	3	Currency, deposit and other	12	Money market	7.8
				Unlisted investments	1.4
		Zambia (2022)		Other	4
			23.1		
South Africa (March 2023)		Other investment	14.2		
Cash & money market	2	Government bonds	36.4	**Botswana (March 2023)**	
Domestic bonds	33	Treasury bill	8.9	Equities	71.8
Domestic property	4	Infrastructure	6.6	Fixed income	9.8
Domestic equity	52	Real Estate	10.9	Cash and money markets	10.4
Africa (ex SA) equity	2			Property	0.9
Foreign bonds	1			Unlisted investment	7.0
Foreign equity	7				

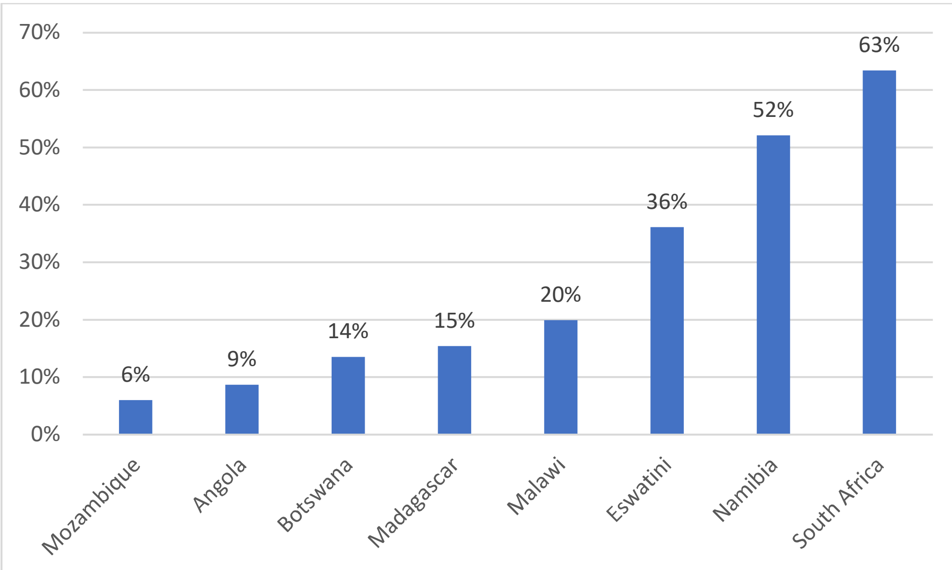
Source: Central banks and Pension Fund Authorities

Three Southern African countries, namely South Africa, Namibia, and Botswana, along with Nigeria and Kenya, account for 95% of Africa's pension assets (Bright Africa), countries within which several large public funds also tend to dominate. Examples include the Government Employees Pension Fund (GEPF) in South Africa, the Government Institutions Pension Fund (GIPF)in Namibia and the Botswana Public Officers Pension Fund (BPOPF).

Some Southern African countries do not have meaningful publicly managed pension and social security systems. Deficits recorded by public administration's pension funds are undermining the financial stability of the sector. Low skill levels in fund administration, late payment of member benefits and excessive administrative spending at the expense of investment are counted among the impediments to the development of the pension sector. Governments' financial support, which aim to punctually fill these deficits, while desirable in the short term, are hardly sustainable in the long term. Furthermore, arrears in contributions, by compromising the benefits to be received by retirees, remain a major concern. For example, in Zimbabwe, Contribution arrears reached ZWL 1,675 million (USD 20.5 million) as at 31 December 2020.

Another major issue governments across the region are facing is that most of their working population remain uncovered, being predominantly informally employed. Figure shows that the population covered by at least one social protection benefit, excluding health, remains low, although many of them are below the Sub-Saharan average of 17.4%, except countries like Malawi, Eswatini, Namibia and South Africa. This situation highlights the need for regulators to design convenient, inclusive, affordable, and secure solutions such as micro-pension products, which could be facilitated by the relatively high rate of mobile penetration in the region, viewed as a significant opportunity for innovation.

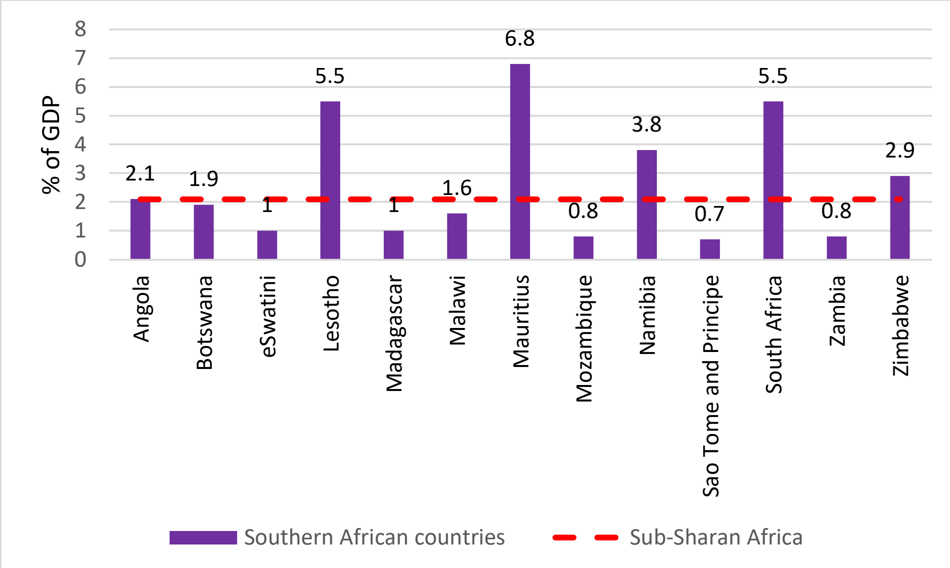
Figure: Social protection coverage in 2022



Source: ILO (2024)

Social protection spending remains also limited in many Southern African countries, which are, for some of them, highly dependent on external financing, in addition to greater exposure to unpredictable climatic and other kind of external shocks. For example, in Madagascar, social protection spending, excluding health, stands at only 1% of GDP, well below the sub-Saharan African level of 2.1% of GDP (Figure). To strengthen social protection in the country, the government adopted a law (Law No. 2017-028) on the national social protection policy for the non-contributory system and the National Social Protection Strategy (SNPS 2018), which provides for the development of a national system of social safety nets that are responsive to shocks. In countries like Mozambique, Zambia and Sao Tome and Principe, social protection spending remains below 1% of GDP. Other challenges in the sector include the lack of institutional coordination of social security programs and poor collection of contributions, which further deteriorated with the COVID-19 outbreak.

Figure: Social protection expenditure, 2020 or latest available year



Source: ILO (2021)

Financial Inclusion

Southern African countries performed well between 2011 and 2021, when it comes to financial inclusion. Except for a few countries like Malawi, Mozambique and Zambia, the majority of countries throughout the region report a level of financial inclusion above the Sub-Saharan average of 55% in 2021. Mauritius and South Africa, whose level of financial inclusion stood at 90.5% and 85.3% in 2021, compares well with BRIC[10] and other emerging countries (Table 16).

Table 16: Financial inclusion I Southern African countries

Countries	2011	2014	2017	2021	2022
Angola	39.2	29.32	-	-	-
Botswana	30.26	51.96	51.03	-	58.76
eSwatini	28.57	-	-	-	66.18
Lesotho	18.5	-	45.56	-	63.63
Madagascar	5.52	8.55	17.87	-	26.3
Malawi	16.54	18.09	33.71	42.71	-
Mauritius	80.12	82.21	89.84	90.53	-
Mozambique	-	-	41.67	49.49	-
Namibia	-	58.83	80.63	71.35	-
Sao Tome and Principe	-	-	-	-	-
South Africa	53.65	70.32	69.22	85.38	-
Zambia	21.36	35.64	45.86	48.52	-
Zimbabwe	39.65	32.39	55.29	59.75	-

[10] Brazil, Russia, India and China

Source: World Bank (WDI, 12/18/2023 update)

This progress is partly attributable to rapid adoption of digital financial services, including mobile money, driven by the implementation of the agent model and the steady growth in point-of-sale terminals. For example, in Mozambique, the authorization given to banks to use banking agents, according to notice No. 3/GBM/2015[11] of May 4, has also contributed to the promotion of financial services. As of May 2018, the country had more than 32,000 mobile money agents. In Eswatini, reforms for the promotion of financial inclusion included the prohibition of upward adjustment for bank fees and commissions other than interest rates, for a period of 18 months (Notice No. 47/2019), the exemption of charge for cash deposits (FMT, 2019), and the increase in the maximum daily limit for mobile money transactions. Financial inclusion in countries like South Africa has more been promoted by factors such as affordable products offered by financial institutions, improved distribution services and the quality of the banking infrastructure, than by Mobile Network Operators (MNOs) activities, which remain relatively constrained.

National financial inclusion strategies have been adopted by countries in the region to improve access to formal financial services (Table 17). For most of them, these strategies, which have come to an end or are on the verge of becoming so, present a mixed record and obstacles to overcome in order to fill the gaps.

Table 17: Implementation Period Overview of National Financial Inclusion Strategies

Countries	Implementation period
Botswana	2015-2021
Eswatini	2017-2022
Lesotho	2017-2021
Madagascar	2018-2022
Malawi	2017-2020
Mozambique	2016-2022
Sao Tome and Principe	2021-2025
Zambia	2017-2022
Zimbabwe	2016-2020

Source: Central banks

One of the first obstacles to deal with is the low level of income that hinders access to formal financial services, in addition to the lack of knowledge of financial products and the poor understanding of how they work especially those related to the insurance industry. High costs, especially for insurance products, would also be a barrier to inclusion. Irregular income, due to the preponderance of informal activities, makes some households unable to meet the minimum account opening requirements, and much less the more stringent Know Your Customer requirements. The limited need for insurance products could be attributed by the existence of

[11] According to that notice, banks may, in the course of their profession and in order to expand their activities, have recourse to banking agents. These agents may be public or private sector companies, including fixed or mobile telephone companies, postal service operators, credit unions or other entities approved by the central bank.

community structures (VSLA[12], SILC[13]) whose contributions, in kind or in cash, remain substantial, particularly for cases of death. Moreover, the expansion of these informal lending systems, particularly in rural areas, is also a constraint to formal inclusion. Limited capacity and asymmetries of information also constrain the provision of financial services and products. In South Africa, the large inequalities in access to financial resources, according to the IMF, reflect the dual nature of South Africa's economy with a large income gap between rich and poor. In addition to that, the sophisticated nature of banking in South Africa implies costly compliance and decision-making structures that are generally tailored to the wealthier segments of the population.

Leveraging information technology by facilitating the establishment of credit bureaus, especially for SMEs, and providing additional financial services to the poorest segments of the population by taking advantage of bank accounts created under social grants can improve financial inclusion. Additionally, authorities should enhance competition in the banking system through the promotion of new players, especially those that help to improve financial inclusion.

SME Finance

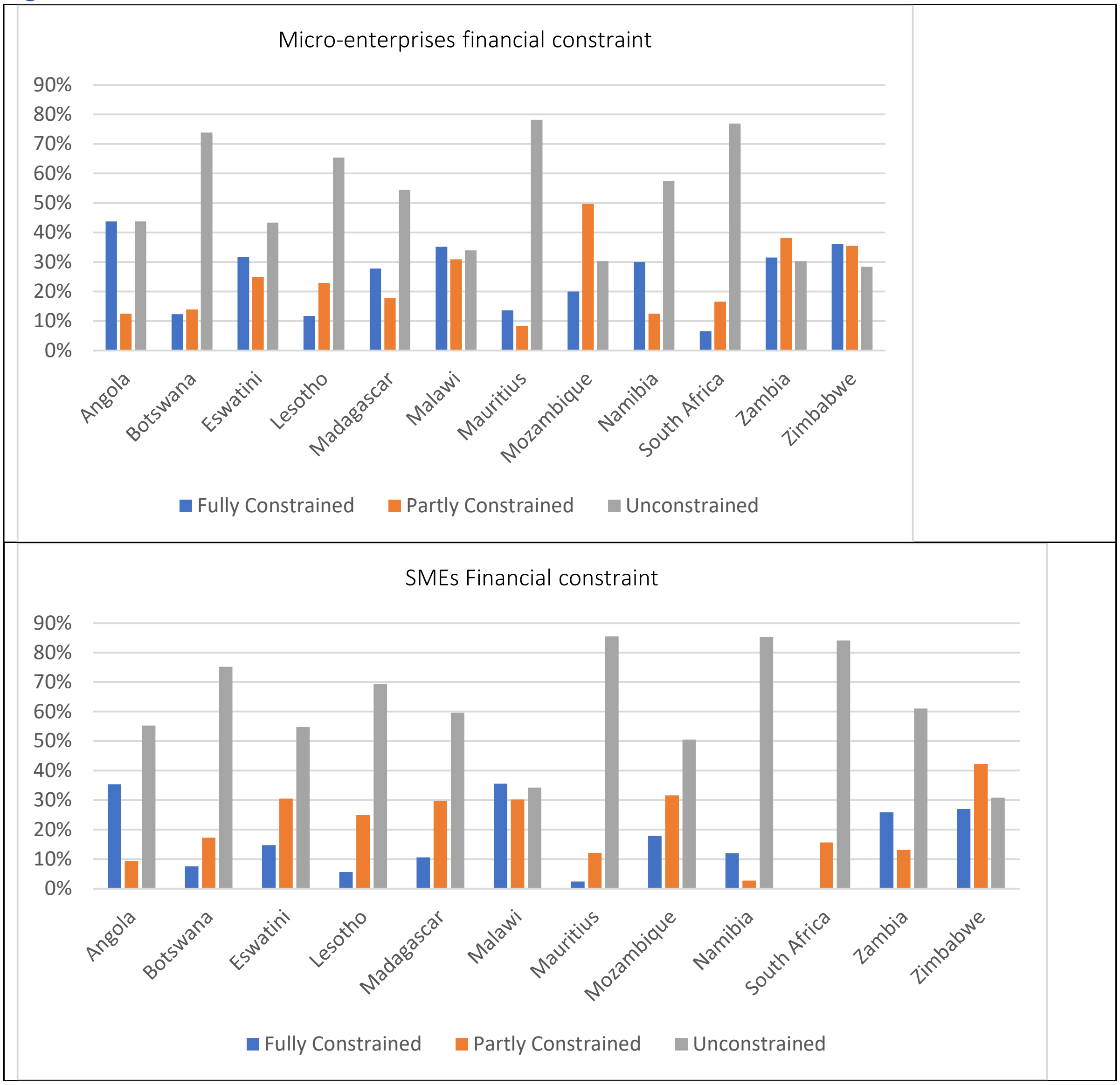
The contribution of small and medium-sized enterprises (MSMEs) is important in Southern African countries. For example, in South Africa, SMEs account for about 91% of formal business entities, contribute about 57% of GDP, and provide nearly 60% of employment (Daniel et al., 2015). In Zimbabwe, MSMEs account for over 60% of GDP (Reserve Bank of Zimbabwe,2017). In Madagascar, SMEs contribute up to 29% of the country's added value and 31% of the job creation in the private sector.

This notwithstanding, SMEs' business models in the region remain unsustainable. In Botswana, about 70% of SMEs fail within the first 18 months of business operation, the overall failure rate being approximately 80% (Gaetsewe, 2018). In Zimbabwe, about 85% of them fail (60% in the first year and 25% in the first three years), with a high probability of market exit. This is largely attributed to the fact that MSMEs are financially constrained in the majority of Southern African countries. For example, in Malawi, financial constraint (full and partial) for micro-enterprises and SMEs stands at 66% and 65.8% respectively. These rates are higher in countries like Mozambique and Zimbabwe (Figure).

[12] Village Savings and Loan Associations

[13] Saving and Internal Lending Communities

Figure: MSMEs Financial Constraint



Source: SME Finance Forum

Table 18 shows that the total amount of current supply to MSMEs in the region, which is estimated at USD 50,493.8 million in 2018 remains below the MSMEs' potential demand of USD 130,077.9 million, leaving a finance gap of USD 79,584.1 million. Relative to the size of their economy, Eswatini, Angola and Madagascar show the largest MSME financial gap, representing 45%, 33% and 27% of GDP respectively.

Table 18: MSME Finance Gap

	Current Supply	Potential Demand	MSME Finance Gap	
	USD million		USD million	% of GDP
Angola	2,707,014,766	36,885,117,252	34,178,102,486	33%
Botswana	1,425,602,197	4,095,233,052	2,669,630,855	19%

eSwatini	119,893,187	1,942,735,050	1,822,841,863	45%
Lesotho	130,556,822	296,426,625	165,869,803	8%
Madagascar	305,447,031	2,983,617,855	2,678,170,824	27%
Malawi	9,422,754	486,465,668	477,042,915	7%
Mauritius	2,435,207,831	2,863,789,497	428,581,666	4%
Mozambique	205,296,601	1,550,364,742	1,345,068,141	9%
Namibia	139,597,172	1,928,209,050	1,788,611,879	15%
South Africa	41,462,741,608	71,805,299,709	30,342,558,100	10%
Zambia	1,552,991,438	5,240,595,841	3,687,604,402	17%
TOTAL	**50,493,771,408**	**130,077,854,341**	**79,584,082,933**	

NB: Data for Zimbabwe and Sao Tome and Principe are not available

Source: SME Finance Forum

Factors that hamper MSME to have access to finance in the region are manifold. These include the lack of corporate governance skills, weak financial management skills, especially with regard to risk management, and high collateral requirements, which usually relate to real estate such as land and buildings.

Most of MSMEs in the region evolve in sectors that are either informal with undocumented assets, or with highly volatile production or small value added, such as agriculture. For these MSMEs, the prospects for profitability, which would highlight their ability to repay, are not very promising. For example, in Madagascar, most MSMEs are retailers selling agricultural products (about 63% of MSMEs are engaged in the agricultural sector) or other goods with tiny or almost no value added, a situation that makes banks skeptical of their ability to repay loans. About 98% of MSMEs are not officially registered. Most of these MSMEs are in rural areas. About 29% of MSMEs acquired credit from non-formal sources, such as VSLAs or from family and friends. In Eswatini, the still burdensome bureaucracy leads many firms to operate in the informal sector, which reduces their eligibility for bank credit. According to the Finscope survey (2017), 44,518 MSMEs (or 75% of the total) in Eswatini are not registered.

Non-financial support, aimed at increasing the likelihood of obtaining credit, is rare, especially among micro-entrepreneurs, and public subsidy initiatives seem not to be sustainable. For example, in Namibia, the authorities established a bank specialized in SMEs financing in 2012. This bank was declared insolvent and forced to stop its operations in November 2017. In Eswatini, the Small-Scale Enterprise Loan Guarantee Scheme (SSELGS), capped at Euro 500,000 and 95% guaranteed by the government remains underfunded, preventing it from achieving its stated goals.

A private-public partnership is needed to stimulate SMEs in the medium term, notably through: (i) streamlining government support programs and (ii) helping SMEs develop bankable business plans. Finally, the implementation or improvement of a credit information system and the proper functioning of the personal property registry are essential to support SME financing.

Recommendations for the Financial Sector

The high level of NPLs in the region requires close monitoring of the banking sector. Central banks should intensify their supervisory actions to ensure that banks achieve a sustainable reduction of high levels of NPLs. Governments should increase fiscal space by increasing government revenues through diversification of the tax base and simplification of the tax system, to reduce the exposure of banks to sovereign risk.

Effective regulation across the banking system, as well as proper governance and accountability structures could moderate the risk of increasing interconnectedness between the banking sector and the nonbank financial institutions. Credit life protection, mortgage repayment policies and retrenchment cover policies provided by insurance companies could mitigate this risk by effectively shifting it to the insurance sector.

In the light of high fixed costs and low trade volumes that prevail in most stock markets, bringing listing fees and transactions costs down to levels that are competitive could lift those constraints and enable the market to operate more efficiently.

A deeper pool of issuers is required for the acceleration of green bonds growth in the region, especially among corporate borrowers. Hurdles such as lack relevant technical expertise among market participants and institutional capacity constraints should be prioritized for the development of green bonds in the region.

The domestic bond market should be deepened. This will require a coordinated approach from public and private issuers, including issuance of a longer benchmark maturity for government debt securities.

For the pension sector, reforms should be undertaken to enhance skills in fund administration. Arrears should be thoroughly dealt with as they constitute an exacerbating factor of poverty, which could result in a drop in the already low contribution rate, thus weakening the financial stability of the sector. There is also a need for regulators to design convenient, affordable, and inclusive solutions such as micro-pension products, which could be facilitated by the relatively high rate of mobile penetration in the region.

Financial inclusion could take advantage of a financial education program implemented with a roadmap at country and regional level. Leveraging information technology by facilitating the establishment of credit bureaus, especially for SMEs, and providing additional financial services to the poorest segments of the population by taking advantage of bank accounts created under social grants can also improve financial inclusion. Moreover, authorities should enhance competition in the banking system through the promotion of new players, especially those that help to improve financial inclusion. Helping SMEs develop bankable business plans and streamlining government support programs towards them could be done through the implementation of private-public partnerships with the aim to boost their activities in the medium term.

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