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# Working Paper

*Investment Climate of  
Financial Services in Africa.*

*Satinder Bhatia*

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# **<sup>1</sup>Investment Climate of Financial Services in Africa (Country Attractiveness Indices)**

**Satinder Bhatia\***

## **Abstract**

The African continent today stands at a threshold of opportunities. The continent is heterogeneous in its cultural, economic and geographical aspects in so far as the domain contains more than 50 countries and different economic and regional blocs. Trivial to say that the diversity embodied in geographical, economic and cultural aspects extends to the financial front as well. Understanding this diversity is important and here the attempt is to build on the same. This goes along with the fact that in this contemporary era, a sound financial system lies at the heart of a well-functioning economy. Financial services like credit, savings, banking, insurance, payment etc. are closely tied with all sectors of the economy; hence, governments strive to close the gap between the financial needs of entities and access of services available to them.

This paper is an attempt to study the investment climate of financial services in the African continent by first studying the domestic state of affairs in the sector and then the macro governance indicators pointing out towards the amenability of the domestic environment to foreign investment. The paper begins with an overview of the current state of financial system in Africa through the study of several indicators like per capita GDP, ratio of liquid liabilities to GDP, log of liquid liabilities etc. After this broad overview of Africa's performance in the financial sector, the paper looks at financial conditions in each region of Africa viz. East Africa, Southern Africa, West Africa, North Africa and Central Africa in greater detail. The analysis is carried out using calculation of various indices that unveil a country's performance compared to its respective region as well as compared to the whole of Africa. The entire exercise is, thereby, an attempt to understand how a country is doing absolutely and relatively to its region and its continent in terms of domestic and foreign investment opportunities.

**Key Words:** investment climate, financial services, Africa

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## Introduction

The African continent is an interesting mix in terms of diversity of per capita GDP. According to the World Bank (World Development Indicators, 2013), the 2013 GDP per capita as shown in Table 1, the oil rich countries of Arab North Africa, Gabon and Congo have relatively high GDP per capita. The Central and East African countries have the lowest income per capita on average; yet, there are certain outliers in the form of Seychelles, Cape Verde etc. with high per capita income. Similarly, Southern Africa, though one of the more prosperous regions of the continent, also has huge variations if we look at per capita GDP of individual countries with countries like Mozambique, Malawi, Zimbabwe and Madagascar having low levels of per capita GDP, while at the same time Mauritius, South Africa and Angola standing at the other end of the poll. As far as Western Africa is concerned, it is characterized by countries with low per capita GDP; though again, there are outliers like Nigeria that maintain a healthy per capita GDP relative to the region. Table 1 gives a snapshot of the per capita GDP prevailing in different countries in Africa. As can be seen, there is a wide disparity in the per capita GDP with the lowest at USD 226 for Malawi and the highest at USD 14,220 for Seychelles. Region-wise, we see that Southern Africa has the highest average per capita GDP at USD 3510 and Western Africa lagging behind at USD 1287. Despite the presence of Seychelles, the average per capita GDP for East Africa stands only at USD 2224. Thus, even within regions, there are huge inequalities. The study looks at whether these inequalities in per capita GDP also reflect the inequalities in availability and access to financial services in these countries.

**Table 1**  
**Per Capita GDP of African Countries (Current US \$)**

Eastern Africa	Per Capita GDP (USD)	Southern Africa	Per Capita GDP (USD)	Western Africa	Per Capita GDP (USD)	North Africa	Per Capita GDP (USD)	Central Africa	Per Capita GDP (USD)
Average	2224	Average	3510	Average	1287	Average	4892	Average	2994
Burundi	267	Angola	5668	Burkina Faso	684	Algeria	5361	Central African Republic	333
Comoros	894	Botswana	7317	Cote d'Ivoire	1521	Egypt	3314	Cameroon	1315
Djibouti	1668	Lesotho	1075	Cape Verde	3785	Libya	12167	Chad	1046
Eritrea	544	South Africa	6618	Ghana	1850	Morocco	3109	Congo, Rep.	3172
Kenya	994	Mozambique	593	Gambia	494	Mauritania	1070	Guinea	527

Sudan	1753	Madagascar	471	Mali	715			Equatorial Guinea	20572
Somalia	-	Mauritius	9210	Niger	413				
Seychelles	14220	Zambia	1540	Nigeria	3010				
Tanzania	695	Zimbabwe	905	Senegal	1072				
Uganda	572	Namibia	5462	Sierra Leone	809				
		Swaziland	3034	Togo	636				

(Source: World Development Indicators, World Bank), 2013

### State of Financial Services in Africa

The WDI indicators on financial services have been used to study the current state of financial services in the African continent. The indicators have been categorized as follows:

#### Access to financial services:

- i) ATMs per 100,000 adults
- ii) Bank accounts per 1,000 adults
- iii) Bank branches per 100,000 adults
- iv) Per cent of small firms with a bank loan or line of credit

#### Efficiency of financial services:

- i) Bank lending-deposit spread
- ii) Bank net interest margin (per cent)
- iii) Bank non-interest income to total income (per cent)
- iv) Bank overhead costs to total assets (per cent)

#### Depth of financial services:

- i) Private credit by deposit money banks and other financial institutions to GDP (percent)
- ii) Private credit by deposit money banks to GDP (per cent)

#### Use of Technology:

- i) Use of Credit Card (percentage of population above 15 years)
- ii) Use of Debit Card (percentage of population above 15 years)
- iii) Electronic transfer of funds by population above 15 years (per cent)
- iv) Mobile phone used to pay bills by population above 15 years (per cent)
- v) Mobile phone used to send money by population above 15 years (per cent)

Concentration/Control:

- i) Five bank concentration (per cent)
- ii) Bank concentration (per cent)
- iii) Foreign bank assets among total bank assets (per cent)
- iv) Foreign banks among total number of banks (per cent)

Table 2 below indicates these parameters for the African continent. Clearly, the use of technology for banking services needs to be improved, be it usage of credit cards or debit cards or even the number of ATMs per 100,000 population. The bank concentration is also high with some dominance by foreign banks. Further, the share of non-interest income to total income is also very high. Knut and Klapper (2012) had also come to similar conclusions based on an analysis of financial inclusion which included account penetration, savings needs and access to credit and insurance for African households and SMEs.

The current study goes further and compares parameters for each region with the averages for the whole of Africa. The parameters of individual countries are similarly analyzed in relation to the regional averages.

**Table 2**  
**Overview of Key Parameters of the African Financial Sector**

<b>Access</b>	<b>Average</b>	<b>Concentration / Control</b>	<b>Average</b>	<b>Efficiency</b>	<b>Average</b>	<b>Depth</b>	<b>Average</b>	<b>Use of Technology</b>	<b>Average</b>
<i>ATMs per 100,000 adults</i>	8.69	<i>5-bank asset concentration</i>	85.81	<i>Bank lending-deposit spread</i>	11.15	<i>Private credit by deposit money banks and other financial institutions to GDP (%)</i>	21.71	<i>Credit card (% age 15+)</i>	3.41
<i>Bank accounts per 1,000 adults</i>	282.99	<i>Bank concentration (%)</i>	76.24	<i>Bank net interest margin (%)</i>	6.51	<i>Private credit by deposit money banks to GDP (%)</i>	19.94	<i>Debit card (% age 15+)</i>	11.31
<i>Bank branches per 100,000 adults</i>	6.19	<i>Foreign bank assets among total bank</i>	52.79	<i>Bank noninterest income to total income (%)</i>	42.89			<i>Electronic payments used to make payment</i>	3.35

		<i>assets (%)</i>						<i>s (% age 15+)</i>	
<i>Small firms with a bank loan or line of credit (%)</i>	15.89	<i>Foreign banks among total banks (%)</i>	52.72	<i>Bank overhead costs to total assets (%)</i>	5.31			<i>Mobile phone used to pay bills (% age 15+)</i>	3.63
								<i>Mobile phone used to send money (% age 15+)</i>	9.32

Source: Calculations from WDI Data, 2013

As there is wide inequality in Africa, region-wise and country-wise analysis has been conducted. The methodology adopted was as follows:

The WDI indicators are first divided into two categories:

- i) Constraining Variables; and
- ii) Supporting Variables

Constraining variables are those whose high values or upward movements indicate inadequacies in financial service. Specific variables studied under this category are:

- a. Five Bank Asset Concentration;
- b. Bank Concentration;
- c. Bank Lending Deposit Spread;
- d. Bank Net Interest Margin;
- e. Bank Overhead Cost to Total Assets; and
- f. Bank Non-Interest Income to Total Income

Supporting variables are those whose high values or upward movements indicate optimism about the financial services sector. Specific variables studied under this category are:

- a. Average Number of ATMs per 100,000 population
- b. Number of Bank Branches per 100,000 adults
- c. Number of Bank Accounts per 1,000 adults
- d. Debit Card Usage
- e. Credit Card Usage
- f. Mobile Phone Usage
- g. Electronic Payments by population above 15 years

- h. Foreign Banks among Total Banks
- i. Foreign Bank Assets among Total Bank Assets
- j. Remittance Inflow
- k. Savings at Formal and Informal Institutions

II. The next step was to arrive at regional average for each variable for each year of the selected period 2000-2011. Thus, a regional average for each variable and each year will be arrived at.

III. However, since variables have to be grouped and added, the raw data is converted into indices with the regional average taken at 100. Thus, year-wise, there will be indices for each country for each of the variables indicating the country's position vis-a-vis the regional average.

IV. Next, year-wise, the indices have been grouped into two categories defined earlier – Constraining Variables and Supporting Variables and an average index of each of the groups arrived at. In the Table below, we thus have two indices – Index of Constraining Variables and Index of Supporting Variables for each country over 2000-2011 (average of yearly index) and as can be seen, year-wise figures of the indices are available.

V. Next, in order to get a snapshot picture for the two groups of variables for each country over the entire period 2000-2011, an average of the yearly indices is calculated and shown as IRR – Index of each country relative to the region.

VI. Similar averages for the two groups are calculated for the whole of Africa taking an average of all the regional averages. This is represented as IRA – index of each country relative to the whole of Africa.

Studying each country's position relative to its region and the whole of Africa in the financial services sector helps to draw conclusions regarding opportunities for foreign investment in the country's financial services sector. Nonetheless, for foreign investment to come in, a country's governance indicators must also be favorable. That is why in Table 3, the last column highlights the country's standing on the governance front.

We first begin with the state of financial services in East Africa.



**EAST AFRICA:** If we look at eastern Africa, we find that it is made up of economies some of which are doing very good in financial terms compared to region and whole of Africa. While there are few others which are exhibiting a strongly unfavourable character in comparison to region and Africa. To build on this further if we look at Burundi, Comoros, Rwanda and Sudan then we find that they have been showing an unfavorable financial position compared to the region and whole of Africa. On the other hand there are countries like Kenya, Djibouti and Seychelles which are doing very good not only in comparison to their respective region but also compared to whole of Africa. Tanzania and Uganda also has not been doing very good in comparison to the respective region. But again within those countries which are not showing favorable performance compared to region and whole of Africa there are certain favorable factors which needs to be highlighted. And also within those who are showing favorable performance compared to region and Africa there are certain area of concern. A detailed country wise analysis is done in the next section.

**TABLE 3.1**

**SUMMARY COUNTRY INDICATORS RELATIVE TO REGION AND AFRICA (2000-2011)**

(Africa taken as average of 45 countries)

**REGION - EAST AFRICA**

**Country Attractiveness Indices and Ranking**

Country	Relative to Region	Relative to Africa	Rank in Region	Rank in Africa
Burundi	0.5	0.543	9	42
Comoros	0.638	0.755	7	30
Djibouti	0.789	0.828	6	27
Kenya	1.267	1.421	2	13
Rwanda	0.952	1.046	5	22
Seychelles	5.311	5.546	1	5
Sudan	0.555	0.645	8	36
Tanzania	1.1	1.248	3	15
Uganda	1.076	1.233	4	18
Average Index of Region		1.47		

## 1. Country - Burundi

### Financial Climate

#### Key favorable Factors

High domestic and private  
Credit to GDP

#### Key areas of concern

High bank and bank asset concentration.  
Low number of ATM's & Bank Branches.  
Low use of Technology.

### Governance Climate

Regulatory Quality  
Rule of Law  
Control of corruption  
Aggregate Indicator

#### Range during 2000-2011

1.00 to -1.32  
-0.9 to - 1.56  
-0.90 to -1.12  
-1.08 to -1.27

Average Governance indicator during 2000-2011 = -1.17

#### Indices relative to region & Africa

	Relative to region	Relative to Africa
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Index of favourable factors/Index of Constraining factors	0.498	0.52
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Governance indicator	0.502	0.566
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#### Country Attractiveness

**0.5**

**0.543**

(With 50% weight to the index of favourable  
factors/index of constraining factors & 50 %  
weight to the Governance indicator )

## 2. Country - Comoros

### Financial Climate

#### Key favorable Factors

Low lending deposit spread

#### Key areas of concern

Low number of ATM's & Bank Branches.  
Low use of Technology.

### Governance Climate

Regulatory Quality  
Rule of Law  
Control of corruption  
Aggregate Indicator

#### Range during 2000-2011

-1.16 to -1.56  
-0.97 to - 1.38  
-0.64 to -1.12  
-1.02 to -1.27

Average Governance indicator during 2000-2011 = -1.153

	<b>Indices relative to region &amp; Africa</b>	
	Relative to region	Relative to Africa
Index of favourable factors/Index of Constraining factors	0.767	0.935
Governance indicator	0.509	0.575
<b>Country Attractiveness</b> (With 50% weight to the index of favourable factors/index of constraining factors & 50 % weight to the Governance indicator )	<b>0.638</b>	<b>0.755</b>

### 3. Country - Djibouti

Financial Climate

#### Key favorable Factors

Low Bank Net Interest Margin  
 Low Non-Interest Income  
 Low overhead cost to Total Cost  
 High Use of Technology  
 High Ratio of Domestic & Private Credit to GDP

#### Key areas of concern

High lending deposit spread

#### Governance Climate

	<b>Range during 2000-2011</b>
Regulatory Quality	-0.53 to -0.77
Rule of Law	-0.59 to - 0.91
Control of corruption	-0.19 to -0.95
Aggregate Indicator	-0.48 to -0.86

Average Governance indicator during 2000-2011 = -1.099

	<b>Indices relative to region &amp; Africa</b>	
	Relative to region	Relative to Africa
Index of favourable factors/Index of Constraining factors	1.043	1.0524
Governance indicator	0.534	0.603
<b>Country Attractiveness</b> (With 50% weight to the index of favourable factors/index of constraining factors & 50 % weight to the Governance indicator )	<b>0.789</b>	<b>0.8277</b>

factors/index of constraining factors & 50 % weight to the Governance indicator )

#### 4. Country – Kenya

Financial Climate

##### Key favorable Factors

Low Bank & bank asset concentration  
 High number of ATM's & Bank Branches  
 High Ratio of Domestic & Private Credit to GDP  
 High Use of Technology

##### Key areas of concern

High Net Interest Margin  
 High overhead cost to Total Cost  
 High Bank lending deposit spread

##### Governance Climate

Regulatory Quality  
 Rule of Law  
 Control of corruption  
 Aggregate Indicator

##### Range during 2000-2011

-0.07 to -0.30  
 -0.86 to - 1.05  
 -0.80 to -1.08  
 -0.64 to -0.76

Average Governance indicator during 2000-2011 = -0.694

##### Indices relative to region & Africa

	Relative to region	Relative to Africa
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Index of favourable factors/Index of Constraining factors

1.688

1.886

Governance indicator

0.846

0.955

##### Country Attractiveness

**1.267**

**1.421**

(With 50% weight to the index of favorable Factors/index of constraining factors & 50 % weight to the Governance indicator )

#### 5. Country – Rwanda

Financial Climate

##### Key favorable Factors

Low Bank lending deposit spread  
 Low Top Five Bank Asset Concentration

##### Key areas of concern

Low Use of Technology  
 High Net Interest Margin  
 High overhead cost to Total Cost  
 High Bank & bank asset concentration

## Governance Climate

### Range during 2000-2011

Regulatory Quality	-0.13 to -1.05
Rule of Law	-0.30 to - 1.35
Control of corruption	-0.74 to 0.46
Aggregate Indicator	-1.01 to 0.00

Average Governance indicator during 2000-2011 = -0.49

### Indices relative to region & Africa

Relative to region                      Relative to Africa

Index of favourable factors/Index of Constraining factors	0.705	0.738
Governance indicator	1.198	1.353
<b>Country Attractiveness</b> (With 50% weight to the index of favorable Factors/index of constraining factors & 50 % weight to the Governance indicator )	<b>0.952</b>	<b>1.046</b>

## 6. Country – Seychelles

Financial Climate

### Key favorable Factors

High Number of ATM's & Bank Branches  
High Ratio of Domestic & Private Credit to GDP

### Key areas of concern

High Bank & bank asset concentration  
High Bank Non- Interest Income  
High overhead cost to Total Cost  
High Bank & bank asset concentration

## Governance Climate

### Range during 2000-2011

Regulatory Quality	-0.28 to -0.91
Rule of Law	-0.03 to 0.59
Control of corruption	0.09 to 0.46
Aggregate Indicator	-0.19 to 0.06

Average Governance indicator during 2000-2011 = -0.076

	<b>Indices relative to region &amp; Africa</b>	
	Relative to region	Relative to Africa
Index of favourable factors/Index of Constraining factors	2.897	2.367
Governance indicator	7.724	8.724
<b>Country Attractiveness</b> (With 50% weight to the index of favorable Factors/index of constraining factors & 50 % weight to the Governance indicator)	<b>5.311</b>	<b>5.546</b>

## 7. Country – Sudan

### Financial Climate

#### Key favorable Factors

Low overhead cost to Total Cost  
 Low Bank Net Interest Margin  
 High Use of Technology including Mobile Phones

#### Governance Climate

Regulatory Quality  
 Rule of Law  
 Control of corruption  
 Aggregate Indicator

#### Key areas of concern

Low Number of ATM's & Bank Branches  
 High Bank & bank asset concentration  
 High Bank Non-Interest Income

#### Range during 2000-2011

-1.16 to -1.47  
 -1.22 to -1.60  
 -0.80 to -1.48  
 -1.20 to -1.47

Average Governance indicator during 2000-2011 = -1.31

	<b>Indices relative to region &amp; Africa</b>	
	Relative to region	Relative to Africa
Index of favourable factors/Index of Constraining factors	0.662	0.783
Governance indicator	0.448	0.506
<b>Country Attractiveness</b> (With 50% weight to the index of favorable Factors/index of constraining factors & 50% weight to the Governance indicator )	<b>0.555</b>	<b>0.645</b>

## 8. Country – Tanzania

### Financial Climate

#### Key favorable Factors

Low Bank Asset Concentration  
High Use of Technology including  
Mobile Phones

#### Key areas of concern

High Bank Lending Deposit Spreads  
High Net Interest Margin  
Low Number of ATMs and Bank Branches

#### Governance Climate

Regulatory Quality  
Rule of Law  
Control of Corruption  
Aggregate Indicator

#### Range during 2000-2011

-0.25 to -0.56  
-0.29 to -0.55  
-0.22 to -0.95  
-0.35 to -0.63

Average Governance indicator during 2000-2011 = -0.473

#### Indices relative to region & Africa

	Relative to region	Relative to Africa
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Index of favourable factors/Index of  
Constraining factors

0.95	1.085
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Governance indicator

1.249	1.411
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#### Country Attractiveness

(With 50% weight to the index of favorable  
Factors/index of constraining factors & 50%  
weight to the Governance indicator )

<b>1.1</b>	<b>1.248</b>
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## 9. Country – Uganda

### Financial Climate

#### Key favorable Factors

Low Bank Asset Concentration  
High Use of Technology including  
Mobile Phones

#### Key areas of concern

High Bank Lending Deposit Spreads  
High Net Interest Margin  
Low Number of ATMs and Bank Branches  
High Overhead Cost to Total Cost

#### Governance Climate

Regulatory Quality  
Rule of Law

#### Range during 2000-2011

-0.22 to 0.08  
-0.34 to -0.79

Control of Corruption	-0.75 to -0.94
Aggregate Indicator	-0.35 to -0.63

Average Governance indicator during 2000-2011 = -0.48

	<b>Indices relative to region &amp; Africa</b>	
	Relative to region	Relative to Africa
Index of favourable factors/Index of Constraining factors	0.929	1.085
Governance indicator	1.223	1.381
<b>Country Attractiveness</b> (With 50% weight to the index of favorable Factors/index of constraining factors & 50% weight to the Governance indicator )	<b>1.076</b>	<b>1.233</b>

**Country-wise analysis of this region in order of attractiveness is as follows:**

**Seychelles** has been the star performer in economic terms and provides the best investment climate in the region making it the fifth most attractive in the continent after Mauritius, Botswana, South Africa and Namibia. Seychelles has now become an important offshore jurisdiction for international business companies due to the ease of doing business and the relative low costs compared to other offshore jurisdictions. The ratio of favourable financial variables such as high number of bank branches and high private and domestic credit to the constraining factors such as high bank concentration, high bank non-interest income and high overhead cost was as high as 2.897 during the period under study when measured relative to the region and 2.367 when measured relative to the continent. The overall governance indicator at 7.724 relative to the region and at 8.724 relative to the continent has further added to the country's attractiveness as an investment destination. The country's overall attractiveness indicator, thereby, stands at 5.311 relative to the region and at 5.546 relative to the continent. Certainly, a country that is more than five times as attractive as the continent will draw in a lot of interest from both domestic and foreign investors. The competition for Seychelles arises mainly from the Southern African region.

**Kenya** definitely has strengths in the use of technology in the sector with its peak strength being the mobile payments. Besides, it has a large number of ATMs and bank branches. The ratio of domestic and private credit to GDP is also quite high in the country. However, it suffers from net interest margins, high overhead costs for the



banking sector and high lending deposit spreads. The index of favourable factors, nonetheless, remains stronger than the index of constraining factors both at the regional level and at the continent level (1.688 and 1.886 respectively). The country governance parameters, though negative, are better than those of the region and those of the continent. That is why, the relative overall governance indices are 0.846 and 0.955 respectively. Because of stronger financial sector and governance indicators, Kenya's attractiveness index relative to the region stands at 1.267 relative to the region and at 1.421 relative to the whole of Africa.

**Tanzania, Kenya and Uganda** compete with each other in some sense as their overall scores are in the same region. The overall country attractiveness indicator, in each case, is slightly above 1.00, with the largest one being that of Kenya at 1.421 relative to the continent. In terms of financial indicators, Kenya with a large number of strengths such as high number of ATMs and high use of technology, certainly leads the way. Its ratio of favourable to unfavourable factors was 1.886 relative to the continent as opposed to the figures of 1.085 for both Tanzania and Uganda. However, Kenya's governance climate is poorer as compared to Tanzania and Uganda due to which the overall attractiveness indicators hover within the same range of 1.00 to 1.42.

**Rwanda, Djibouti and Comoros** are moderately low income countries and lack a combination of sound financial and governance parameters. Djibouti has financial parameters greater than one both in the context of the region and the continent but the overall governance indicator is only about half as good as the region or the continent. Rwanda has much better governance indicators with values greater than one but on financial parameters, the value is just about 0.7 both in the context of the region and the continent. Comoros has both financial and governance indicators less than one and, therefore, is the least attractive at 0.638 in relation to the region and 0.755 in relation to the continent.

**Sudan and Burundi:** As compared to all other countries in the Eastern region, the situation in these countries is really grave, with relative financial and governance parameters that are below one, particularly in Sudan. The average governance indicator in Sudan was at -1.31 during the period under study. But Burundi, because of its poor performance on both fronts, is the least attractive in the region, with the overall country attractiveness indicator at 0.5 relative to the region and at 0.543 relative to the continent.

## REGION II – SOUTHERN AFRICA

SOUTHERN AFRICA is the most attractive region for investment in the financial services sector in the African continent. The most attractive country for investment – Mauritius lies in this region and its close competitors – Botswana, South Africa and Namibia are also in this region. The overall attractiveness indicator for the region stood at 3.127 during the period under study. Country-wise analysis follows the table:

**TABLE 3.2**  
**SUMMARY COUNTRY INDICATORS RELATIVE TO REGION AND AFRICA (2000-2011)**  
(Africa taken as average of 45 countries)

### REGION - SOUTHERN AFRICA

#### Country Attractiveness Indices and Ranking

Country	Index		Rank	
	Relative to Region	Relative to Africa	Rank in Region	Rank in Africa
Angola	0.541	0.797	9	29
Botswana	5.682	7.62	2	2
South Africa	4.135	6.286	3	4
Madagascar	0.717	1.324	7	14
Mauritius	6.022	8.15	1	1
Malawi	0.564	1.015	8	23
Mozambique	0.767	1.243	6	16
Namibia	3.231	4.925	4	6
Swaziland	0.955	1.423	5	12
Zambia	0.564	0.94	8	25
Zimbabwe	0.477	0.672	10	35
Average Index of Region	3.126818182			

#### 1. Country – Angola

##### Financial Climate

##### Key favorable Factors

High Use of Technology  
High Number of Bank Branches & ATM's.

##### Key areas of concern

High Bank concentration  
High Bank overhead cost to total cost  
High Bank Non-Interest Income  
Low Private Credit as a Ratio of GDP

## Governance Climate

### Range during 2000-2011

Regulatory Quality	-1.02 to -1.83
Rule of Law	-1.24 to -1.63
Control of Corruption	-1.14 to -1.52
Aggregate Indicator	-1.20 to -1.66

Average Governance indicator during 2000-2011 = -1.316

### Indices relative to region & Africa

Relative to region                      Relative to Africa

Index of favourable factors/Index of Constraining factors	0.848	1.09
Governance indicator	0.233	0.504
<b>Country Attractiveness</b> (With 50% weight to the index of favorable Factors/index of constraining factors & 50% weight to the Governance indicator )	<b>0.541</b>	<b>0.797</b>

## 2. Country – Botswana

### Financial Climate

#### Key favorable Factors

Low Bank Lending Deposit Spread  
 Low Bank Overhead Cost to Total Cost.  
 High Number of Bank Branches and ATMs  
 High Use of Technology

#### Key areas of concern

High Bank and Bank Asset Concentration  
 Low Private Credit as a Ratio of GDP

## Governance Climate

### Range during 2000-2011

Regulatory Quality	0.44 to 0.79
Rule of Law	0.50 to 0.67
Control of Corruption	0.61 to 1.14
Aggregate Indicator	0.61 to 0.81

Average Governance indicator during 2000-2011 = 0.71

	<b>Indices relative to region &amp; Africa</b>	
	Relative to region	Relative to Africa
Index of favourable factors/Index of Constraining factors	1.2004	1.51
Governance indicator	10.163	13.73
<b>Country Attractiveness</b> (With 50% weight to the index of favorable Factors/index of constraining factors & 50% weight to the Governance indicator )	<b>5.682</b>	<b>7.62</b>

### 3. Country – South Africa

#### Financial Climate

#### Key favorable Factors

Low Bank Lending Deposit Spread  
 Low Bank Overhead Cost to Total Cost.  
 Low Net Interest Margin  
 High Use of Technology

#### Key areas of concern

High Bank and Bank Asset Concentration  
 Low Private Credit as a Ratio of GDP

#### Governance Climate

Regulatory Quality  
 Rule of Law  
 Control of Corruption

#### Range during 2000-2011

0.36 to 0.78  
 0.03 to 0.24  
 0.04 to 0.61

Average Governance indicator during 2000-2011 = 0.3271

	<b>Indices relative to region &amp; Africa</b>	
	Relative to region	Relative to Africa
Index of favourable factors/Index of Constraining factors	2.007	2.742
Governance indicator	6.263	9.83
<b>Country Attractiveness</b> (With 50% weight to the index of favorable Factors/index of constraining factors & 50% weight to the Governance indicator )	<b>4.135</b>	<b>6.286</b>

#### 4. Country – Madagascar

##### Financial Climate

##### Key favorable Factors

Low Bank Non- Interest Income  
Low Bank Overhead Cost to Total Cost.

##### Key areas of concern

Low Number of Bank Branches and ATMs  
Low Private Credit as a Ratio of GDP  
High Bank and Bank Asset Concentration  
High Bank Lending Deposit Spread

##### Governance Climate

Regulatory Quality  
Rule of Law  
Control of Corruption  
Aggregate Indicator

##### Range during 2000-2011

-0.17 to -0.56  
-0.20 to -0.85  
-0.36 to 0.10  
-0.14 to -0.58

Average Governance indicator during 2000-2011 = -0.303

##### Indices relative to region & Africa

	Relative to region	Relative to Africa
--	--------------------	--------------------

Index of favourable factors/Index of  
Constraining factors

0.424

0.46

Governance indicator

1.01

2.188

##### Country Attractiveness

(With 50% weight to the index of favorable  
Factors/index of constraining factors & 50%  
weight to the Governance indicator )

**0.717**

**1.324**

#### 5. Country – Mauritius

##### Financial Climate

##### Key favorable Factors

Low Bank Interest Margin  
Low Bank Overhead Cost to Total Cost.  
Low Bank Asset Concentration  
High Use of Technology  
High Domestic and Private Credit to GDP

##### Key areas of concern

Low Use of Mobile Phones  
High Value of Bank Non-Interest Income

##### Governance Climate

Regulatory Quality  
Rule of Law

##### Range during 2000-2011

0.42 to 0.87  
0.86 to 1.06

Control of Corruption 0.34 to 0.65  
 Aggregate Indicator 0.59 to 0.82

Average Governance indicator during 2000-2011 = 0.7

**Indices relative to region & Africa**  
 Relative to region                      Relative to Africa

Index of favourable factors/Index of Constraining factors	1.98	2.67
Governance indicator	10.063	13.63
<b>Country Attractiveness</b> (With 50% weight to the index of favorable Factors/index of constraining factors & 50% weight to the Governance indicator )	<b>6.022</b>	<b>8.15</b>

**6. Country – Malawi**  
 Financial Climate

**Key favorable Factors**

High Ratio of Domestic Banks to Total Banks

**Key areas of concern**

Low Use of Technology  
 Low Domestic and Private Credit to GDP  
 High Bank Asset Concentration  
 High Lending Deposit Spread  
 High Bank Net Interest Margin  
 High Overhead Cost to Total Cost

**Governance Climate**

Regulatory Quality	-0.22 to -0.70
Rule of Law	-0.12 to -0.50
Control of Corruption	-0.21 to -1.01
Aggregate Indicator	0.31 to -0.66

**Range during 2000-2011**

Average Governance indicator during 2000-2011 = -0.427

**Indices relative to region & Africa**  
Relative to region                      Relative to Africa

Index of favourable factors/Index of Constraining factors	1.98	2.67
Governance indicator	0.717	1.553
<b>Country Attractiveness</b> (With 50% weight to the index of favorable Factors/index of constraining factors & 50% weight to the Governance indicator )	<b>0.564</b>	<b>1.015</b>

**7. Country - Mozambique**

Financial Climate

**Key Favourable Factors**

Low Bank Lending Deposit Spread  
High Use of Technology including Electronic Payments  
High Savings at Formal and Informal Institutions

**Key Areas of Concern**

High Bank Asset Concentration  
High Overhead Cost to Total Cost  
High Net Interest Margin  
High Non-Interest Income

**Governance Climate**

Regulatory Quality  
Rule of Law  
Control of Corruption  
Aggregate Indicator

**Range during 2000-2011**

-0.16 to -0.65  
-0.47 to -0.77  
-0.40 to -0.60  
-0.43 to -0.60

Average Governance Indicator during 2000-2011 = -0.52

**Indices Relative to Region and Africa**  
Relative to Region                      Relative to Africa

Index of Favourable Factors/Index of Constraining Factors	0.944	1.21
Governance Indicator	0.589	1.27
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.767</b>	<b>1.243</b>

## 8. Country - Namibia

### Financial Climate

#### Key Favourable Factors

Low Bank Lending Deposit Spread  
High Use of Technology including  
Electronic Payments  
High Savings at Formal and Informal  
Institutions

#### Key Areas of Concern

High Bank Asset Concentration  
High Overhead Cost to Total Cost  
High Net Interest Margin  
High Non-Interest Income

#### Governance Climate

#### Range during 2000-2011

Regulatory Quality	0.08 to 0.50
Rule of Law	-0.07 to 0.37
Control of Corruption	-0.40 to -0.56
Aggregate Indicator	0.08 to 0.37

Average Governance Indicator during 2000-2011 = 0.2

#### Indices Relative to Region and Africa

	Relative to Region	Relative to Africa
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Index of Favourable Factors/Index of Constraining Factors	1.398	1.22
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Governance Indicator	5.063	8.63
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<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>3.231</b>	<b>4.925</b>
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## 9. Country - Swaziland

### Financial Climate

#### Key Favourable Factors

Low Bank Lending Deposit Spread  
Low Net Interest Margin  
High Number of Bank Branches and  
Bank Accounts  
High Use of Technology including  
Mobile Phones

#### Key Areas of Concern

High Bank Asset Concentration  
High Overhead Cost to Total Cost  
High Net Interest Margin  
High Non-Interest Income



### Governance Climate

#### Range during 2000-2011

Regulatory Quality	-0.21 to -0.71
Rule of Law	-0.46 to -0.87
Control of Corruption	-0.17 to -0.58
Aggregate Indicator	-0.40 -0.69

Average Governance Indicator during 2000-2011 = -0.513

#### Indices Relative to Region and Africa

	Relative to Region	Relative to Africa
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Index of Favourable Factors/Index of Constraining Factors	1.313	1.553
Governance Indicator	0.597	1.292
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.955</b>	<b>1.423</b>

### 10. Country - Zambia

#### Financial Climate

#### Key Favourable Factors

Low Bank and Bank Asset Concentration  
High Use of Credit and Debit Card

#### Key Areas of Concern

Low Number of Bank Branches and ATMs  
High Lending Deposit Spread  
High Net Interest Margin  
High Non-Interest Income  
High Overhead Cost to Total Cost

### Governance Climate

#### Range during 2000-2011

Regulatory Quality	-0.26 to -0.70
Rule of Law	-0.39 to -0.59
Control of Corruption	-0.47 to -0.94
Aggregate Indicator	-0.45 -0.69

Average Governance Indicator during 2000-2011 = -0.56

	<b>Indices Relative to Region and Africa</b>	
	Relative to Region	Relative to Africa
Index of Favourable Factors/Index of Constraining Factors	0.58	0.696
Governance Indicator	0.547	1.184
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.564</b>	<b>0.94</b>

### 11. Country - Zimbabwe

#### Financial Climate

#### Key Favourable Factors

Low Bank and Bank Asset Concentration  
High Use of Credit and Debit Card

#### Key Areas of Concern

Low Number of Bank Branches and ATMs  
High Lending Deposit Spread  
High Net Interest Margin  
High Non-Interest Income  
High Overhead Cost to Total Cost

#### Governance Climate

Regulatory Quality  
Rule of Law  
Control of Corruption  
Aggregate Indicator

#### Range during 2000-2011

-0.26 to -0.70  
-0.39 to -0.59  
-0.47 to -0.94  
-0.45 - 0.69

Average Governance Indicator during 2000-2011 = -0.56

	<b>Indices Relative to Region and Africa</b>	
	Relative to Region	Relative to Africa
Index of Favourable Factors/Index of Constraining Factors	0.768	0.944
Governance Indicator	0.185	0.4
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance indicator)	<b>0.477</b>	<b>0.672</b>

**Country-wise analysis in the above table of the Southern African region shows the following:**

**Mauritius:** Mauritius has shown the way to become attractive for both domestic and foreign investment. Its financial sector has a lot of positives such as low bank interest margin, low overhead cost to total cost, low bank asset concentration, high use of technology and high domestic and private credit to GDP. Nonetheless, it needs to work on reducing the bank non-interest income by providing a more competitive space in the financial services sector. Due to a generally robust sector, the ratio of favourable to unfavourable factors stood at 1.98 relative to the region and at 2.67 relative to the continent. Coupled with this, Mauritius has ensured sound governance indicators. Its overall governance indicator was of the value of 10.063 relative to the region and 13.63 relative to the continent. The country attractiveness indicator, therefore, was a healthy 6.022 relative to the region and 8.15 relative to the continent.

**Botswana:** Botswana is the second most attractive country in the Southern Africa. Similar to Mauritius, the country has a number of favourable factors in the financial sector. Some examples are low bank lending deposit spread, low overhead cost to total cost, high number of bank branches and ATMs and high use of technology in financial transactions. The index of favourable to constraining factors at 1.2004 relative to the region and 1.51 relative to the continent means, though, that it has much to do more to catch up with Mauritius. However, it boasts of excellent governance indicators. The overall governance indicator stood at 10.163 relative to the region and at 13.73 relative to the continent during the time period under study. All governance parameters including regulatory quality, rule of law and control over corruption were in the positive territory. The overall country attractiveness indicator, therefore, stood at 5.682 relative to the region and at 7.62 relative to the continent.

**South Africa:** South Africa has a vibrant financial structure with the index of favourable to unfavourable factors standing at 2.007 relative to the region and at 2.742 relative to the continent. These figures are much better than those of Botswana and Mauritius. Amongst the favourable factors, the more prominent ones were low bank lending deposit spread, low bank overhead cost to total cost, low net interest margin and high use of technology. However, financial markets of both Botswana and South Africa are constrained by high bank asset concentration and low private credit as a ratio of GDP. But the bigger limitation for South Africa is its governance indicators. In terms of both rule of law and control over corruption, Botswana was far better than South Africa whose overall governance indicator was 6.263 relative to the region and 9.83 relative

to the continent. The country's overall attractiveness indicator was, therefore, 4.135 relative to the region and 6.286 relative to the continent.

**Namibia:** Namibia was the next most attractive country in the region for investment in the financial services sector. Like South Africa, Namibia has well-functioning financial markets with its index of favourable to unfavourable factors at 1.398 relative to the region and at 1.22 relative to the continent. This index was largely the result of low lending deposit spread, high use of technology and high savings at formal institutions. The constraints, like in other countries, were high bank asset concentration, high overhead cost to total cost and high non-interest income. The overall governance indicator stood at 5.063 relative to the region and at 8.63 relative to the continent during the study period and the country attractiveness indicator stood at 3.231 relative to the region and at 4.925 relative to the continent.

**Swaziland:** Swaziland lagged behind Namibia, chiefly in terms of governance indicators. The financial sector has been almost at par with that of Namibia and actually has an added advantage in terms of high number of bank branches. The financial parameters at 1.313 relative to the region and 1.553 relative to the continent, therefore, came close to those of Namibia. However, since it has a lot to catch up on governance front, the country attractiveness was just at 0.955 relative to the region (as against 3.231 of Namibia) and at 1.423 relative to the continent (as against 4.925 of Namibia).

**Mozambique and Madagascar** come next, each with their own unique strengths relative to each other. While Mozambique is strong in the financial sector, Madagascar has better governance indicators. At 1.01 relative to the region and 2.188 relative to the continent, the overall governance indicator in Madagascar is almost twice that in Mozambique. Mozambique, of course, has financial parameters twice those of Madagascar. Both countries, however, were less attractive than the Southern African region, though partially better than the continent.

**Malawi** also managed to be partially more attractive than the continent (the overall attractiveness indicator stood at just 1.015 relative to the continent). Amongst the financial constraints, Malawi is affected by high bank concentration, high bank lending deposit spread and high overhead cost. With a mix of not so attractive financial and governance indicators, in terms of attractiveness, Malawi, therefore was ranked below Mozambique and Madagascar.

**Zambia, Angola and Zimbabwe** were the least attractive countries in the region. Zimbabwe was at the bottom with the overall governance indicator standing just at 0.185 relative to the region and 0.4 relative to the continent. Angola has a more respectable governance score of 0.233 relative to the region and 0.504 relative to the continent and Zambia's is even better at 0.547 relative to the region and 1.184 relative to the continent. Angola seems best in financial parameters with its indicator at 1.09 relative to the continent and, as noted before, Zambia is the best in governance. The figures, being very low, are unlikely to have the required pull for investment in the financial services sector.

### REGION III – WESTERN AFRICA

**Western Africa:** Like other regions, Western Africa is full of diversities. The most attractive country in the region – Cape Verde is ranked at Number 3 in the continent. Ghana is another thriving economy which is ranked at Number 7 in the continent. On the other hand, the region also has Togo, Liberia and Sierra Leone ranked at Numbers 38, 40 and 41 respectively in the continent. Country-wise analysis follows the table.

**TABLE 3.3**

### SUMMARY COUNTRY INDICATORS RELATIVE TO REGION AND AFRICA (2000-2011)

(Africa taken as average of 45 countries)

#### REGION - WEST AFRICA

#### Country Attractiveness Indices and Ranking

Country	Index		Rank	
	Relative to Region	Relative to Africa	Rank in Region	Rank in Africa
Burkina Faso	1.471	1.435	4	11
Cape Verde	6.361	6.537	1	3
Cote d'Ivoire	0.728	0.696	10	34
Gambia	1.177	1.213	6	20
Ghana	4.389	4.425	2	7
Liberia	0.769	0.593	8	40
Mali	1.119	1.093	7	21
Niger	0.732	0.704	9	33
Nigeria	1.178	0.923	5	26
Senegal	1.681	1.676	3	10
Sierra Leone	0.677	0.59	12	41
Togo	0.68	0.639	11	38

Average Index of Region 1.71

## 1. Country - Burkina Faso

### Financial Climate

#### Key Favourable Factors

Low Bank Asset Concentration

Low Net Interest Margin

Low Non-Interest Income

Low Overhead Cost to Total Cost

#### Key Areas of Concern

Low Use of Technology

Low Domestic and Private

Credit to GDP

### Governance Climate

#### Range during 2000-2011

Regulatory Quality 0.09 to -0.42

Rule of Law -0.18 to -0.68

Control of Corruption -0.02 to -0.39

Aggregate Indicator 0.22 to -0.35

Average Governance Indicator during 2000-2011 = -0.301

#### Indices Relative to Region and Africa

	Relative to Region	Relative to Africa
Index of Favourable Factors/Index of Constraining Factors	0.855	0.666
Governance Indicator	2.086	2.203
<b>Country Attractiveness</b>	<b>1.471</b>	<b>1.435</b>

(with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)

## 2. Country - Cape Verde

### Financial Climate

#### Key Favourable Factors

High Number of Bank Branches and ATMs

Low Net Interest Margin

Low Non-Interest Income

Low Overhead Cost to Total Cost

#### Key Areas of Concern

High Bank Asset Concentration

Low Domestic and Private Credit to GDP

### Governance Climate

#### Range during 2000-2011

Regulatory Quality 0.34 to 0.07

Rule of Law 0.14 to 0.63

Control of Corruption 0.13 to 0.87

Aggregate Indicator 0.07 to 0.47

Average Governance Indicator during 2000-2011 = 0.273

**Indices Relative to Region and Africa**  
Relative to Region      Relative to Africa

Index of Favorable Factors/Index of Constraining Factors 3.711 3.713

Governance Indicator 9.01 9.36

**Country Attractiveness 6.361 6.537**

(With 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)

**3. Country - Cote d' Ivoire**

Financial Climate

**Key Favourable Factors**

Low Bank Asset Concentration  
Low Net Interest Margin  
Low Overhead Cost to Total Cost

**Key Areas of Concern**

High Bank Non-Interest Income  
Low Domestic and Private Credit to GDP

**Governance Climate**

	<b>Range during 2000-2011</b>
Regulatory Quality	0.45 to -0.96
Rule of Law	-1.19 to -1.50
Control of Corruption	-0.69 to -1.24
Aggregate Indicator	0.81 to -1.22

Average Governance Indicator during 2000-2011 = 0.58

**Indices Relative to Region and Africa**  
Relative to Region      Relative to Africa

Index of Favourable Factors/Index of Constraining Factors 0.876 0.78

Governance Indicator 0.58 0.612

**Country Attractiveness 0.728 0.696**

(with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)

#### 4. Country - Gambia

##### Financial Climate

##### Key Favourable Factors

High Number of Bank Branches  
Low Net Interest Margin

##### Key Areas of Concern

Low Domestic and Private Credit to GDP  
Low Credit to Small Firms  
High Bank Asset Concentration  
High Overhead Cost to Total Cost  
High Bank Net Interest Margin

##### Governance Climate

Regulatory Quality  
Rule of Law  
Control of Corruption  
Aggregate Indicator

##### Range during 2000-2011

0.27 to -0.55  
-0.51 to -1.13  
-0.33 to -0.77  
0.21 to -0.50

Average Governance Indicator during 2000-2011 = 1.575

##### Indices Relative to Region and Africa

Relative to Region      Relative to Africa

Index of Favourable Factors/Index of  
Constraining Factors

0.862

0.85

Governance Indicator

1.492

1.575

##### Country Attractiveness

**1.177**

**1.213**

(with 50% weight to the Index of Favourable  
Factors/Index of Constraining Factors and 50%  
weight to Governance Indicator)

#### 5. Country - Ghana

##### Financial Climate

##### Key Favourable Factors

Low Bank Asset Concentration  
High Ratio of Domestic Banks to Total Banks  
High Number of Bank Accounts at Formal  
Institutions  
High Use of Technology

##### Key Areas of Concern

Low Number of Bank Branches  
High Overhead Cost to Total Cost  
High Overhead Cost to Total Cost



### Governance Climate

#### Range during 2000-2011

Regulatory Quality	0.04 to -0.47
Rule of Law	-0.15 to 0.09
Control of Corruption	-0.36 to 0.06
Aggregate Indicator	0.05 to 0.26

Average Governance Indicator during 2000-2011 = -0.082

#### Indices Relative to Region and Africa

Relative to Region                      Relative to Africa

Index of Favourable Factors/Index of Constraining Factors	1.12	0.764
Governance Indicator	7.658	8.085
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>4.389</b>	<b>4.425</b>

### 6. Country - Liberia

#### Financial Climate

#### Key Favourable Factors

High Use of Technology  
High Savings at Formal Institutions

#### Key Areas of Concern

Low Number of Bank Branches and ATMs  
High Bank Lending Deposit Spread  
High Bank Net Interest Margin  
High Bank Non-Interest Income  
High Overhead Cost to Total Cost

### Governance Climate

#### Range during 2000-2011

Regulatory Quality	1.09 to 1.78
Rule of Law	-0.87 to -2.11
Control of Corruption	-0.33 to -1.37
Aggregate Indicator	0.86 to -1.75

Average Governance Indicator during 2000-2011 = 1.214

	<b>Indices Relative to Region and Africa</b>	
	Relative to Region	Relative to Africa
Index of Favourable Factors/Index of Constraining Factors	1.02	0.64
Governance Indicator	0.517	0.546
<b>Country Attractiveness</b> (With 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.769</b>	<b>0.593</b>

### 7. Country - Mali

#### Financial Climate

#### Key Favourable Factors

Low Bank Net Interest Margin  
High Savings at Formal Institutions  
Low Overhead Cost to Total Cost  
High Domestic and Private Credit to GDP

#### Key Areas of Concern

High Bank Asset Concentration  
Low Use of Technology

#### Governance Climate

	<b>Range during 2000-2011</b>
Regulatory Quality	-0.51 to 0.10
Rule of Law	-0.03 to -0.50
Control of Corruption	-0.34 to -0.66
Aggregate Indicator	-0.52 to 0.28

Average Governance Indicator during 2000-2011 = -0.404

	<b>Indices Relative to Region and Africa</b>	
	Relative to Region	Relative to Africa
Index of Favourable Factors/Index of Constraining Factors	0.684	0.544
Governance Indicator	1.554	1.641
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>1.119</b>	<b>1.093</b>

## 8. Country - Niger

### Financial Climate

#### Key Favourable Factors

Low Net Interest Margin  
High Number of Loans from Formal Institutions

#### Key Areas of Concern

High Bank Asset Concentration  
High Overhead Cost to Total Cost  
High Bank Non-Interest Income

#### Governance Climate

Regulatory Quality  
Rule of Law  
Control of Corruption  
Aggregate Indicator

#### Range during 2000-2011

-0.71 to 0.42  
-0.43 to -0.93  
-0.61 to -1.07  
-0.85 to 0.53

Average Governance Indicator during 2000-2011 = -0.675

#### Indices Relative to Region and Africa

Relative to Region      Relative to Africa

Index of Favourable Factors/Index of Constraining Factors

0.534      0.426

Governance Indicator

0.93      0.982

#### Country Attractiveness

**0.732      0.704**

(with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)

## 9. Country - Nigeria

### Financial Climate

#### Key Favourable Factors

Low Bank Asset Concentration  
Low Lending Deposit Spread  
High Number of Accounts at Formal Institutions

#### Key Areas of Concern

Low Use of Technology including ATMs  
High Overhead Cost to Total Cost  
High Net Interest Margin  
Low Domestic and Private Credit to GDP

### Governance Climate

#### Range during 2000-2011

Regulatory Quality	-1.32 to 0.67
Rule of Law	-1.06 to -1.52
Control of Corruption	-0.81 to 1.33
Aggregate Indicator	-1.36 to 0.88

Average Governance Indicator during 2000-2011 = -1.153

#### Indices Relative to Region and Africa

Relative to Region                      Relative to Africa

Index of Favourable Factors/Index of Constraining Factors	1.81	1.27
Governance Indicator	0.545	0.575
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>1.178</b>	<b>0.923</b>

### 10. Country - Senegal

#### Financial Climate

#### Key Favourable Factors

Low Bank Asset Concentration  
High Ratio of Private and Domestic Credit to GDP  
Low Overhead Cost to Total Cost  
High Private and Domestic Credit to GDP  
Low Net Interest Margin

#### Key Areas of Concern

Low Use of Technology including ATMs  
Low Savings at Formal Institutions

### Governance Climate

#### Range during 2000-2011

Regulatory Quality	-0.35 to 0.13
Rule of Law	-0.50 to 0.01
Control of Corruption	-0.69 to 0.31
Aggregate Indicator	0.05 to 0.46

Average Governance Indicator during 2000-2011 = -0.251

**Indices Relative to Region and Africa**  
Relative to Region      Relative to Africa

Index of Favourable Factors/Index of Constraining Factors	0.86	0.71
Governance Indicator	2.502	2.641
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>1.681</b>	<b>1.676</b>

**11. Country - Sierra Leone**

Financial Climate

**Key Favourable Factors**

High Number of Accounts at Formal Institutions  
High Ratio of Private and Domestic Credit to GDP

**Key Areas of Concern**

Low Number of Bank Branches  
Low number of Bank Accounts  
Low Domestic and Private Credit to GDP  
High Bank Asset Concentration  
High Non-Interest Income  
High Bank Net Interest Margin  
High Overhead Cost to Total Cost

**Governance Climate**

**Range during 2000-2011**

Regulatory Quality	-1.38 to 0.70
Rule of Law	-0.87 to -1.47
Control of Corruption	-0.75 to -1.09
Aggregate Indicator	-1.12 to 0.80

Average Governance Indicator during 2000-2011 = -1.01

**Indices Relative to Region and Africa**  
Relative to Region      Relative to Africa

Index of Favourable Factors/Index of Constraining Factors	0.733	0.523
Governance Indicator	0.622	0.656
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.677</b>	<b>0.59</b>

weight to Governance Indicator)

## 12. Country - Togo

Financial Climate

### Key Favourable Factors

Low Bank Interest Margin  
 Low Overhead Cost to Total Cost  
 High Ratio of Domestic and Private  
 Credit to GDP

### Key Areas of Concern

Low Use of Technology  
 High Bank Asset Concentration  
 High Bank Asset Concentration  
 High Non-Interest Income

### Governance Climate

#### Range during 2000-2011

Regulatory Quality	-1.00 to 0.66
Rule of Law	-0.71 to -1.13
Control of Corruption	-0.66 to -1.07
Aggregate Indicator	-0.99 to 0.68

Average Governance Indicator during 2000-2011 = -0.882

#### Indices Relative to Region and Africa

	Relative to Region	Relative to Africa
Index of Favourable Factors/Index of Constraining Factors	0.648	0.525
Governance Indicator	0.712	0.752
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.68</b>	<b>0.639</b>

### Country-wise analysis of the Western region is as follows:

**Cape Verde** has huge strengths in the financial services sector. The ratio of favourable to unfavourable factors stood at 3.711 relative to the region and at 3.713 relative to the continent during the time period of the study. These are the best figures in the continent. The governance indicators are also very sound. The average governance indicator at 0.273 has given relative values of 9.01 relative to the region and of 9.36 relative to the continent. (Table 3.2 had shown that Botswana had the best governance indicator of 13.73 relative to the continent). Cape Verde can give further

competition to Mauritius, Botswana and South Africa if it further improves its governance indicators and increases the number of bank branches & ATMs in the country together with bringing down the net interest margin, non-interest income and overhead costs. Currently, the country's overall attractiveness indicator stands at 6.361 relative to the region and at 6.537 relative to the continent. (In Table 3.2, it was seen that Mauritius had the best overall attractiveness indicator at 8.15 relative to the continent).

**Ghana** is the second most attractive country in Western Africa. Amongst its favourable financial factors are low bank asset concentration, high ratio of domestic banks to total banks, high number of bank accounts at formal institutions and high use of technology. The number of bank branches, though, is somewhat low and the bank overhead costs are also higher than the regional average. The ratio of favourable to unfavourable factors stood at 1.12 relative to the region and at 0.764 relative to the continent during the period under study. Ghana's attractiveness comes mainly from its governance climate. The governance indicator was 7.658 relative to the region and 8.085 relative to the continent which puts it at par with Mauritius and Namibia in the South. The country attractiveness indicator, therefore, stood at 4.389 relative to the region and at 4.425 relative to the continent – again somewhat akin to Namibia, though behind Mauritius.

**Senegal** on the Western coast is a moderately well-governed country with the overall governance indicator at 2.502 relative to the region and at 2.641 relative to the continent. However, it has a lot of catching up to do on the financial front. The ratio of favourable to unfavourable factors stood at 2.502 relative to the region and at 2.641 relative to the continent during the relevant period. The country has to improve on the use of technology and increase savings at formal institutions. There were some positives also such as low bank asset concentration, high private domestic credit to GDP, low overhead cost to total cost and low net interest margin. The overall country attractiveness stood at 1.681 relative to the region and at 1.676 relative to the continent during the study period.

**Burkina Faso** displayed almost the same characteristics as those of Senegal with governance indicators far better than the financial parameters and also the country attractiveness in the similar range. The ratio of favourable factors to unfavourable factors stood at 0.855 relative to the region and at 0.666 relative to the continent driven by factors such as low bank asset concentration, low net interest margin, low non-interest income and low overhead cost to total cost. The areas of concern were

low use of technology and low domestic and private credit to GDP. These financial indicators together with the overall governance indicators of 2.086 relative to the region and 2.203 relative to the continent resulted in the country attractiveness index at 1.471 relative to the region and at 1.435 relative to the continent.

**Nigeria**, unlike Senegal and Burkina Faso, has a robust financial services sector with low bank asset concentration, low lending deposit spread and high number of accounts at formal institutions. The ratio of favourable to unfavourable factors stood at 1.81 relative to the region and at 1.27 relative to the continent during the period under study. However, the governance indicators were not even half as good as those of the region. The overall governance indicator was only 0.545 relative to the region and 0.575 relative to the continent. This resulted in the country attractiveness index being lower at 1.178 relative to the region and 0.923 relative to the continent.

**Gambia** comes next in the attractiveness indicator with characteristics similar to those of Senegal and Burkina Faso with governance indicators better than the financial indicators. Gambia is ranked below those countries because of lower governance indicators and below Nigeria because of not so strong financial parameters which were below one both relative to the region and the continent. The overall governance indicator at 1.177 relative to the region and at 1.213 relative to the continent was better than that of Nigeria. Gambia's overall country attractiveness indicator at 1.177 relative to the region and at 1.213 relative to the continent was close to that of Nigeria.

**Mali** is the seventh most attractive nation in Western Africa. Of late, it has improved its governance indicators radically and now has characteristics similar to those of Gambia. The overall governance indicator of Mali stood at 1.554 relative to the region and at 1.641 relative to the continent. Of course, it still has to make a lot of progress on the financial front as currently, the ratio of favourable to unfavourable factors stands at 0.684 relative to the region and at 0.544 relative to the continent. The country attractiveness was marginally below that of Gambia at 1.119 relative to the region and at 1.093 relative to the continent.

All the other countries in the region have neither good governance indicators nor good financial indicators. All the indicators are below one which means that the attractiveness of countries is below the average attractiveness of the region as well as that of the continent. In order of ranking, these countries are **Liberia, Niger, Togo and Sierra Leone**.



## **REGION IV – NORTH AFRICA**

**North Africa Region:** North Africa, the oil-rich region, can be said to be the second most attractive region in Africa after Southern Africa. The region has member countries like Tunisia and Morocco which are the eighth and ninth most attractive country respectively in Africa. At the same time, it has countries like Libya which is ranked at number 31 in Africa. The average regional attractiveness indicator stood at 1.8835 during the period under consideration as opposed to 3.127 of the Southern African region. Country-wise analysis follows the table.

**TABLE 3.4**

### **SUMMARY COUNTRY INDICATORS RELATIVE TO REGION AND AFRICA (2000-2011)**

(Africa taken as average of 45 countries)

#### **REGION - NORTH AFRICA**

#### **Country Attractiveness Indices and Ranking**

Country	Index		Rank	
	Relative to Region	Relative to Africa	Rank in Region	Rank in Africa
Algeria	0.933	1.242	3	17
Egypt	0.611	0.823	5	28
Libya	0.497	0.744	6	31
Mauritania	0.933	1.164	3	20
Morocco	2.374	2.937	2	9
Tunisia	3.699	4.391	1	8

Average Index of Region                      1.8835

#### **1. Country - Algeria**

Financial Climate

#### **Key Favourable Factors**

Low Lending Deposit Spread  
 Low Net Interest Margin  
 High Number of Accounts at Formal Financial Institutions  
 High Number of Foreign Banks

#### **Key Areas of Concern**

High Bank Concentration  
 Low Number of Bank Branches/ATMs  
 Low Use of Technology  
 Low Private Credit as a Ratio of GDP

### Governance Climate

#### Range during 2000-2011

Regulatory Quality	-0.43 to -1.17
Rule of Law	-0.54 to -1.17
Control of Corruption	-0.42 to -0.95
Aggregate Indicator	-0.52 to -0.94
Average Governance Indicator during 2000-2011 =	-0.696

#### Indices Relative to Region and Africa

	Relative to Region	Relative to Africa
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Index of Favourable Factors/Index of Constraining Factors	1.006	1.53
Governance Indicator	0.859	0.953
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.9325</b>	<b>1.242</b>

## 2. Country - Egypt

### Financial Climate

#### Key Favourable Factors

Low Lending Deposit Spread  
Low Bank Asset Concentration  
High Domestic and Private Credit to GDP

#### Key Areas of Concern

High Bank Concentration  
Low number of bank branches/ATMs  
Low use of technology  
High Non-Interest Income

### Governance Climate

#### Range during 2000-2011

Regulatory Quality	-0.43 to -1.17
Rule of Law	-0.54 to -1.17
Control of Corruption	-0.42 to -0.95
Aggregate Indicator	-0.52 to -0.94

Average Governance Indicator during 2000-2011 = -0.321

#### Indices Relative to Region and Africa

	Relative to Region	Relative to Africa
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Index of Favourable Factors/Index of Constraining Factors	0.703	1.07
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Governance Indicator	0.519	0.575
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.611</b>	<b>0.823</b>

### 3. Country - Libya

#### Financial Climate

#### Key Favourable Factors

Low Lending Deposit Spread  
 Low Bank Asset Concentration  
 Low Non-Interest Income  
 High Number of Bank Branches

#### Key Areas of Concern

High Bank Concentration  
 Low Number of Bank Branches/ATMs  
 Low Use of Technology  
 Low Private Domestic Credit to GDP

#### Governance Climate

#### Range during 2000-2011

Regulatory Quality	-0.88 to -1.64
Rule of Law	-0.70 to -1.18
Control of Corruption	-0.73 to -1.29
Aggregate Indicator	-0.81 to -1.34

Average Governance Indicator during 2000-2011 = -1.08

#### Indices Relative to Region and Africa

	Relative to Region	Relative to Africa
Index of Favourable Factors/Index of Constraining Factors	0.44	0.874
Governance Indicator	0.554	0.614
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.497</b>	<b>0.744</b>

#### 4. Country - Mauritania

##### Financial Climate

##### Key Favourable Factors

High Use of Mobile Phones  
High Ratio of Domestic and Private Credit  
High Credit to Small Firms

##### Key Areas of Concern

High Bank Concentration  
Low number of bank branches/ATMs  
Low use of technology  
Low Private Domestic Credit to GDP  
High Lending Deposit Spread  
High Overhead Cost to Total Cost

##### Governance Climate

##### Range during 2000-2011

Regulatory Quality	-0.07 to -0.82
Rule of Law	-0.35 to -1.12
Control of Corruption	0.23 to -0.68
Aggregate Indicator	0.03 to -0.79

Average Governance Indicator during 2000-2011 = -0.489

##### Indices Relative to Region and Africa

	Relative to Region	Relative to Africa
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Index of Favourable Factors/Index of Constraining Factors	0.645	0.972
Governance Indicator	1.22	1.356
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.933</b>	<b>1.164</b>

#### 5. Country - Morocco

##### Financial Climate

##### Key Favourable Factors

High Number of Bank Branches and ATMs  
High Ratio of Domestic and Private Credit  
High Use of Technology

##### Key Areas of Concern

High Bank and Bank Asset Concentration  
Low number of bank branches/ATMs  
High Lending Deposit Spread  
High Overhead Cost to Total Cost

### Governance Climate

#### Range during 2000-2011

Regulatory Quality	-0.06 to -0.4
Rule of Law	0.14 to -0.29
Control of Corruption	-0.03 to -0.4
Aggregate Indicator	0.02 to -0.28

Average Governance Indicator during 2000-2011 = -0.183

#### Indices Relative to Region and Africa

Relative to Region      Relative to Africa

Index of Favourable Factors/Index of Constraining Factors	1.48	2.25
Governance Indicator	3.267	3.623
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>2.374</b>	<b>2.937</b>

### 6. Country -Tunisia

#### Financial Climate

#### Key Favourable Factors

Low Bank Asset Concentration  
Low Lending Deposit Spread  
Low Non-Interest Income

#### Key Areas of Concern

High Overhead Cost to Total Cost  
Low Bank Loan or Credit to Small Firms  
Low Value of Electronic Payments

### Governance Climate

#### Range during 2000-2011

Regulatory Quality	0.00 to -0.19
Rule of Law	0.20 to -0.15
Control of Corruption	0.55 to -0.22
Aggregate Indicator	0.12 to -0.18

Average Governance Indicator during 2000-2011 = 0.014

	<b>Indices Relative to Region and Africa</b>	
	Relative to Region	Relative to Africa
Index of Favourable Factors/Index of Constraining Factors	1.28	2.13
Governance Indicator	6.118	6.651
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>3.699</b>	<b>4.391</b>

**Tunisia** is a very attractive country with sound financial and governance indicators akin to those of Namibia in the Southern region. Its overall governance indicator stood at 6.118 relative to the region and at 6.651 relative to the continent. These scores, though about half of the best governance scores achieved in Botswana, are far higher than the average for Africa. The strength of the financial sector was driven by low bank asset concentration, low lending deposit spread and low non-interest income. The ratio of favourable to unfavourable factors in the financial services sector stood at 1.28 relative to the region and at 2.13 relative to the continent. The country attractiveness was, therefore, 3.699 relative to the region and 4.391 relative to the continent.

**Morocco** is the second most attractive country in North Africa. Though closely competing with Tunisia, the country has characteristics which are different from those of Tunisia. Morocco's financial services sector seems to be deeper with the ratio of favourable to unfavourable factors standing at 1.48 relative to the region and at 2.25 relative to the continent. There is higher use of technology in Morocco's financial markets as opposed to that in Tunisia and the ratio of domestic and private credit to GDP is also higher in Morocco. However, on governance front, it is far behind Tunisia with the overall governance indicator at 3.267 relative to the region and at 3.623 relative to the continent. The overall attractiveness indicator was, therefore, below that of Tunisia at 2.374 relative to the region and at 2.937 relative to the continent.

**Algeria**, the oil rich country in Northern Africa is the third most attractive country for investment in the financial services sector. Algeria has put up a reasonably good performance in its financial sector with the ratio of favourable factors to unfavourable factors standing at 1.006 relative to the region and at 1.53 relative to the continent. Algeria's financial sector is marked by low lending deposit spread, low net interest margin, high number of accounts at formal institutions and high number of foreign

banks. But unlike Morocco and Tunisia, its neighbours, Algeria has a lot to do on governance front. Due to the relative governance indicators below one, the overall country attractiveness indicator stood at 0.9325 relative to the region and at 1.242 relative to the continent during the study period.

**Mauritania**, on the other hand, which comes next in the attractiveness indicators has a better record of governance but does not have sound financial indicators. The overall governance indicator in Mauritania stood at 1.22 relative to the region and at 1.356 relative to the continent during the period under study. The ratio of favourable to unfavourable factors stood at 0.645 relative to the region and at 0.972 relative to the continent making the country attractiveness indicator at 0.933 relative to the region and at 1.164 relative to the continent. The financial sector climate was constrained by high bank concentration, low number of bank branches and ATMs, low use of technology, low private credit, high lending deposit spread and high ratio of overhead cost to total cost.

**Egypt and Libya** are the two countries in the region that have all the relative indicators less than one; i.e., the financial, governance and the overall attractiveness indicators are below those of the region as well as those of the continent. Hence, investment is not likely to flow easily into the financial services sector of these countries. On relative front, Egypt's performance has been slightly better than that of Libya during the period understudy.

### **REGION V – CENTRAL AFRICA**

**Central Africa** is the least developed region of Africa with the regional attractiveness indicator at only 0.599 as against the highest score of 3.127 for South Africa, 1.47 for East Africa, 1.88 for North Africa and 1.71 for West Africa. Both the governance and the financial indicators are less than one for countries like Central African Republic, Republic of Congo and the Democratic Republic of Congo (DRC) which has one of the highest per capita GDP in the region. This means that all these countries are only about half as attractive as the continent. The table below provides an overview of each country's performance compared to the region and the continent. Further, it provides an account of areas of concern and favourable factors for each country.

**TABLE 3.5**  
**SUMMARY COUNTRY INDICATORS RELATIVE TO REGION AND AFRICA (2000-2011)**  
 (Africa taken as average of 45 countries)

**REGION - CENTRAL AFRICA**  
**Country Attractiveness Indices and Ranking**

Country	Index Relative to Region	Relative to Africa	Rank Rank in Region	Rank in Africa
Cameroon	1.787	0.725	2	32
Central African Republic	0.794	0.426	6	44
Chad	1.091	0.596	4	39
Dem Republic of Congo	0.564	0.313	7	45
Republic of Congo	0.961	0.525	5	43
Equatorial Guinea	1.176	0.64	3	37
Gabon	1.907	0.971	1	24
Average Index of Region		0.599		

**1. Country - Cameroon**  
 Financial Climate

**Key Favourable Factors**

Low Bank Concentration  
 High Private Credit/GDP  
 High liquid liabilities of Banks  
 High Number of Foreign Banks

**Key Areas of Concern**

Low number of accounts  
 Low number of bank branches/ATMs  
 Low use of technology

**Governance Climate**

**Range during 2000-2011**

Regulatory Quality 0.59 to -0.89  
 Rule of Law -1.05 to -1.25  
 Control of Corruption -0.92 to -1.16  
 Aggregate Indicator -0.92 to -1.07

Average Governance Indicator during 2000-2011 = 0.977



	<b>Index Relative to Region and Africa</b>	
	Relative to Region	Relative to Africa
Index of Favourable Factors/Index of Constraining Factors	1.38	0.77
Governance Indicator	2.193	0.679
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>1.787</b>	<b>0.725</b>

## 2. Country - Central African Republic

### Financial Climate

#### Key Favourable Factors

Low Lending Deposit Spread  
High Private Credit/GDP  
High Ratio of Small Firms with Bank Loans/Line of Credit

#### Key Areas of Concern

Low number of ATMs and Bank Branches  
Low Bank Interest Margin  
Low use of technology  
High Overhead Cost to Total Cost

#### Governance Climate

Regulatory Quality  
Rule of Law  
Control of Corruption  
Aggregate Indicator

#### Range during 2000-2011

0.91 to -1.33  
-1.13 to -1.63  
-0.84 to -1.33  
-1.09 to -1.38

Average Governance Indicator during 2000-2011 = -1.216

	<b>Indices Relative to Region and Africa</b>	
	Relative to Region	Relative to Africa
Index of Favourable Factors/Index of Constraining Factors	0.598	0.306
Governance Indicator	0.99	0.545
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.794</b>	<b>0.426</b>

### 3. Country - Chad

#### Financial Climate

##### Key Favourable Factors

Low Lending Deposit Spread  
 High Use of Technology  
 High Ratio of Small Firms with Bank Loans/Line of Credit

##### Key Areas of Concern

High Bank Concentration  
 High Bank Net Interest Margin  
 Low Number of Bank Branches

#### Governance Climate

##### Range during 2000-2011

Regulatory Quality	-0.78 to -1.12
Rule of Law	-1.00 to -1.16
Control of Corruption	-0.82 to -1.45
Aggregate Indicator	-0.88 to -1.40

Average Governance Indicator during 2000-2011 = -1.211

##### Indices Relative to Region and Africa

Relative to Region      Relative to Africa

Index of Favourable Factors/Index of Constraining Factors	1.187	0.645
Governance Indicator	0.994	0.547
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>1.091</b>	<b>0.596</b>

### 4. Country - Democratic Republic of Congo

#### Financial Climate

##### Key Favourable Factors

Low Bank Concentration  
 High Domestic Credit to Private Sector and Small Firms  
 Low Bank Asset Concentration

##### Key Areas of Concern

Low Use of Technology  
 High Lending Deposit Spread  
 High Net Interest Margin  
 High Overhead Cost to Total Cost

### Governance Climate

#### Range during 2000-2011

Regulatory Quality	-1.26 to -2.11
Rule of Law	-1.56 to -1.95
Control of Corruption	-1.17 to -1.57
Aggregate Indicator	-1.34 to -1.87

Average Governance Indicator during 2000-2011 = -1.53

#### Indices Relative to Region and Africa

	Relative to Region	Relative to Africa
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Index of Favourable Factors/Index of Constraining Factors	0.34	0.192
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Governance Indicator	0.787	0.433
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#### Country Attractiveness

**0.564**

**0.313**

(with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)

#### 5. Country - Republic of Congo

##### Financial Climate

#### Key Favourable Factors

#### Key Areas of Concern

High Use of Technology  
High Number of Foreign Banks and Assets

Low Number of Bank Branches  
High Lending Deposit Spread

### Governance Climate

#### Range during 2000-2011

Regulatory Quality	-0.97 to -1.28
Rule of Law	-1.15 to -1.46
Control of Corruption	-0.84 to -1.11
Aggregate Indicator	-0.99 to -1.26

Average Governance Indicator during 2000-2011 = -1.153

#### Indices Relative to Region and Africa

	Relative to Region	Relative to Africa
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Index of Favourable Factors/Index of Constraining Factors	0.878	0.47
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Governance Indicator	1.044	0.575
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<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>0.961</b>	<b>0.525</b>
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**6. Country - Equatorial Guinea**  
Financial Climate

**Key Favourable Factors**

**Key Areas of Concern**

High Number of Bank Branches

High Bank Non-Interest Income to Total Income

High Number of ATMs and Bank Accounts

High Bank Lending Deposit Spread

**Governance Climate**

**Range during 2000-2011**

Regulatory Quality	-1.28 to -1.71
Rule of Law	-1.20 to -1.45
Control of Corruption	-1.34 to -1.71
Aggregate Indicator	-1.34 to -1.52

Average Governance Indicator during 2000-2011 = -1.415

	<b>Indices Relative to Region and Africa</b>	
	Relative to Region	Relative to Africa

Index of Favourable Factors/Index of Constraining Factors	1.5	0.811
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Governance Indicator	0.851	0.469
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<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>1.176</b>	<b>0.64</b>
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**7. Country - Gabon**  
Financial Climate

**Key Favourable Factors**

**Key Areas of Concern**

Low Bank Net Interest Margin

High Lending Deposit Spread

Low Overhead Cost to Total Cost  
 High Use of Technology  
 High Savings at Formal Financial Institutions  
 High Number of Bank Branches and Accounts  
 High Ratio of Private Credit to GDP

Low Number of Loans to Small Firms

**Governance Climate**

**Range during 2000-2011**

Regulatory Quality	-0.014 to -0.65
Rule of Law	-0.16 to -0.73
Control of Corruption	-0.42 to -1.03
Aggregate Indicator	-0.27 to -0.77

Average Governance Indicator during 2000-2011 = -0.549

**Indices Relative to Region and Africa**

Relative to Region                      Relative to Africa

Index of Favourable Factors/Index of Constraining Factors	1.62	0.733
Governance Indicator	2.193	1.208
<b>Country Attractiveness</b> (with 50% weight to the Index of Favourable Factors/Index of Constraining Factors and 50% weight to Governance Indicator)	<b>1.907</b>	<b>0.971</b>

**The country-wise analysis shows the following:**

**Gabon** is the most attractive country in the region with a number of positives relative to the region in the financial sphere with the main ones being low bank interest margin, low overhead cost to total cost, high use of technology, high savings at formal institutions, high number of bank accounts and branches and high ratio of private credit to GDP. However, in relation to the continent, the performance was still inadequate. The ratio of favourable to unfavourable factors was 1.62 relative to the region and 0.733 relative to the continent. Gabon's bigger strength is its governance climate. The overall governance indicator, as seen in the table, stood at 2.193 relative to the region and at 1.208 relative to the continent. The country was, therefore, almost twice as attractive as the region (country attractiveness indicator relative to the region was at 1.907); though marginally fell short of reaching the continental average (country attractiveness indicator relative to the continent was at 0.971).

Cameroon had an overall country attractiveness of 1.787 relative to the region (as against 1.907 for Gabon) and 0.725 relative to the continent (as against 0.971 for Gabon). Both the financial and governance indicators came close to those of Gabon. Amongst the governance indicators, regulatory quality scored over the others.

**Equatorial Guinea**, the richest country in Africa, with a per capita GDP of USD 20,572 in 2011, comes next in investment attractiveness in Central Africa. Although it has high GDP driven by huge natural resources, the financial and governance institutions are somewhat weak with the relative ratios falling below one when looked at in the context of the continent. The ratio of favourable to unfavourable factors stood at 1.5 in relation to the region and at 0.811 in relation to the continent with the main constraints being the high bank non-interest income to total income and the high bank lending deposit spread. Governance-wise, regulatory quality, rule of law and control over corruption were all at low levels due to which the country attractiveness was at 1.176 in relation to the region and at 0.64 in relation to the continent.

### Implications from the Study

The Study very clearly brings out that high per capita incomes alone will not be sufficient to attract investments into the financial sector. Countries need to invest into building institutions that can support the growth of the sector. The Study's findings are based on two sets of parameters – financial parameters and governance parameters. As seen from the analysis, in certain cases, there is a high degree of correlation between per capita income and these indicators but in other cases, there is only a moderate correlation. South Africa, Mauritius and Seychelles may be the best example of high per capita income and sound financial and governance indicators. Democratic Republic of Congo, Central African Republic and Burundi, on the other hand, may be the best examples of low per capita income and poor governance and financial parameters. The following table categorizes countries according to their level of per capita incomes.

**Table 3.6**  
**Summary Indicators of Country-wise Performance Vis a Vis Per Capita Income**

<b>Category I – High Per Capita Income Countries</b>				
	Per Capita Income	Overall Financial Parameter relative to Africa	Overall Governance Parameter relative to Africa	Rank in Africa
Equatorial Guinea	20,572	0.811	0.469	37
Seychelles	14,220	2.367	8.724	5

Libya	12,167	0.874	0.614	31
Gabon	11,571	0.733	1.208	24
Mauritius	9,210	2.67	13.63	1
Botswana	7,317	1.51	13.73	2
South Africa	6,618	2.742	9.83	4
Angola	5,668	1.09	0.504	29
Namibia	5,462	1.22	8.63	6
Algeria	5,361	1.53	0.953	17

<b>Category II – Moderately High Per Capita Income Countries</b>				
	Per Capita Income	Overall Financial Parameter relative to Africa	Overall Governance Parameter relative to Africa	Rank in Africa
Tunisia	4,329	2.13	6.651	8
Cape Verde	3,785	3.713	9.36	3
Egypt	3,314	1.07	0.575	28
Republic of Congo	3,172	0.475	0.575	43
Morocco	3,109	2.25	3.623	9
Nigeria	3,010	1.27	0.575	26

<b>Category III – Moderately Low Per Capita Income Countries</b>				
	Per Capita Income	Overall Financial Parameter relative to Africa	Overall Governance Parameter relative to Africa	Rank in Africa
Ghana	1,850	0.764	8.085	7
Sudan	1,753	0.783	0.506	36
Djibouti	1,668	1.052	0.603	27
Zambia	1,540	0.696	1.184	25
Cameroon	1,315	0.77	0.679	32
Senegal	1,072	0.71	2.641	10
Mauritania	1,070	0.972	1.356	20
Chad	1,046	0.645	0.547	39

<b>Category IV – Moderately Low Per Capita Income Countries</b>				
	Per Capita Income	Overall Financial Parameter relative to Africa	Overall Governance Parameter relative to Africa	Rank in Africa
Kenya	994	1.886	0.955	13
Zimbabwe	905	0.944	0.40	35
Comoros	894	0.935	0.575	30
Sierra Leone	809	0.523	0.656	41
Mali	715	0.544	1.641	21

Tanzania	695	1.085	1.411	15
Burkina Faso	684	0.666	2.203	11
Togo	636	0.525	0.752	38
Rwanda	633	0.738	1.353	22
Mozambique	593	1.21	1.275	16
Uganda	572	1.085	1.381	18

<b>Category V – Low Per Capita Income Countries</b>				
	Per Capita Income	Overall Financial Parameter relative to Africa	Overall Governance Parameter relative to Africa	Rank in Africa
Gambia	494	0.85	1.575	20
Democratic Republic of Congo	484	0.192	0.433	45
Madagascar	471	0.46	2.188	14
Liberia	454	0.64	0.546	40
Niger	413	0.426	0.982	33
Central African Republic	333	0.306	0.545	44
Burundi	267	0.50	0.566	42
Malawi	226	0.477	1.553	23

The above table clearly brings out the inadequate correlation between per capita income and the financial & governance parameters defining the investment climate in different countries. The first category has the richest country in Africa - Equatorial Guinea with the country attractiveness rank at 37 in the continent or investment in the financial services sector. This shows that potential investors will definitely look for good governance indicators and scope for growth opportunities in the financial services sector before considering investments in this sector.

Further conclusions on countries' investment attractiveness may be made by assigning some benchmarks indices as follows of financial performance and governance climate:

i) The highest overall governance indicator relative to the continent of 13.73 of Botswanamay be taken as the achievable benchmark for governance for other countries in the continent.

ii) The highest financial parameter defined as the ratio of favourable to unfavourable factors relative to the continent of 3.713 of Cape Verde may be taken as the achievable benchmark in the financial sphere for other countries in the continent.



Given the above parameters, some broad conclusions on countries that are more likely to attract investment may be the following:

- i) In the first category of countries – the high per capita income countries, governance parameters are the best in Botswana, Mauritius, South Africa, Namibia and Seychelles. These are automatically the countries to begin with from an investment attractiveness point of view. Next, we see their financial parameters. Taking 3.713 as the benchmark, investment in the financial services sector can flow into all these countries but the greatest opportunities may lie in Botswana and Namibia as there is a larger improvement to be made in these countries as compared to their high performers in this group.
- ii) In the second set of countries, Tunisia with the best governance indicators, is more attractive for investors as compared to Morocco. Cape Verde, currently the leader, may also be able to further improve its financial climate with more investments in this sector, thus raising the benchmark financial parameter itself.
- iii) Category III countries are countries with per capita > USD 1000 but < USD 2000. In this category, Ghana is the clear leader with good governance indicators and large opportunities for investors in the financial sphere. Senegal is another country which has chances of attracting foreign investment.
- iv) Category IV countries are countries with per capita < USD 1000 but > USD500. A number of East African countries are in this group. Burkina Faso has the best governance indicator of 2.203 and the overall financial parameter at 0.666 – indicating the gaps that may be filled in through additional investments. Burkina Faso is followed by Mali, Tanzania and Uganda. Nonetheless, the group as such is far less attractive than the first three group of countries.
- v) Category V countries are the really poor countries with per capita incomes below USD 500. In this group, Madagascar is the most attractive followed by Gambia and Malawi. Once again, the investors are likely to prefer the first three groups as the investment conditions are better there. However, for services designed for people with low per capita incomes, these three countries are likely to be the best investment destinations.

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