



FINANCE IN AFRICA

Unlocking investment in an era
of digital transformation and climate transition



Executive summary

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European
Investment Bank

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About the EIB Economics Department

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

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Executive summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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