Accessibility of Financial Services and the Private Sector in Africa

Implications for Chinese Engagement

Report by the China Africa Business Council

中非民间商会
China-Africa Business Council

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Foreword from CABC

At CABC, our role is to work with our membership of over 800 firms already operating or interested in operating in African countries to encourage and support them to deepen China-Africa business relations. We have compiled this report in an effort to broaden outlooks on a growing but largely un-explored aspect of China-Africa cooperation: the financial sector.

This report is written for anyone interested in African financial development, and in China's changing role in Africa's development. CABC hopes this report – based primarily on in-depth analysis and interviews in three countries (Zambia, Mauritius and Madagascar) - can provide an overview for Chinese and other stakeholders new to Africa's financial systems and provide new ideas for win-win, private sector driven cooperation on development. We also hope that it supplements existing research and inspires further inquiries into China's, and other South-South leading economies' potential role in financial sector growth in Africa.

We focus on the Chinese role for several reasons. China is the second largest economy in the world and plays an influential role in South-South cooperation. The Chinese experience of economic development has been unique from Africans' and can offer new perspectives on how to tackle challenges in the financial sector. The foundation for extending China-Africa partnerships to financial sector growth too plays a part: China is now Africa's largest bilateral trade partner with over US$ 204 billion in trade in 2018[1], and has already invested over US$43 billion[2] in African countries. These trade and investment links have already contributed to indirect growth of the sector, as African financial and non-financial institutions alongside their Chinese counterparts are responsible for the channelling of these funds.

At the same time, the African financial sector has continued to evolve since its last major transformation over thirty years ago. Innovative technologies, such as mobile money, have changed the financial status quo in Africa and globally. Microfinancing has also contributed to the continent's financial development, increasing access to credit and savings for millions. The future of Africa's financial sector has huge potential.

The work done in this report reveals that there is an abundance of new opportunities for China and African countries to engage in ways that strengthen African financial systems for mutual gains. By making strides to fully understand and adjust to each other's systems,

[1] (Li Xia, 2019)
[2] (Brautigam, Diao, McMillan, & Silver, 2017)

cooperating more directly and creatively, and most importantly by looking at the China-Africa relationship through a long-term lens, relevant stakeholders can participate in building a thriving African financial sector. Together, we can achieve progress!

DR. Wang Xiaoyong
Vice Chairman and Secretary General
China-Africa Business Council

Acknowledgements

The report has been produced by the China-Africa Business Council (CABC), a business platform established initially as an UNDP programme in 2006, to promote the economic and technological cooperation between China and African countries. The CABC now has over 800 members, most of whom are Chinese privately-owned businesses with operations or distribution channels in African countries, or whom are interested in establishing such linkages.

Firstly, CABC would like to extend appreciation to the core team for this work, namely, Bai Xiaofeng, Sandrine Nduwimana, Li Xuewei and Monkgogi Mpho Leepile as well as additional support and input from Liu Chonghui and Chen Ruoyu.

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Chapter One: Introduction

1.1. Why should China explore African financial markets?

As more developing countries engage in global value chains, trade and investment within the Global South are gaining momentum. The African continent is home to over 50 developing countries, most of which are undergoing profound changes in growth patterns. In a changing African development landscape, this timely and in-depth study of a sub-set of African economies is primarily beneficial to both investor and investee countries, but simultaneously sparks thought provoking questions relevant to the African region as a whole.

Accessible and dynamic financial services in African countries are crucial to the healthy development of a vibrant and globalized private sector. With this in mind, this report intends to support businesses, governments, and the public with relevant information on the financial sector to build capacity, fuel investments and contribute to existing literature on the accessibility and development of African markets.

As the second largest economy in the world, China plays a significant role in South-South cooperation. China and African countries have growing trade and investment links, underscored by China's predominance in Africa's global trade. Nevertheless, Sino-African investment could especially benefit from optimized and diversified resource allocation which better serves the development agenda of investee countries. To illustrate the potential for such diversification and optimization, this report considers China's current engagement with African financial systems and prospects for future engagement.

Through an in-depth study on the financial markets in three African countries, including in-depth interviews with local private businesses in those three locations, this report aims to identify the common problems and challenges and sum up the experiences and best practices for the financial markets of these three countries and for the African region as a whole.

1.2. Methodology

The report makes original insights from a series of in-depth interviews conducted with key stakeholders in three target countries, as it was beyond the scope of this report to focus on over 50 African nations and their individual financial systems in meaningful depth.

Table 1: Comparison of 3 Case Studies

		Madagascar	Zambia	Mauritius
Population (2018)[3]		25.6 million	17.1 million	1.3 million
Socio-economic development classification[4]		Least Developed Country	Least Developed Country Landlocked Developing Country	Small Island Developing State
Political Stability [5]		-0.33; Rank 142 out of 211	0.11; Rank 105 out of 211	0.99; Rank 39 out of 211
GDP in current US $ (2018)[6]		12.1 billion	26.7 billion	14.2 billion
GDP per capita in current US $ (2018)[7]		460 (Low Income Country)	1540 (Lower Middle-Income Country)	11,200 (Upper Middle-Income Country)
Human Development Index (2018)[8]		0.519, No.161 (Low)	0.588, No.144 (Medium)	0.790, No. 65 (High)
Ease of doing business ranking (1 to 190) (2018)[9]		161	87	20
Ease of doing business score (0 to 100) (2017)[10]		47.7	64.5	77.5
Foreign Direct Investment (FDI) Inward Stock in US $ (2018)[11]		6.4 billion	20.4 billion	5.3 billion
FDI Inflows in US $ (2018)[12]		349.1 million	569 million	371.5 million
Trade in US$ (2017)[13]	**Exports**	2.85 billion	8 billion	2.34 billion
	Imports	3.67 billion	7.98 billion	5.25 billion

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[3] Population statistics taken from http://worldpopulationreview.com/

[4] Country classification taken from United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States (UN-OHRLLS)

[5] World Governance Indicators taken from Political Stability and Absence of Violence (2017) World Bank: https://info.worldbank.org/governance/wgi/#home

[6] GDP (current US$) taken from World Bank national accounts data, and OECD National Accounts data files

[7] GDP per capita (current US$) taken from World Bank national accounts data, and OECD National Accounts data files

[8] Human Development Index taken from UNDP Human Development Index (2018) http://hdr.undp.org/en/content/human-development-index-hdi

[9] Ease of doing business ranking derived from Ease of doing business index taken from World Bank, Doing Business project (doingbusiness.org). This is a measure that compares business environments across countries.

[10] Ease of doing business score derived from the distance to frontier score taken from World Bank, Doing Business project (doingbusiness.org). The ease of doing business score measures a country's regulatory performance against a pre-determined benchmark of the best regulatory practice.

[11] FDI inward stock taken from UNCTADstat (http://unctadstat.unctad.org)

[12] FDI inflows taken from UNCTADstat (http://unctadstat.unctad.org)

[13] Trade data taken from UNCTADstat (http://unctadstat.unctad.org)

Therefore, while continent level data has been gathered and analysed, this project primarily focused on and analysed three African countries (Madagascar, Zambia and Mauritius).The case study countries are geographically located in Eastern and Southern Africa, with Madagascar and Mauritius being Indian Ocean Islands. They are also members of the African Union (AU) and the African regional economic communities relevant to their geographic locus: The Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) [14] . Their fundamental contrasts include different socioeconomic classifications, levels of financial sector development, and challenges to sustainable development due to their geographic make-up. As such, they offer a valuable sample of growth and development patterns in Africa, with Madagascar on the lower end of the spectrum, Zambia in the middle and Mauritius at the higher end. Their basic characteristics are summarized in table 1 below. They also showcase varying relationships with China, meaning these case studies provide both a rich insight into Africa's financial sectors, as well as a multifaceted outlook on China's role in the continents financial development.

These case studies have been buttressed with data drawn from desk research. The information is correct as of July 2019, although of course, subject to change thereafter.

The semi structured interviews were conducted from January to July 2018, with 23 companies (annex 3), both local and Chinese, by representatives from CABC. The companies were selected based on previous cooperation and good relationships with CABC, allowing for frank discussion and deep insights. Each stakeholder answered 6-7 questions (annex 2) designed to deep dive into the financial structure of the country they operate in and to understand key perceptions and challenges.

[14] Membership data taken from https://www.uneca.org/

Chapter Two: Background on Africa's Financial Systems

This chapter provides a comprehensive introduction to African financial systems. It begins by providing context for understanding finance in Africa. This is followed by insights into the structure and scale of Africa's financial systems, and the development of the African banking industry as the engine of the African financial sector. This chapter will then identify key development gaps in the African financial sector and conclude with a brief overview of current prospects for financial development in Africa.

2.1. The current context of Finance in Africa

The period between the late 1980s and 1990s was marked by widespread reforms to Africa's finance sector and is therefore crucial to understanding contemporary African financial systems. The reforms were characterized by financial liberalization which included restructuring and privatizing national banks, removing credit ceilings and liberalizing interest rates[15]. Notably, reforms also targeted the development of a private banking system and growth of financial markets. The impetus for African countries to adopt these financial regulations was the structural adjustment programmes introduced by the IMF and the World Bank.[16]

In the 20 years proceeding this era of mass financial reform, African economies experienced consistent and relatively high growth rates[17], making the continent one of the most rapidly developing regions at the time[18]. This period of remarkable economic expansion was helpful to accelerating financial sector growth. For instance, stock markets on the continent developed significantly in this period, especially considering the low liquidity and capitalization that characterizes the broader financial sector. However, for both stock markets and the whole financial system, it was and continues to be insufficient facilitation to achieve financial maturity and soundness. Despite continuous growth, African stock markets remain relatively small, highly illiquid, tend towards monopolization and have poor market infrastructure. These qualities further limit the markets' ability to attract capital. Consequently, the wider African financial sector is restricted in the amount and types of financing available for the African private sector.[19]

In addition to limiting opportunities for private sector financing, African countries have been faced with capital constraints in the public sector. Reliance on Official Development

[15] (Allen, Otchere, & Senbet, 2011)
[16] (Allen, Otchere, & Senbet, 2011)
[17] (Allen, Otchere, & Senbet, 2011)
[18] (Sayeh, 2013)
[19] (Allen, Otchere, & Senbet, 2011)

Assistance (ODA) and commodity exports for revenues by many African governments has only exacerbated the problem. Since 2009, the World Bank estimates a decline in the net ODA per capita for sub-Saharan Africa (SSA)[20] which, coupled with the 2014 slump in commodity prices, has cut revenues for many African governments[21]. The African Development Bank further estimates an annual shortfall of $68–$108 billion to meet Africa's infrastructure needs[22] and predicts $20 to $30 billion per year will be needed for the continent to adapt to climate change[23]. This combination of factors has compelled many African governments to turn to international capital markets to close this financing gap, leading to higher debt levels. At present however, most African countries have yet to breach the traditional threshold for healthy debt to GDP ratios set by institutions such as the African Monetary Co-operation Program and the International Monetary Fund.[24][25]

While debt levels have yet to reach unsustainable levels, and expenditures in infrastructure and social development are necessary for the continent's economic development, each country's developing needs must be weighed against their repayment capacities to ensure that the continent does not spiral into a debt crisis. Analysts have cautioned that for some African countries, current trends in debt accumulation mirror those that resulted in the Heavily Indebted Poor Countries (HIPC) initiative.[26]

2.2. The structure and scale of Africa's financial system

2.2.1 Structure of the financial system

The financial system in Africa consists primarily of banking institutions. According to a 2016 IMF report on financial development in SSA, the banking sector accounts for the largest share of assets in most countries in the region. Middle income countries in the region are cited as an as an exception with nonbank assets accounting for more than 50 % of financial sector assets in Lesotho, Namibia, Swaziland, and South Africa.[27]

The report emphasizes that foreign-owned subsidiaries dominate the African banking sector, especially in fragile African states such as Guinea, Guinea-Bissau, and Madagascar. It further recognizes that while private banking is dominant, there are still several countries in which state-owned banks' assets are sizable. These are Ethiopia, Rwanda, Seychelles, and Sierra Leone.

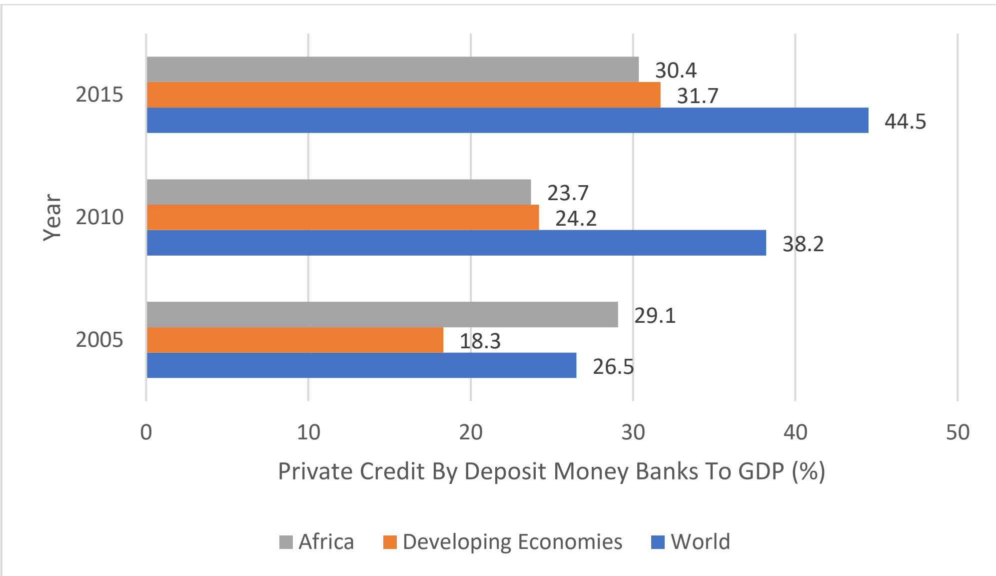
[20] https://data.worldbank.org/indicator/DT.ODA.ODAT.PC.ZS?end=2017&locations=ZF&start=1988
[21] (Onyekwena & Ekeruche, 2019)
[22] (African Development Bank, 2018)
[23] (African Development Bank, 2011)
[24] (Onyekwena & Ekeruche, 2019)
[25] Zambia was however among the countries breaching the threshold according to (Adeniran, et al., 2018)
[26] (Onyekwena & Ekeruche, 2019)
[27] (IMF, 2016)

The nonbank financial sector is still nascent in African financial systems. In recent years, it has grown significantly, particularly for pension funds and insurance companies. It is, however, still characterized by stock exchanges with low capital and liquidity. Pension funds account for the largest share of assets in Africa's nonbank financial systems[28].

2.2.2. Scale of the financial system

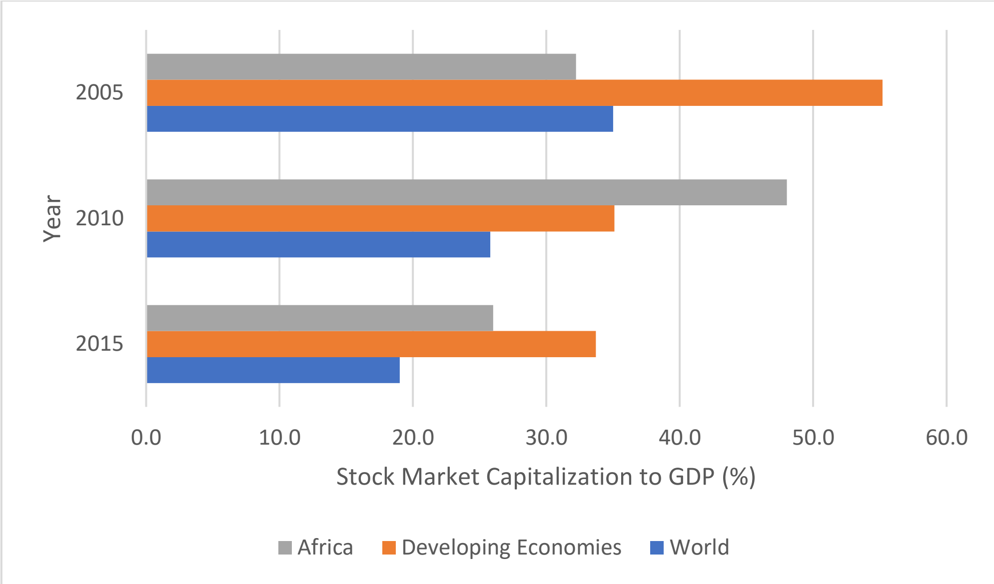
Due to continuous financial development in recent years, financial depth in Africa has increased but still lags behind world and developing economy averages. Figures 1 and 2 below indicate Africa's financial depth[29], relative to global and developing economy averages between 2005 and 2015. While the depth of financial institutions on one hand has increased since 2005, it is apparent that world and developing economy averages have deepened faster and more than in Africa[30]. At a regional level, SSA increased the median ratio of private sector credit to about 21 % between 1995 and 2014, an increase of about 10 %. While that reflects considerable gains, the region's ratios are about 50% less than those in Middle East and North Africa (MENA), East Asia, and Latin America and the Caribbean[31]. Financial markets in Africa, on the other hand, have deepened less steadily and slower than global and developing economy averages as Figure 2 indicates.

Figure 1: Depth – Financial Institutions[32]



[28] (Allen, Otchere, & Senbet, 2011)
[29] For an in-depth definition of financial development and indicators such as depth, access, efficiency and stability, please see https://openknowledge.worldbank.org/bitstream/handle/10986/12031/wps6175.pdf
[30] Averages for Africa include the 6 North African countries
[31] (IMF, 2016)
[32] For figure 1 and 2, world and developing economy averages taken from the 2017/2018 Financial Development Data Tables (World Bank, 2019) and own calculations using data from the Global Financial Development database (https://databank.worldbank.org/reports.aspx?source=global-financial-development). Africa includes North African countries.

Figure 2: Depth – Financial Markets



The volume of assets within the financial system also gives us an idea of the absolute size of the financial sector in Africa. By asset volume, the four types of financial institutions in Africa which channel the most assets are[33]:

- **US$40.2 trillion assets** from commercial banks
- **US$29 trillion** by Investment Companies
- **US$26.5 trillion** by life insurance and private pension
- **US$10.9 trillion** in public pension

[33] (African Development Bank, 2018)

Table 2: Major Financial Institutions Across Africa – A summary[34]

Institution	Assets under management ($trillion)	Investment horizon	Risk appetite	Investment objective	Risks and constraints
Commercial bank	40.2	Short term	Low to medium	Make net interest margins	Asset–liability management (ALM) mismatch risk Intensifying regulatory environment: BASEL III
Investment company	29.0	Short to medium term	Depends on funds' mandates	Maximize company returns	Liquidity issue due to beneficiary redemption
Life insurance and private pension	26.5	Long term	Medium	Meet their liability funding cost calculated by actuaries	ALM mismatch risk Intensifying regulatory environment: IFRS II, Solvency II
Public pension	10.9	Long term	Medium	Meet their liability funding cost calculated by actuaries	ALM mismatch risk Rising longevity risk
Sovereign wealth fund	6.3	Long term	Medium to high	Maximize sovereign's wealth	Government mandate approval issue
Infrastructure developer	3.4	Short term	High	Participate as project participants	Limited capital to invest with long-term horizon
Infrastructure and Public Employees Federation	2.7	Depends on fund characteristics	High	Maximize beneficiary wealth	Liquidity issue due to beneficiary redemption
Endowments and foundations	1.0	Long term	High	Maximize sovereign's wealth	Can have mandates that do not allow investment in emerging or developing economies
Nonlife insurance	N/A	Short term	Medium	Meet liability funding cost calculated by actuaries	ALM mismatch risk Intensifying regulatory environment: IFRS II, Solvency II

[34] (African Development Bank, 2018)

2.2.3. The African Banking Sector

As the primary component of the African financial sector, the banking sector deserves more detailed examination. There are two main participants in the current African banking system. First, there are central banks. These are organized in three different ways: at a national level in a singular country, at a sub-regional level where several countries share a central bank, and more broadly at a regional level organized along linguistic lines (e.g. the Central Bank of the West African States which includes West African francophone countries). National central banks in Africa are, on paper, supposed to be fully independent of governments but in practice collaborate with various iterations of ministries of finance, taking part in the crafting and execution of macroeconomic policies.

Second, there are deposit taking institutions or commercial banks. Broadly speaking these can be divided into domestic and foreign banks based on ownership. Domestic banks in Africa either operate within a single country or engage in cross-border banking in several countries. Research by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the IMF indicates that African banks with cross-border operations have a growing impact on the financial system in Africa. Notable examples include South African-owned Ecobank with branches in thirty-two African countries and Nigerian-owned United Bank of Africa with branches in nineteen African countries.[35][36]

Foreign owned banks have dominated and continue to dominate the African financial landscape. The latest and most accurate estimates from the World Bank indicate that as of 2009, foreign banks account for over 50% of bank assets held in Africa.[37] Foreign banks in Africa reflect two significant trends. One is the continued significance of colonial ties. Most European banks operating in African countries have a more established presence in their former colonies.

British banks such as Barclays, before its African operations became Africa-based, (10 countries) and Standard Chartered (14 countries), and French banks such as BNP Paribas (13 countries) and Société Générale (17 countries) are some of the major European banks. The significance of these foreign banks is aptly demonstrated by the reach of British banks. Before Barclays became Africa based in 2014, they effectively controlled nearly a third of deposits in Botswana, Mauritius, South Africa, and Zambia. Other European banks with a notable presence include the German Access Holding, Swiss International Commercial Bank and the Dutch Rabobank. They are each in 5 African countries. The US has also established its presence through Citigroup. It has branches in 15 countries[38].

[35] (Beck, Fuchs , Singer, & Witte, 2014)
[36] See annex for a list of major Pan African and foreign banks in Africa
[37] (Beck, Fuchs , Singer, & Witte, 2014)
[38] (Beck, Fuchs , Singer, & Witte, 2014)

The second, more recent but increasingly relevant trend is the growing presence of banks owned by emerging economies. India is the most established among these South-South investors with the Bank of Baroda operating in nine African countries. Other Indian banks such as Canara Bank have used Mauritius as an entry point to African markets. India's involvement is part of a wider India-Africa cooperation that arose from the first Africa-India Forum Summit in 2013. At this summit, both Indian and African banks agreed to open branches in each other's respective banking sectors [39]. Bahrain and Pakistan also have significant holdings in 5 African countries each[40].

Chinese banks are also increasing their footprint in Africa. The first Chinese bank to set up operations in Africa was the Bank of China which entered Zambia in 1997 to finance Chinese mining companies in the country. In 2007, the Industrial and Commercial Bank of China Limited (ICBC) made a landmark purchase of a 20% ownership stake (at a total of $5.5 billion)[41] in South Africa's Standard Bank. This transaction shaped Chinese FDI inflows to Africa for the year and was, for over a decade, China's largest single FDI purchase in Africa[42]. Standard Bank is now the third major Pan African bank[43] and is of systemic importance in both Mauritius and Zambia, in addition to South Africa[44]. In 2008, the United Bank of Africa and the China Development Bank began a collaboration to finance long-term infrastructure projects. Ecobank and the Bank of China also began to cooperate in 2009[45].

In 2018, McKinsey reported that the banking sector in Africa ranked second highest in growth and profitability across the world. The continent offered a 14.9% return on equity (ROE) in 2017[46], more than twice the ROE achieved by advanced economies in the same period. The report estimated that the next five years should see the African banking sector maintain high growth rates and profitability, especially in retail banking. For investors looking to capitalize on these trends, the rapidly increasing number of Africans with bank accounts underscores the sector's undeniable growth potential. By 2022, banking penetration rates are predicted to rise by 20% to 450 million banked individuals.[47]

2.3. Challenges facing the African Financial system

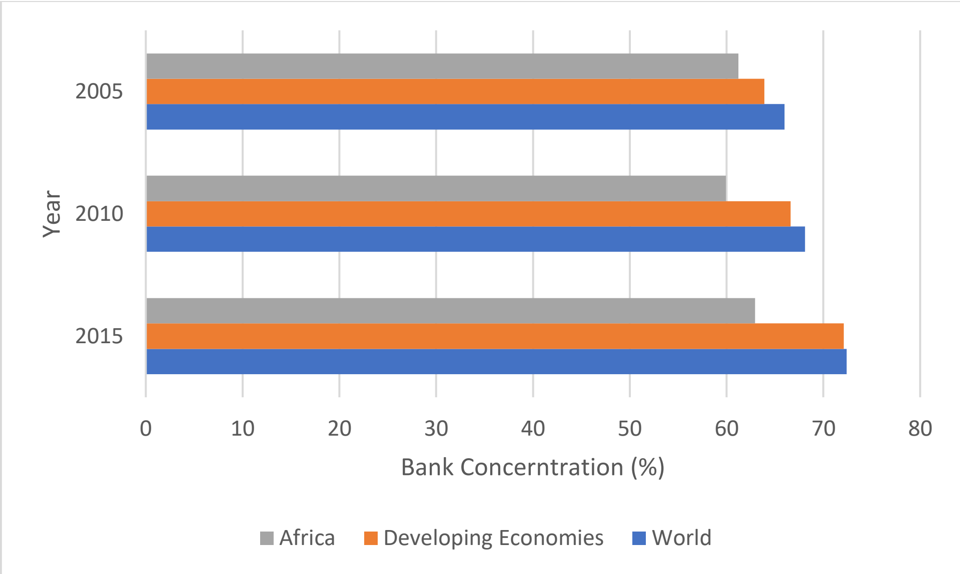
Despite considerable growth, especially in banking, financial sectors in Africa face numerous structural problems that need to be addressed to ensure healthy expansion. The African Economic Research Consortium comprehensively reviewed the factors broadly hampering

[39] (Christensen, 2014)
[40] (Beck, Fuchs , Singer, & Witte, 2014)
[41] (ICBC, 2007)
[42] (The American Enterprise Institute and The Heritage Foundation, 2019)
[43] (Beck, Fuchs , Singer, & Witte, 2014)
[44] (Marchettini & Radzewicz-Bak, 2017)
[45] (Beck, Fuchs , Singer, & Witte, 2014)
[46] (Chironga, Cunha, Grandis, & Kuyoro, 2018)
[47] (Chironga, Cunha, Grandis, & Kuyoro, 2018)

African financial development.[48] The main findings, in addition to those highlighted earlier, are summarized below:

- The African banking sector is highly consolidated, as the top five African banks account for 82.5% of total assets in Africa. While figure 3 demonstrates that banking concentration is absolutely lower and is growing at a less rapid pace than global and developing economy averages, the lack of competition it engenders has serious ramifications for financing. Lack of competition fosters higher interest rate spreads that potentially discourage borrowing.

Figure 3: Bank Concentration[49]



- The African financial system has on average become more efficient[50], particularly for financial markets which have improved rapidly between 2005 and 2015. On average however, African financial systems are made up of small banking systems which are inefficient in their allocation of deposits. This is evidenced by banks' tendency to invest in government securities rather than lend to the private sector, and by their preference for short-term finance so as to profit from high interest rate spreads which occurs at the expense of long-term financial investments. The implications of these characteristics are two-fold. Broadly, they mean that African firms have half as much

[48] (Senbet, 2017)
[49] For figure three, world and developing economy averages taken from the 2017/2018 Financial Development Data Tables (World Bank, 2019) and own calculations using data from the Global Financial Development database (https://databank.worldbank.org/reports.aspx?source=global-financial-development). Africa includes North African countries.
[50] See figure 6 and 7 which proxy financial efficiency using bank return on assets for financial institutions and stock turnover ratio for financial markets. For a comprehensive definition of financial efficiency, access and other measures of financial development, see https://openknowledge.worldbank.org/bitstream/handle/10986/12031/wps6175.pdf

access to loan financing as non-African firms. They are also heavily reliant on banks for external financing, but simultaneously have difficulty accessing credit financing. More specifically, these implications seriously constrain the growth of Small and Medium Enterprises (SMEs) which are pivotal to innovation and economic growth.

Figure 4: Efficiency – Financial Markets[51]

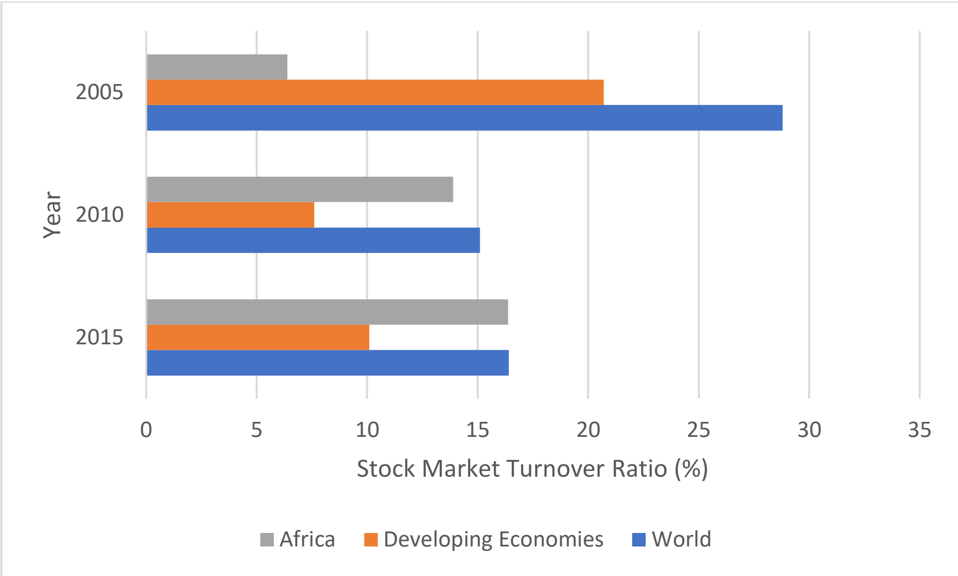
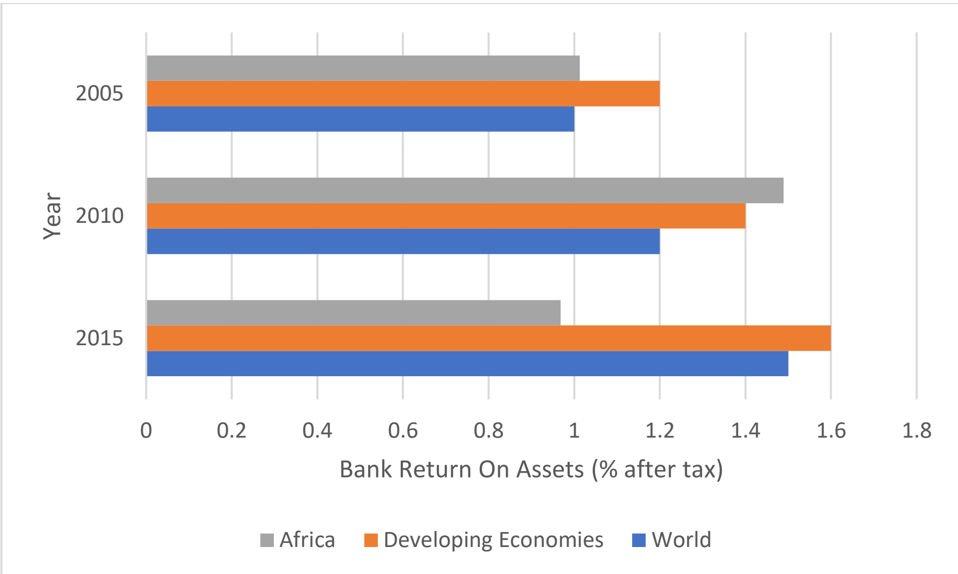


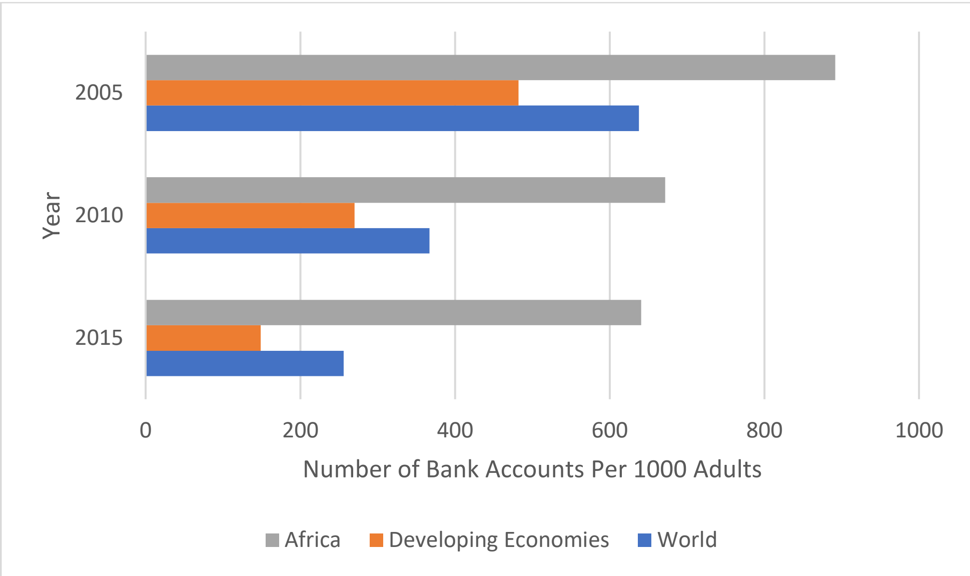
Figure 5: Efficiency – Financial Institutions



[51] For figure 4 and 5, world and developing economy averages taken from the 2017/2018 Financial Development Data Tables (World Bank, 2019) and own calculations using data from the Global Financial Development database (https://databank.worldbank.org/reports.aspx?source=global-financial-development). Africa includes North African countries.

- Access to financial services has generally improved on the continent[52]. When phenomena such as the rise of mobile banking are factored in, recent years have shown rapid progress. However, the African financial sector still has relatively low levels of financial inclusion as a result of, among other factors, the high transaction costs that dis-incentivize financial providers from investing in accessibility. As a result, the most vulnerable populations on the continent have insufficient access to financial services, which has implications for economic and social development.

Figure 6: Access – Financial Institutions[53]

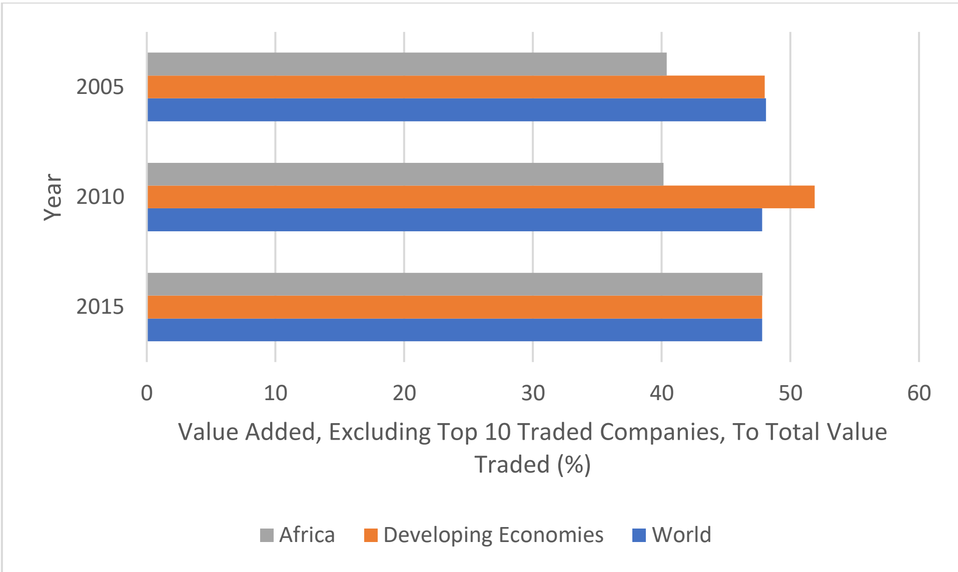


[54]

[53] While the indicator "bank accounts per 1000 adults" is useful for measuring access to traditional financial services, it may be misleading as it doesn't factor branchless banking into its calculations.

[54] For figure 6 and 7, world and developing economy averages taken from the 2017/2018 Financial Development Data Tables (World Bank, 2019) and own calculations using data from the Global Financial Development database (https://databank.worldbank.org/reports.aspx?source=global-financial-development). Africa includes North African countries.

Figure 7: Access – Financial Markets



2.3. Prospects for Financial Development: Microfinance and Mobile Banking

Africa has among the world's lowest financial inclusion rates, making this one of the continents main development challenges. As the map below demonstrates, in most African countries there are at least ten million unbanked individuals.

Figure 8: Adults without an account in 2017[55]

Source: Global Findex

[55] (World Bank, 2017)

In recent years, African governments and their development partners in both the public and private sectors have looked to mobile banking and microfinance to increase financial inclusion. In part, these approaches have helped overcome barriers such as inaccessibility of services due to distance, high cost of financing and complex procedures to procure financing.[56]

Microfinance has experienced rapid growth throughout Africa, reaching about 45 million individuals by 2014. Eastern and Southern Africa had the largest increase in both microfinance institution (MFI) loans and deposits, growing at least 10 times from their total in 2005 by 2014[57]. The region was expected to continue to lead in microfinance uptake at a projected growth rate of at least 15% between 2015 and 2016. With regard to the composition of microfinance, deposits account for a larger portion, and are growing more rapidly throughout Africa. [58]

Microfinance will require flexible regulations to achieve further growth and minimize the spread of unlicensed institutions[59]. The regulatory framework should address the trade-offs between the depositors' protection on one hand and stifling of financial innovation and competition, and higher costs of regulation on the other hand[60]. Policy should also look into the adequacy of internal controls and promote thorough record keeping (including on loan loss recognition).

According to the GSMA, SSA has over 395.7 million registered mobile money accounts which transacted $ 1.7 billion from 2017 to 2018. Of these, over 145 million were active.[61] Mobile banking in SSA has played a major role in greater financial inclusion by reducing costs of acquiring financial services[62], and has the highest uptake globally, at over 10% of the population[63]. In addition to improving access to basic financial services for those who were initially unbanked, research indicates that mobile banking also boosts usage of traditional banking services. It has also been combined with microfinance services, contributing to financial inclusion for micro-firms.[64]

To enhance mobile banking's contribution to financial inclusion, it will be essential to promote inexpensive and flexible use of technology, create favourable conditions for banks to develop new products and areas of financial services, and keep the legal framework open and adaptable [65]. Regulations on consumer protections, "know-your-customer" policies,

[56] (IMF, 2016)
[57] (IMF, 2016)
[58] (IMF, 2016)
[59] IMF, 2012a.
[60] Hardy, Holden, and Prokopenko, 2002.
[61] https://www.gsma.com/r/state-of-the-industry-report/
[62] (IMF, 2016)
[63] (Demirgüç-Kunt, 2018)
[64] (IMF, 2016)
[65] IMF, 2012b.

branchless banking, and e-money also present opportunities for growth. Policymakers should also address gaps in oversight standards and institutional arrangements for mobile payments. Going forward, policy will play a critical role in setting up efficient and well- regulated collaborative frameworks for cross-border mobile payments.

Chapter one and two have acquainted us with African financial systems. In chapter three, we take a closer look at three distinctive case study countries in Eastern and Southern Africa to provide deeper insights into the diverse range of financial systems that feed into the big picture provided in these opening chapters. We then propose different ways that China can engage in different African financial sectors.

Chapter Three: Case Studies

This section dives deeper into the financial systems of three fairly varied countries in their economic and financial situations – Zambia, Mauritius and Madagascar – in order to provide a clearer understanding of the range of opportunities and challenges that exist on the African continent vis-à-vis local banking/financing.

3.1. Zambia

3.1.1. Introduction

The World Factbook 2016-17. Washington, DC: Central Intelligence Agency, 2016.

With 16.4 million people, Zambia is one of the most sparsely populated, yet most urbanized, countries in Africa. The capital city Lusaka, the tourist hub of Livingstone and the mineral-rich Copper Belt are the country's most important commercial centres and the most densely populated.

Much of Zambia's economic growth is attributable to the privatization of the mining sector, which has managed to attract sizeable foreign investment in recent years, especially from China. Zambia is rich in natural resources and is Africa's second largest producer of copper after the DR Congo. Agriculture is the main source of livelihood for most Zambians, and the government is investing in its development to diversify from mining.

The currency used in Zambia is the kwacha.

3.1.2. Relationship with China[66]

Table 2: China-Zambia relations	
Diplomatic relations since	1964
High level visits from Chinese leadership since 2007	3
Comprehensive strategic partnership?	No.
Belt and Road Initiative (BRI) country	No.
Bilateral Investment Agreement	Signed 1996 (not yet enforced).
Double Taxation Agreement?	Yes, signed 2010 (enforceable 2012).
Asian Infrastructure Investment Bank (AIIB) member?	No.
Priority country for industrial cooperation?	No.
Trade with China (2017)，*Imports& Exports*	$ 0.97 billion&$ 2.27 billion
Share of Chinese Trade to Total Trade[67] *Imports& Exports*	12.2% &28.4%
Number of Chinese firms (2016)[68]	267
Local manufacturing by Chinese companies (specify product and scale)	Light manufacturing in Lusaka based Multi- Facility Economic Zones (MFEZs). Copper and other mining operations in the Chambeshi MFEZs.
What has China's major economic impact in the country been?	Investments into copper and zinc mining.
Priority areas for (Chinese) and other external development partners?	Investment into manufacturing, renewable energy and job creation.
FDI Stock from China in US $ (2017)[69]	2.96 billion
Ratio of Chinese FDI to Total FDI Inflows (%) (2017)[70]	27.6%
FDI Stock from China in US $ (2017)[71]	33.27 million
Ratio of Chinese FDI Stock to Total Inward FDI Stock (%) (2017)[72]	14.9%

[66] References for this section are separately provided in annex 2.
[67] Share of Chinese trade to total trade was calculated ourselves using UNCTAD data.
[68] These data were provided to CABC by MOFCOM in 2017.
[69] Data taken from Johns Hopkins University SAIS China-Africa Research Initiative (http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx)
[70] Own calculations based on 2017 data from Johns Hopkins University SAIS China-Africa Research Initiative (http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx) and from UNCTADstat (http://unctadstat.unctad.org)
[71] Data taken from Johns Hopkins University SAIS China-Africa Research Initiative(http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx)
[72] Own calculations based on 2017 data from Johns Hopkins University SAIS China-Africa Research Initiative (http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx) and from UNCTADstat (http://unctadstat.unctad.org)

3.1.3. Overview of the financial sector

The Ministry of Finance is the main body tasked with strategic coordination and guidance of the financial sector in Zambia. There are three main regulators of the sector: The Bank of Zambia (BoZ), the Securities Exchange Commission (SEC) and the Pensions and Insurance Authority (PIA)[73]. Financial sector development in the country is currently guided by the Financial Inclusion Strategy of 2017-2022 whose primary target is to achieve formal financial inclusion for at least 70% of Zambian adults by 2022[74].

The financial sector in Zambia is dominated by banking, which at the end of 2016 accounted for 67% of assets held in the country's financial system[75]. There are eighteen registered local and international banking institutions in Zambia, including the Bank of China and Ecobank[76]. The country's banking sector shows high concentration and domination by foreign banks, which accounted for 83% of bank owned assets in 2016.[77] The country has over 100 non-banking institutions including 35 MFIs[78]. Zambia has a small but nascent insurance industry; whose primary challenge is solvency.[79]

Some of the main challenges currently facing the financial sector include financial regulation that is not at pace with global standards of good practice, sensitivity to commodity price volatility that results from limited economic diversification, and limited access to finances for SMEs.[80] A main achievement of the Zambian financial sector is considerable growth in individual financial inclusion, which increased by 14 % between 2012-2017.[81]

The Zambian government prioritizes the sectors of manufacturing, tourism, energy, agriculture and agro-processing, mining and infrastructure as key investment areas. While Zambia has been grappling with slow economic growth as well as challenges with economic diversification, it has considerable investment potential. As a politically stable, strategically located country which is rich in natural resources, it avails multiple opportunities for investment within a rapidly developing financial sector.

3.1.4. The Banking Sector

The Zambian banking sector shows a high level of concentration with a few large banks dominating the financial landscape. Additionally, foreign owned banks account for a large share of assets in the banking system. In 2016, the top three banks, Stanbic, Barclays and

[73] https://www.boz.zm/financial-sector-development.htm
[74] https://www.boz.zm/National-Financial-Inclusion-Strategy-2017-2022.pdf
[75] (International Monetary Fund (IMF), 2017)
[76] Please annex for a complete list of banks operating in Zambia taken from http://www.zambiainvest.com/finance/banking.
[77] (International Monetary Fund (IMF), 2017)
[78] (Bank of Zambia, 2019)
[79] (International Monetary Fund (IMF), 2017)
[80] (International Monetary Fund (IMF), 2017)
[81] (International Monetary Fund (IMF), 2017)

Standard Chartered were all foreign owned and accounted for 42% of assets in the banking sector. The largest domestic bank in Zambia is Zanaco. In 2016, Zanaco accounted for 12% of assets in the banking system.

To increase the efficiency of the banking sector and to enhance financial stability, the BoZ alongside the banking industry have invested in the modernization of the national payment systems.[82] An equally important investment in banking sector development is the push towards the adoption of digital financial services for increased accessibility to financially excluded Zambians. The United Nations Capital Development Fund (UNCDF) reports that there are increased linkages between financial services provided by mobile network operators (MNOs) and traditional banks in Zambia. In 2017, UNCDF notes, transactions between bank accounts and MNOs exceeded $ 5.2 million, a 519% increase from the $ 10,000 transacted in 2016.[83]

3.1.5. The Non-Banking Sector

Nonbanking financial institutions (NBFIs) in Zambia constitute less than 35% of assets in the financial sector. With regard to structure, pension funds account for the largest share of NBFIs with the state-owned National Pension Scheme Authority (NAPSA) accounting for 75% of pension fund assets.[84] MFIs in Zambia are rapidly growing, but have limited offerings, primarily engaging in payroll lending. The dearth of MFIs contributes to limited access to funding for SMEs in Zambia. Mobile money payment systems have had limited uptake in Zambia primarily due to inadequate investment by MNOs, compounded by a poor telecommunications and electricity network.[85]

The insurance industry in Zambia, while rapidly growing, has high concentration and is dominated by regional and international operators. It accounts for about 1% of GDP and remains very low in total asset share of the financial sector.[86]

3.1.6. Personal Financing Solutions

Almost 40 % of Zambia's adult population is formally financially included or over 3.5 million people. This is according to the FinScope Zambia 2015 survey, which says the levels of formal financial inclusion have gradually increased in Zambia—from 23 % of Zambian adults in 2009, to 38 % in 2015.[87]

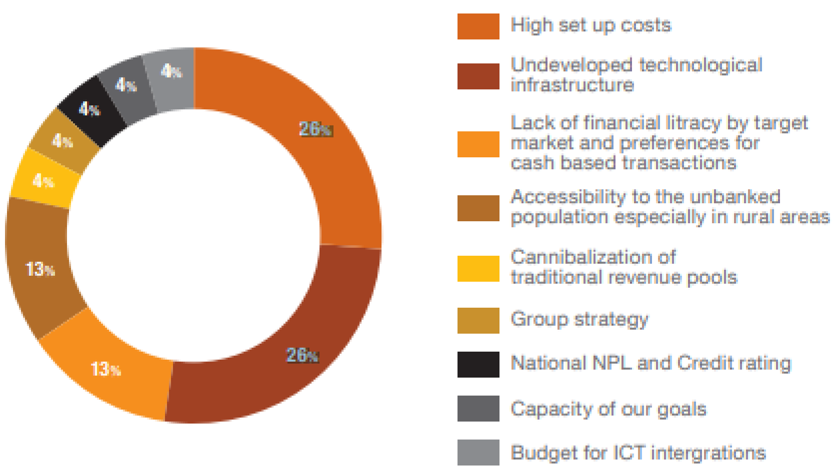
While 36% of adults in Zambia’s urban areas have a bank account, only 17% in rural areas have one, according to the report, and women are far less likely than men to have a formal

[82] (BoZ & ZECH, 2019)
[83] (UNCDF, 2018)
[84] (International Monetary Fund (IMF), 2017)
[85] (International Monetary Fund (IMF), 2017)
[86] (International Monetary Fund (IMF), 2017)
[87] (fsd Zambia & Bank of Zambia, 2015)

account. In addition, the concentration of these services in urban areas means that a considerable section of the population is cut off, because the majority live in rural areas.[88]

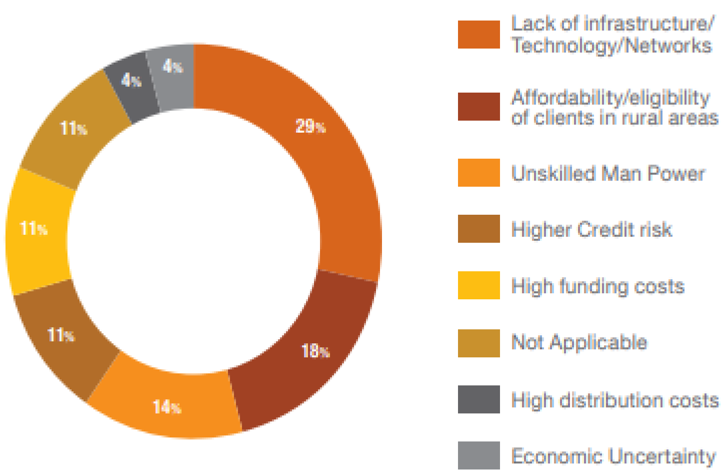
The barriers to financial inclusion in Zambia vary based on the type of financial institution. The two figures below illustrate the challenges to financial inclusion for the banking and NBFIs in Zambia.

Figure 9: Challenges to financial inclusion in the banking sector



Source: *2018 PwC Zambia Banking and Nonbanking Industry Survey*

Figure 10: Challenges to financial inclusion in the nonbanking sector



Source: *2018 PwC Zambia Banking and Nonbanking Industry Survey*

[88] (fsd Zambia & Bank of Zambia, 2015)

3.1.6.1. Microfinance

The microfinance industry in Zambia is nascent with limited impact on increasing financial inclusion. It also lags behind the Southern African region in development.[89] AMIZ estimates that by 2015 there were 300,000 individuals with micro-finance loans.[90] The microfinance market in Zambia has recently transitioned to more sustainable and increasingly privatized microfinance through regulatory changes such as the 2014 draft Microfinance Services Bill and improving the business climate.[91]

Currently, the microfinance sector comprises of mainly salary-based credit companies, deposit taking and non-deposit taking microfinance institutions, Banks, NGOs-MFIs, SACCOS, community based financial institutions and other rural support programs.[92]

3.1.6.2. Mobile money

In 2015, there were an estimated 10.9 million mobile phone subscribers in Zambia, representing a mobile penetration rate of about 70 %.[93] Most were signed up to the three major mobile operators in Zambia: Zamtel, Airtel and MTN[94], all of which offer mobile money services.

Increased use of mobile phones in Zambia, coupled with improvements in mobile money channels, has opened up mobile money services. The BoZ estimates that there were 47,000 mobile money agents by the end of 2018, up from 23,000 in 2017[95]. Mobile money accounts almost doubled from 2.3 million at the end of 2017 to 4.3 million in 2018.[96]

To increase financial inclusion among the over 60% unbanked Zambians, the BoZ is working on a project to make mobile money services interoperable. The project is in collaboration with the Zambia Electronic Clearing House Limited (ZECHL) and will be implemented under the National Financial Switch (NFS), an electronic platform (system) that will enable interoperability.[97]

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[89] (Siwale & Kimmitt, 2019)
[90] AMIZ as cited in (Siwale & Kimmitt, 2019)
[91] (Siwale & Kimmitt, 2019)
[92] For a complete list of MFIs in Zambia, please see: https://www.boz.zm/ListofNBFIsat30June2019.pdf
[93] (ZICTA, 2018)
[94] Lesa (2016)
[95] Donkin (2019)
[96] Donkin (2019)
[97] (BoZ & ZECH, 2019)

3.1.7. Financing the Private Sector

In Zambia, SMEs[98] represent 70% of the economy and 88% of employment[99]. 80 % of private sector business in Zambia is conducted by enterprises with fewer than 50 employees. Most of these firms are small informal operations, with less than five employees.[100]

The mechanisms by which Zambian SMEs operate and the challenges they experience, are still largely unknown, which hinders policy makers, businesses and donors from optimizing policies, services and programs to help improve their performance.[101]

The SMEs sector in Zambia engages in diverse activities including traditional manufacturing which targets domestic consumption. Most businesses are sole proprietorships which produce primarily for subsistence. Most micro small and medium enterprises (MSMEs)[102] are further by characterized by the use of low-level technology and are oriented towards local and less affluent market segments.[103]

The Entrepreneurs' Financial Centre (EFC) specializes in the funding of SMEs in Zambia. It is one of the few players in the financial sector that provides micro loans to small and medium enterprises. EFC has no group loan product but deals with clients on an individual basis. It facilitates financial inclusion. For example, EFC services micro loans exclusively targeting women marketers involved in vegetable selling and other petty trading businesses requiring relatively low amounts of capital. Loan amounts range from USD380 to USD1,140.[104]

There have been other various efforts in the last decade aimed at improving SMEs access to funding through the banking sector, including but not limited to:

- In November 2016, the Industrial Development Corporation (IDC) of South Africa extended a line of credit of $ 20 million with the Development Bank of Zambia (DBZ)[105];
- Between 2015 and 2016, the African Development Bank (AfDB) approved a total $ 83 million in SME funding.[106]

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[98] The Zambian Small Enterprises Development Act of 1996 defines a SME as "any business enterprise -

1. whose amount of total investment, excluding land and buildings, does not exceed
   a) in the case of manufacturing and processing enterprises, fifty million Kwacha (K50 million) or (US$ 25,000) in plant and machinery; and
   b) in the case of trading and service providing enterprises, ten million Kwacha (K10 million) or (US$ 5,000);
2. whose annual turnover does not exceed eighty million Kwacha (K80 million) or (US$ 40,000); and
3. employing up to thirty (30) persons;

provided that the values under paragraphs (a) and (b) may be varied by the Minister, by statutory instrument."

[99] (International Trade Centre, 2019)

[100] (The World Bank, 2010)

[101] (Siwale & Kimmitt, 2019)

[102] Please see annex for Zambia Development Agency (ZDA)'s definition of a MSME.

[103] (Nuwagaba, 2015)

[104] https://www.efczambia.com.zm/

[105] (Lusaka Times, 2016)

[106] (Lusaka Times, 2016)

3.1.8. Future Challenges to Financial Development

According to a 2017 IMF report on financial development in Zambia, some of the key issues affecting the financial sector include:[107]

- Poor economic growth. Between 2015-2016, economic growth rates declined which forced banks to raise lending and reserve rates
- The banking sector has had an increase in non-performing loans due to the economic slowdown in recent years. This has led to an increase in credit risk for all financial institutions. The NBFIs are however more sensitive to credit risk
- World copper prices continue to heighten the financial system's volatility and are considered the main external risk factor.

3.2. Madagascar

3.2.1. Introduction

The World Factbook 2016-17. Washington, DC: Central Intelligence Agency, 2016.

Madagascar has a population of 25.7 million. Its capital city is Antananarivo, and the island is located on the South East coast of Africa. Other cities include: Toamasina, Antsirabe, and Mahajanga. Only 36.5% of its population live in urban areas, which are characterized by poorer healthcare, education, water, and sanitation than rural areas on the island.

Agriculture, including fishing and forestry, is the engine of economic growth, accounting for 80% of livelihoods and constituting 25% of GDP. In the past 5 years, economic growth has improved gradually from 2.3% in 2013 to 4.2% in 2017. This growth has been spurred by a rapidly developing service sector, propped up by a small but dynamic private sector.

The Malagasy currency is the ariary.

[107] (International Monetary Fund (IMF), 2017)

3.2.2. Relationship with China[108]

Table 3: China – Madagascar relations	
Diplomatic relations since	1972
High level visits from Chinese leadership since 2007	1
Comprehensive strategic partnership?	Yes – since May 2017.
Belt and Road Initiative (BRI) country	Yes.
Bilateral Investment Agreement	Yes – since 2005 (enforceable 2007).
Double Taxation Agreement?	No.
Asian Infrastructure Investment Bank (AIIB) member?	Yes – since June 2018.
Priority country for industrial cooperation?	No.
Trade with China (2017) ***Imports & Exports***	$ 0.86 billion & $ 0.19 billion
Share of Chinese Trade to Total Trade ***Imports & Exports***	23.4% & 6.7%
Number of Chinese firms (2019)[109]	388
Local manufacturing by Chinese companies (specify product and scale	Extensive textile production, marine based industries and mining.
What has China's major economic impact in the country been?	Investments into mining, fishing and marine industries.
Priority areas for (Chinese) and other external development partners?	Increased investment in marine industries, infrastructure development, and support for textile development.
FDI Stock from China in US $ (2017)[110]	766.3 million
Ratio of Chinese FDI to Total FDI Inflows (%) (2017)[111]	18.3%
FDI Stock from China in US $ (2017)[112]	71.2 million
Ratio of Chinese FDI Stock to Total Inward FDI Stock (%) (2017)[113]	11.8%

[108] References for this section are separately provided in annex 2.
[109] Economic Development Board of Madagascar (EDBM)
[110] Data taken from Johns Hopkins Univeristy SAIS China-Africa Research Initiative (http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx)
[111] Own calculations based on 2017 data from Johns Hopkins University SAIS China-Africa Research Initiative (http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx) and from from UNCTADstat (http://unctadstat.unctad.org)
[112] Data taken from Johns Hopkins University SAIS China-Africa Research Initiative(http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx)
[113] Own calculations based on 2017 data from Johns Hopkins University SAIS China-Africa Research Initiative (http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx) and from from UNCTADstat (http://unctadstat.unctad.org)

3.2.3. Overview of the financial sector

The Malagasy financial sector experiences numerous challenges in relation to its growth and stability. For instance, Madagascar lags behind fellow SSA developing economies and low income economies in indicators, financial depth and inclusion. While over 25% of individuals in low income countries and around 35% of individuals in developing SSA have bank accounts, less than 10% of Malagasy do. However, banks are expanding regionally, and uptake of mobile payment systems is on the rise.[114]

However, the number of financial institutions has steadily increased over the past five years. Currently, Madagascar has 11 banks, 6 non-banking financial institutions (NBFIs) and 31 microfinance institutions[115]. However, the high asset concentration index for the three largest banks (at 100% at the end of 2012) reflects the lack of competition. The total holdings of the financial sector accounted for 25.5% of GDP at the end of 2011.[116]

The Malagasy financial system has been subjected to various adverse shocks. Since 2006, political instability has led to economic and institutional disruptions which have translated to reduced ODA and FDI inflows. While GDP growth has been gradually increasing, its pace barely exceeds that of population growth, necessitating a nurturing business climate that fosters both more rapid and inclusive growth.[117]

3.2.4. The Banking Sector

The central bank, Banque Centrale de Madagascar (BCM), advises the government on all issues pertaining to banking laws and regulations. It supervises the banking industry and acts as the lender of last resort to banks. In addition to the BCM, there are five other institutions involved in the regulation of the financial system.[118]

The Malagasy banking sector accounted for about 95% of the assets in the financial system in 2017. It is also concentrated, with the "big four" banks controlling over 86% of assets.[119] Foreign owned subsidiaries account for most of these assets. Due to both of these characteristics, the financial sector is quite fragile and notably sensitive to financial developments in the home countries of these dominant foreign subsidiary banks. The banking sector's portfolio is also poorly diversified due to its reliance on the equally concentrated corporate sector.[120]

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[114] (IMF, 2016)
[115] See annex 2 for a complete list of banks and microfinance institutions in Madagascar
[116] Madagascar Country Report, BTI 2016
[117] (IMF, 2016)
[118] (Thom, Hougaard, Barry, & Jaco, 2017)
[119] (IMF, 2017)
[120] (IMF, 2016)

The concentration of the banking sector also leads to high interest rates. By 2017, average interest rates were estimated at 14.9% for a three-year loan.[121] The high cost of loans hinders access to finance, which hampers growth of SMEs as well as access to credit for households and consumers in Madagascar.[122]

3.2.5. The Non-Banking Sector

The Malagasy non-banking sector comprises MFIs, insurance companies, pension funds among other NBFIs. Next to banks, MFIs play a significant role in providing financial services to Malagasy consumers. In 2015, there were 25 MFIs which in total accounted for a little over 4% of the financial system's assets.[123]

The State largely controls the rest of NBFIs. It dominates the two major insurance companies, the network of savings offered by the postal services, the Caisse d'Epargne de Madagascar (CEM) - the public savings fund), as well as the National insurance and Social Welfare Fund (CNAPS). CNAPS directs the main pension plan for private sector employees and other benefits.[124]

The insurance sector was liberalized at the end of 2005.[125] As of 2017, there were five insurance companies. Two are government-owned and hold over 75% of assets: Assurances Réassurances Omnibranches (ARO) - 55% market share and Ny Havana (21% market share). Two are foreign companies: Allianz (8% market share) and SAHAM Assurances (7% market share) as well as la Mutuelle d'Assurance Malagasy – MAMA (9% market share). A sixth company's request for licensure is under review. In addition, there are 22 insurance intermediaries, five brokers and 17 general agents.[126]

The pension sector remains undeveloped in Madagascar. Three public pension funds operate in the country, collectively covering less than 10% of the workforce[127]. The "insurance bank" is starting to gain ground and the major banks all offer life and retirement insurance. Some banks are starting to also to offer personal household and liability insurance to their clients. Given that surveillance of the sector is very limited, private pension funds operate in a legal and regulatory vacuum. Pension funds public authorities appear to be tax unsustainable.

Capital markets are also very limited. There is no bond market and the fixed income market is limited to short-term government securities. To date, Madagascar does not have a

[121] (IMF, 2017)
[122] (IMF, 2016)
[123] (IMF, 2016)
[124] (IMF, 2016)
[125] (ASCOMA, n.d.)
[126] (Sanon, 2017)
[127] World Bank Report accessed at: http://documents.worldbank.org/curated/en/130911468086644653/047856072_201407225004729/additional/883230REPLACEM00Box385221B00PUBLIC0.pdf

sovereign rating from any of the three major credit rating agencies. There is no Treasure Value Specialist (SVT) in Madagascar and all investors (excluding foreigners) holding a currency account have access to the primary and secondary government bond markets. Banks trade unions still largely dominate the market. The activity on the secondary market has declined considerably in recent years and liquidity is limited. There is no stock market or futures market for financial instruments in Madagascar.[128]

3.2.6. Personal Financing Solutions

Access to and availability of formal financing remain very limited for most of Madagascar's population. The number of bank branches per 100,000 adults remained was 2.3 in 2017[129], which is almost half of the 4.5 average for sub-Saharan Africa for the same year[130]. Bank deposits as a %age of GDP remained low in 2015 at 16.6% compared to 21.1% sub-Saharan Africa[131].[132]

Access to credit is relatively high and comes largely from informal sources. This explains the relatively high rate of access to credit (65.4% of the population over the age of 15) compared to the sub-Saharan African average (46.1%)[133]. 41% of adults use informal mechanisms in comparison to 55% who are formally financially included through banks or other non-bank institutions.[134] Saving has limited reach, both formally and informally. Only 20% of Malagasy adults save formally compared to 33% of adults. A sizeable 41% do not save at all.[135]

3.2.6.1. Microfinance institutions

The microfinance (MFIs) sector in Madagascar is concentrated across five MFIs, which hold 75% of the credit portfolio and half of the financial deposits. It mainly operates through a model of cooperatives and organized networks.[136]

The microfinance sector has experienced sustained growth since 2009 and has witnessed an increase in the number of customers and points of service, the penetration rate, and the levels of savings and deposits. The customer base has grown at 16% annually to reach 1 million in 2013, 46% of whom are women. These customers are served by an increasing

[128] World Bank Report accessed at: http://documents.worldbank.org/curated/en/130911468086644653/047856072_201407225004729/additional/883230REPLACEM00Box385221B00PUBLIC0.pdf
[129] (World Bank Global Financial Development, 2019)
[130] (World Bank Global Financial Development, 2019)
[131] Excluding high income SSA
[132] (World Bank and Trading Economics, 2019)
[133] World Bank Report accessed at: http://documents.worldbank.org/curated/en/130911468086644653/047856072_201407225004729/additional/883230REPLACEM00Box385221B00PUBLIC0.pdf
[134] (Fin Mark Trust, 2016)
[135] (Fin Mark Trust, 2016)
[136] (IMF, 2016)

number of points of service, from 652 in 2009 to 785 in 2012. The household penetration rate reached 22.69% in 2012, an increase of more than 6% since 2009.[137]

MFIs increase access to financial services for low income and poorly documented customers in Madagascar. They generated customer demand through alternative business models such as in-depth, face-to-face client screening interviews, group lending schemes, micro and short-maturity credit, and financial literacy outreaches. While the outstanding loans offered by MFIs remain small at 0.8 % of GDP, there are now 4.6 MFI branches per 100,000 Malagasy – a wider network than Malagasy banks.[138]

3.2.6.2. Mobile Money

Madagascar's three mobile operators each have e-money services. These are: Airtel with the Airtel Money, Telma with Mvola, and Orange with Orange Money. These services foster cash-in and cash-out functions through their agent network, transfers across e-money accounts, bill payments for partnering services, remittances and other services. Mobile money services can buttress financial inclusion in Madagascar, which has growing mobile phone ownership. The IMF estimates that mobile money rose 86.9 % to 54.2 active mobile money accounts (and 277.3 registered mobile money accounts) per 1,000 adults between 2014 and 2017. [139]

The three mobile operators have negotiated partnerships with insurance companies. Each mobile money product is limited to an individual partnership between a mobile operator and a commercial bank which makes interoperability a challenge. Microfinance banks such as MicroCred and AccessBank have recently entered the market with mobile money product pilots.[140]

Financing the Private Sector

Between 2008 and 2013, registered companies increased due to formalization efforts led by the Economic Development Board of Madagascar (EDBM) to facilitate business registration. This growth, however, hides increasing sole proprietorships, whose sustainability is not known as there are no bankruptcy statistics. Various accounts however indicate that bankruptcy rates are high, and many companies return to the informal sector. 84% of Malagasy are self-employed in the informal sector, a precarious business environment.[141]

Exemptions from various taxes, VAT and customs duties, coupled with improved land rights management and improved logistics and access to electricity and water, have stimulated the

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[137] APIMF/CSBF (madamicrofinance.mg).
[138] (The World Bank, 2018)
[139] (The World Bank, 2018)
[140] (Riquet, 2013)
[141] (The World Bank, 2018)

creation of jobs in certain geographical areas, especially in the Highlands. However, these opportunities aren't stable; some companies left the country when conditions deteriorated[142].

According to a 2013 survey, political instability is the primary obstacle to the operations of Madagascan firms. The political turbulence recently faced by Madagascar continues to impact upon the ability of businesses to operate effectively. Unreliable infrastructure also presents a pervasive threat to the growth of businesses. Limited access to electricity makes it harder for firms to remain competitive as around 10% more Madagascan firms experience power cuts than in rest of SSA[143].

The tourism sector suffers from problems, such as lack of competition, a small domestic market and a lack of many operational constraints related, for example, to inadequate infrastructure, at a price fuel, as well as the obligation to serve certain lines for which there is only little demand. All these factors have led to extremely high airfares.

Malagasy MSMEs have difficulty accessing financing. The banking sector is risk averse and has mainly resorted to secured loans. The gross loan portfolio sector has been relatively stable while deposits have risen rapidly at a 33% between 2008 and 2012. Currently, banks do not lend to certain sectors of the economy, particularly for SME customers. As a result, the banking sector does not facilitate investment and job creation in large segments of the Malagasy economy.[144]

3.2.7. Future Challenges to Financial development[145]

The financial system is underdeveloped and has yet to achieve financial stability. Financial deepening and inclusion are essential to promote its development. In addition, the financial sector faces the following challenges:

- Madagascar's poor economic growth, coupled with adverse shocks related to falls in commodity prices and political instability, have impeded financial sector growth. While the economy is recovering and enjoys the prospect of a resumption in inflows of foreign aid and investment, stability will be essential for sustained progress.
- The banking system shows high concentration and has a poorly diversified portfolio which exposes it to risks
- Public nonbank financial institutions (NBFIs) are used to finance government policies, without sufficient attention to the security of their investments. As the NBFIs (mostly in insurance and pensions) are largely controlled by the government, governing bodies are not sufficiently independent, and their asset valuation is often unreliable.

[142] (The World Bank, 2018)
[143] https://www.enterprisesurveys.org/data/exploreeconomies/2013/madagascar
[144] (The World Bank, 2018)
[145] (IMF, 2016)

3.3. Mauritius

3.3.1 Introduction

The World Factbook, 2016-17. Washington, DC: Central Intelligence Agency, 2016.

Mauritius is an Indian Ocean island nation located in Eastern and Southern Africa. It has an estimated population of 1.3 million, most of whom live in its capital city, Port Louis. Other cities include Beau Bassin-Rose Hill, Vacoas and Curepipe. Mauritius is classified as an upper middle-income country.

The service sector drives economic growth, with financial, trade and accommodation services contributing the most. Tourism has spurred economic growth in recent years, growing at 5.2% in 2017 to reach over 1.3 million visitors.

The Mauritian government aims to reposition its financial sector as a regional financial hub to sustain the sector's sizeable contribution to income and jobs. One of the primary challenges the sector faces is its ability to adjust to a rapidly evolving global financial regulatory environment.

The currency used in Mauritius is the rupee.

3.3.2. Relationship with China[146]

Table 4: China – Mauritius relations	
Diplomatic relations since	1972
High level visits from Chinese leadership since 2007	2
Comprehensive strategic partnership?	No. However, is only African country to have a Free Trade Agreement (FTA) with China.
Belt and Road Initiative (BRI) country	No
Bilateral Investment Agreement	Yes – since 1996 (enforceable 1997)
Double Taxation Agreement?	Yes – since 1994 (amended 2006).
Asian Infrastructure Investment Bank (AIIB) member?	No.
Priority country for industrial cooperation?	No.
Trade with China (2017) ***Imports* & *Exports***	$ 0.86 billion & $ 0.03 billion
Share of Chinese Trade to Total Trade ***Imports* & *Exports***	16.4% & 1.28%
Number of Chinese firms (2016)[147]	72
Local manufacturing by Chinese companies (specify product and scale	Tourism, financial services, industrial zone and smart city development.
What has China's major economic impact in the country been?	Mauritius is a leading destination for Chinese finance in Africa. There has been some development of the hospitality, tourism and health industry especially targeted to high end Chinese clients.
Priority areas for (Chinese) and other external development partners?	Training and skills investments for the manufacturing sector and climate change management (as a small densely populated and highly developed island nation).
FDI Stock from China in US $ (2017)[148]	960.87 million
Ratio of Chinese FDI to Total FDI Inflows (%) (2017)[149]	7.5%
FDI Stock from China in US $ (2017)[150]	305.8 million
Ratio of Chinese FDI Stock to Total Inward FDI Stock (%) (2017)[151]	19.0%

146 References for this section are separately provided in annex 1.
147 These data were provided to CABC by MOFCOM in 2017.
148 Data taken from Johns Hopkins University SAIS China-Africa Research Initiative (http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx)
149 Own calculations based on 2017 data from Johns Hopkins University SAIS China-Africa Research Initiative (http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx) and from from UNCTADstat (http://unctadstat.unctad.org)
150 Data taken from Johns Hopkins University SAIS China-Africa Research Initiative(http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx)
151 Own calculations based on 2017 data from Johns Hopkins University SAIS China-Africa Research Initiative (http://www.sais-cari.org/s/FDIData_04Mar2019.xlsx) and from from UNCTADstat (http://unctadstat.unctad.org)

3.3.3. Overview of the financial sector

The financial sector is central to the Mauritian economy, as can be inferred from its contribution to GDP. The country has one of the most developed financial sectors in Africa, comprised mainly of a banking sector, an investment and asset management sector, insurance, and equity and securities markets. Mauritius aspires to achieve structural transformation led by this sector and to become a financial gateway for foreign investment to Africa. The island nation has successfully attracted international investment through its skilled labour resources, developed institutions, sophisticated technology and favourable regulative environment.

3.3.4. The Banking Sector

The Mauritian banking industry comprises of 20 banks, of which 5 are local banks, 9 are foreign-owned subsidiaries, 1 is a joint venture, 4 are branches of foreign banks and 1 is licensed as a private bank[152]. These banks are all licensed by the Bank of Mauritius to carry out banking business locally and internationally[153]

TOP 10 COMMERCIAL AND RETAIL BANKS BY TOTAL ASSETS, MURMN

	Total Assets	Total Common Equity	Date
MCB Group	417,179	54,879	31/12/2018
SBM Bank (Mauritius)	191,253	19,597	30/09/2018
AfrAsia Bank	126,567	7,181	31/12/2018
HSBC Bank (Mauritius)	117,388	316	31/12/2018
Barclays Bank Mauritius	111,187	15,464	31/12/2018
Standard Chartered Bank (Mauritius)	80,333	344	31/12/2018
Standard Bank (Mauritius)	54,377	116	31/12/2018
ICICI International	51,874	1,423	31/03/2018
Bank One	40,006	2,734	31/12/2018
SBI (Mauritius)	30,933	146	31/12/2018

na = not available. Note: Data is latest available. Source: Company reports, Fitch Solutions

Source: Fitch Solutions

Banks in Mauritius are sound and resilient to financial crisis because of their high capital adequacy. According to the IMF, "bank capital is well above the regulatory minimum, and banks meet enhanced liquidity requirements under Basel III (i.e., the new liquidity coverage ratio (LCR), including in foreign currency)." [154] However, the banks' asset quality has somewhat deteriorated over recent years as ratio of non-performing loans (NPL) has risen

[152] For an exhaustive list of financial institutions in the Mauritian banking system, see annex 1.

[153] For an exhaustive list of NBFIs currently licensed to operate in Mauritius by the FSC, see https://www.fscmauritius.org/en/being-supervised/register-of-licensees.

[154] "Mauritius : Staff Report for the 2019 Article IV Consultation," IMF, accessed August 1, 2019, https://www.imf.org/en/Publications/CR/Issues/2019/04/29/Mauritius-Staff-Report-for-the-2019-Article-IV-Consultation-46830.

from 4.92% in 2014 to 7.76% in 2016 according to the World Bank.[155] After negative growth in 2016, the sector has seen recovery and growth since 2017.[156] However, with the revised tax treaty with India terminated, growth will likely become more moderate. To counter this, the sector is expected to re-orient toward the Sub-Saharan African market and to leverage support from newly emerged investors like China.[157]

3.3.5. The Non-Banking Sector

The non-banking sector in Mauritius can be divided into two: the non-banking deposit taking institutions (NBDTIs) regulated by the BoM and the non-bank financial institutions (NBFIs) regulated by the FSC.

According to the BoM, NBDTIs held assets equivalent to 16.3 per cent of GDP as of December 2018. As of June 2018 there are eight NBDTIs, four of which only lease, two exclusively lend and the final two both lease and lend. By asset share, loans and leasing dominate the NBDTI sector at 79.5% at the close of 2018[158].

A majority of NBFIs in Mauritius fall under the purview of the FSC. The main institutions are in the offshore financing and asset management, insurance and equity market sectors.

3.3.5.1. Offshore financing and asset management

Global business companies (GBCs) specializing in offshore operations are an important component of the Mauritian financial service sector. In 2016, they had USD659.0 billion of assets under management, over 50 times of Mauritius' GDP . The majority of these assets were held in equity and investment fund shares[159] . Before the enactment of the latest Finance (Miscellaneous Provisions) Act, 2018, GBCs were categorized into GBC 1s and GBC 2s. According to the Mauritian Financial Services Commission (FSC), a resident corporation which proposes to conduct business outside Mauritius may apply to the FSC for a category 1 Global Business Licence. A category 2 Global Business Licence is for a non-resident company wishing to carry out offshore operations in Mauritius[160]. However, enactment of the act in its current form might result in a significant change of the tax regime regarding GBCs.

Mauritius' International Financial Centre (IFC) is key to this. According to the IMF staff report for Article IV consultation, the IFC is built upon three major pillars—cross-border investment, cross-border corporate banking, and private banking and wealth management—the facilitation of cross-border investment and related fund administration activities is its core

[155] "Global Financial Development (GFDD) | Data Catalog," accessed August 7, 2019, https://datacatalog.worldbank.org/dataset/global-financial-development.

[156] (Bank of Mauritius (BoM), 2018)

[157] "Mauritius Banking & Financial Services Report - Q3 2019."

[158] (Bank of Mauritius (BoM), 2018)

[159] (IMF , 2016)

[160] https://www.fscmauritius.org/en/statistics/global-business

area of specialization, which contributes about 60 % to the IFC's economic value added, 90 % to its tax payments, and 70 % to its employment[161]. Cross-border corporate banking follows, accounting for about 30 % of the IFC's economic value added. The IFC itself and adjunct service providers such as law and audit firms have also been a source of employment and tax revenue for Mauritius—accounting for about 3 % of employment and generating tax revenue of about 6 % of GDP[162].

Cross-border investment activities are supported by an abundance of investment funds and asset managers, who, often bilingual in French and English, form the skill base for the development of an international financial centre. As of December 2018, the Financial Services Commission (FSC) reported 996 active Global Funds in the country, a broad category that includes all forms of legal entities specifically dedicated to funnelling investment[163].

Just as India's presence is significant in the Mauritian banking sector, it is equally important in the broader sector of international investment activities. Among all the live Mauritian GBCs in 2018, around 4000 are Indian-focused, another 4000 are African-focused and fewer than 4000 companies are focused on other countries; Indian assets (including portfolio and direct investment) under management of GBCs are 4-5 times the amount of African asset managed by GBCs based in Mauritius[164].

3.3.5.2. Insurance

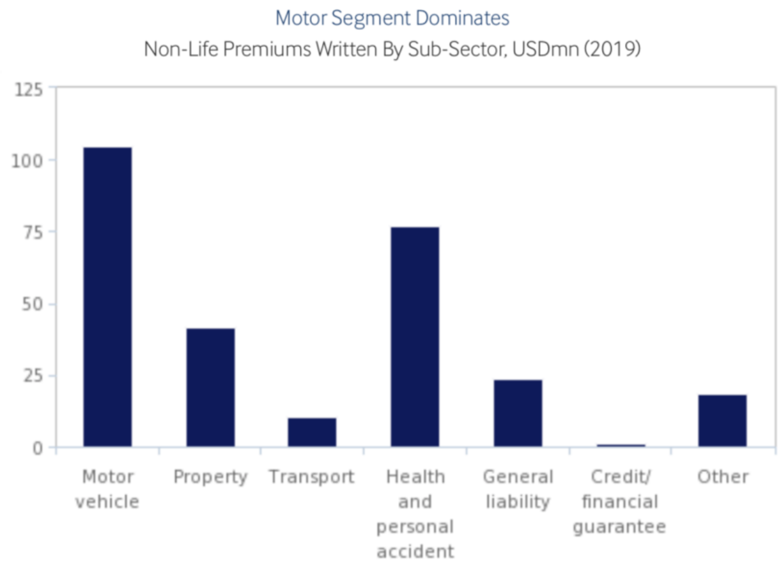
The insurance market in Mauritius is the most developed in the region, especially life insurance, which represents a third of the total value of premiums written, with pensions representing another third.

TOP SIX LIFE INSURANCE COMPANIES BY GROSS PREMIUMS, USDMN

	2012	2013	2014	2015	2016	2017
SICOM L	126.0	111.1	121.2	127.2	121.3	137.4
SWAN LIFE	89.2	97.6	99.9	96.5	108.6	116.6
La Prudence	21.1	22.0	21.5	19.5	21.9	25.4
LIC	11.2	11.0	11.0	9.9	10.8	11.5
ISLAND	6.2	5.3	6.2	6.4	6.0	7.1
Metropolitan	6.1	5.4	5.1	5.1	4.4	3.5

Source: FSC Mauritius, Fitch Solutions

161 (International Monetary Fund (IMF), 2019)
162 (International Monetary Fund (IMF), 2019)
163 https://www.fscmauritius.org/en/statistics/global-business/monthly-number-of-live-gbcs
164 (The Bank of Mauritius, 2019)



Source: FSC Mauritius, Fitch Solutions

TOP 10 NON-LIFE INSURANCE COMPANIES BY GROSS PREMIUMS, USDMN

	2012	2013	2014	2015	2016	2017
Swan	55.8	67.4	68.2	62.8	67.5	76.8
M Union	51.2	53.0	54.2	50.9	53.6	63.5
M Eagle	24.6	28.1	34.8	31.8	32.8	34.3
SICOM	18.7	20.6	21.8	21.3	20.6	21.9
Phoenix	8.0	7.9	9.3	9.1	9.7	11.3
New India	12.7	11.0	10.8	8.9	9.4	10.4
Jubilee	8.0	12.7	14.9	10.2	8.9	9.9
LAMCO	6.0	6.7	7.0	6.3	6.6	6.9
GFA	5.2	5.3	5.1	4.9	5.2	5.6
Sun	6.8	5.4	4.5	3.3	2.7	4.0

Source: FSC Mauritius, Fitch Solutions

Source: Fitch Solutions

3.3.5.3. Equity Market

The Stock Exchange of Mauritius (SEM) had 100 listed companies as of 2019. Its market capitalization stands at more than Rs 404 billion ($11.3 billion by current exchange rate) , representing 66.6% of its GDP as in 2017; turnover ratio was reported at 5.06% in 2017[165], indicating a relatively low level of liquidity in its stock market.

The relative sophistication, technological infrastructure and conducive regulative environment make the Mauritian stock market an attractive listing destination for multinationals and mutual funds. As of January 31 2019, there were 51 companies listed on SEM's Official Market, representing a market capitalisation of nearly USD10.3bn. The DEM

165 https://www.stockexchangeofmauritius.com/about-us/facts-figures

(Development & Enterprise Market) listed 43 companies with a market capitalisation of USD1.9bn. ETFs, ETNs, DRs and Structured Products are also listed on the SEM[166].

STOCK EXCHANGE OF MAURITIUS LARGEST STOCKS BY CAPITALISATION, USDMN

Name	Weight	Market Cap
MCB Group Ltd	30.3	1,901.3
SBM Holdings Ltd	8.5	525.9
CIEL Ltd	4.6	309.3
Rogers & Co Ltd	4.5	284.8
Lux Island Resorts Ltd	4.5	278.8
New Mauritius Hotels Ltd	4.4	314.2
Phoenix Beverages Ltd	4.1	258.0
Sun Ltd/Mauritius	3.3	274.1
Gamma Civic Ltd	2.2	139.4
Vivo Energy Mauritius Ltd	2.2	139.3

Source: SEM, Bloomberg, Fitch Solutions. Last updated: February 13, 2019

Source: Fitch Solutions

3.3.6. Personal Financing Solutions

The level of financial inclusion; the use of financial product or service whether formal or informal, is high in Mauritius, with an exclusion rate of only 10% of adults 18 years or older. This is the highest rate of inclusion in SADC, far exceeding the 43% level of inclusion in the rest of SSA[167].

Only 15% of adult Mauritians are unbanked. About half use non-bank products and services, and around a quarter use informal mechanisms to manage their finances. 88% of adults are classified as formally served and 2% as informally served. Among the unbanked, insufficient income (59%) and insufficient balance after personal costs (29%) constitute the main challenges[168].

Men have higher access to financing (94%) than women (86%)[169]. This difference has significant implications for the Mauritian economy. An IMF staff study, surmises that women's financial exclusion has led to their lower participation (relative to men) in the labour force which then results in an estimated income loss in the range of 22 to 27 %. Urban Mauritians (91%) and rural Mauritians (90%) are almost equally financially included[170].

3.3.6.1 Microfinance

Several Mauritian Microfinance Institutions (MFIs) provide financial services while simultaneously working for social development. Normally, the loans provided by MFIs have a

[166] https://www.stockexchangeofmauritius.com/media/2390/sem-factbook-2019_v3.pdf
[167] http://finmark.org.za/new-facts-and-figures-from-finscope-mauritius-2014/
[168] http://finmark.org.za/new-facts-and-figures-from-finscope-mauritius-2014/
[169] http://finmark.org.za/new-facts-and-figures-from-finscope-mauritius-2014/
[170] http://finmark.org.za/new-facts-and-figures-from-finscope-mauritius-2014/

longer timeframe for repayment compared to commercial banks and innovations in microfinance schemes have led to a reduction in costs.

Different micro-credit schemes were provided by a number of institutions including MCB Microfinance Ltd, the Development Bank of Mauritius, the National Empowerment Foundation, the Booster Micro Credit Loan Scheme under the Mauritius Chamber of Commerce and Industry, and SBM. Interest rates range from 3% p. a. to 15% p. a., and loan amounts range from Rs 15,000 to Rs 600,000[171][172].

3.3.6.2 Mobile Money

Mobile money access in Mauritius is low. In 2017, 2.78% of people over 15 years old used mobile phones to pay bills, whereas 6.8% of the population over 15 have used mobile phones to send money in 2011.[173] Deficiencies in the quality of the systems of mobile network operators contribute to this gap. A new standardized open platform under the National Payment Switch will aim to provide a level playing field for banks and non-bank operators, thereby addressing certain hindrances to mobile payment providers.[174]

3.3.7 Financing the Private Sector[175]

Recently, business creation in emerging sectors has been supported by successful facilitation of the business environment. The incorporation of new businesses almost quadrupled between 2002 and 2008 after a period of relative stability. In fact, between 2007 and 2012, 35 % of all firms present in the Registrar of Companies were registered as new incorporations. In 2008, Mauritius implemented a centralized database linking the company registry with tax, social security, and local authorities, reducing the number of days required to start a business from 46 to 6. As a result, the cost of starting a business in 2013 was a third of the cost in 2005. These reforms resulted in a reallocation of resources toward construction and services industries and a relative decline of textile firms.

SMEs continue to face challenges to increase market share and employment. Small establishments that employ less than 10 people represent 90 % of all businesses in Mauritius but employ around 54 % of the workforce. The top 10 % of firms account for 40 % of all sales, while around 60 % of SMEs generate only 20% of all sales. This distribution has remained unchanged since 2001 despite efforts to liberalize the economy.

Furthermore, around 70 % of small firms are highly leveraged, compared to roughly 55 % of medium and large firms. The implication is that these small firms are 30 % less likely to be profitable than their less leveraged medium and large counterparts. Furthermore, short-term

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[171] $420 to $16770

[172] (Ministry of Business, Enterprise and Cooperatives, 2017)

[173] "Global Financial Development (GFDD) | Data Catalog."

[174] (Bank of Mauritius (BoM), 2018)

[175] "Mauritius - Systematic Country Diagnostic" (The World Bank, June 25, 2015), http://documents.worldbank.org/curated/en/766511467997634206/Mauritius-Systematic-Country-Diagnostic.

liquidity risks are especially high for small firms and new incorporations, which leave them highly exposed to unexpected downturns in economic activity or increases in short-term interest rates.

An SME survey by the Ministry of Business, Enterprise and Cooperatives found only 7% of businesses had no legal status whatsoever. This indicates that informality is not a challenge for the Mauritian SME sector. Limited access to finance may be part of the challenge faced by SMEs. Despite having a strong and large financial sector that successfully navigated the global financial crisis, Mauritian SMEs claim that they continue to face challenges in accessing credit for investment and working capital. As in many countries, the structure and incentives in Mauritius's financial sector biases away from SMEs. With large revenues generated in global business centres and with relatively larger business groups, the fragmented and relatively high-risk SME market remains unattractive to most banks. Additionally, SMEs are micro in nature and may reflect the fact that many individuals have limited access to financial services.

3.3.9. Future challenges to financial development[176]

A 2019 IMF report on the financial condition of the Mauritian financial sector articulates areas for development based on assessments of Mauritius' position as a Global Financial Centres and as an exporter of financial services. They are summarized below:

Mauritius lags behind peer GFCs such as Ireland, Singapore and Switzerland in innovation capacity, notably, in skilled labour, research and development (R&D), and information technology (IT) infrastructure**.** R&D expenditure in Mauritius is only 0.2 % of GDP compared to over 2 % in advanced GFCs. The IT infrastructure is also weaker than in other major GFCs. In terms of human capital, the tertiary enrolment rate (at 38.7 %) and average years of schooling (10.1 years) are significantly lower than other upper-middle income economies and advanced GFCs.

The country's financial services' export basket requires more sophistication. In 2014, finance comprised only 3 % of Mauritius' services exports, while the average for other Global Financial Centres (GFCs) was 14 %.

The recent collapse of the BAI financial conglomerate highlighted weaknesses in regulation, consolidated supervision, crisis management and resolution[177]. The Mauritian banking system is in need of an ex-ante bank and financial resolution regime, and an explicit deposit insurance scheme (DIS) to avert the fiscal costs and potential moral hazard that resulted from the BAI crisis. Additionally, the incident highlighted potential conflicts of interest as evidenced by regulatory forbearance, political leaning, and coordination problems among financial regulators. Given the systemic importance of mixed conglomerates within the financial system, it is imperative that regulatory agencies—led by the BoM and the FSC- coordinate and cooperate in the execution of their mandates.

[176] (International Monetary Fund (IMF), 2019)

[177] For more detail, please see Annex I. Mauritius: The Failure of British American Investment Co. (BAI) of IMF Country Report No. 16/89.

Mauritius' financial stability framework needs upgrading, to catch up with the scale and complexity of the financial industry. To minimize macro-financial risk, information must be timelier and the capacity for risk assessment must be enhanced.

The macro-prudential policy framework urgently needs to be improved to address evolving systemic risks. Due to complex inter-linkages between offshore activities, the banking system and the domestic economy, the banking system is a core component of the financial sector. Failure to address gaps in banking policy would therefore have significant impacts on the whole sector.

The BoM's needs to improve its capacity to monitor cross-border risks, given the increasing significance of cross-border banking for the Mauritian financial system.

Chapter Four: Analysis

4.1. What role for China, if any?

This study has, up to this point, acquainted us with the broad picture of African financial systems, and three distinctive case study countries in Eastern and Southern Africa to provide deeper insights into the diverse range of financial systems on the continent.

Through this, we have so far found that African financial systems are continuously developing ahead of the rest of the world in some respects, however, are behind the rest of the world in other respects.

For example, it is clear that microfinance and mobile banking in particular are very strong and are even being replicated elsewhere in the world. In some limited cases, African countries have emerged as leading financial centres in the world, showing that, in principal, there is no limit on the development which African nations can achieve in their financial markets. However, simultaneously, particularly due to premature liberalisation and poverty, many African countries have very small financial sectors, dominated by foreign banks rather than locally owned banks. This in turn leads to inefficiencies, such as high-interest rates, which deter individuals, businesses and investors from using the banks.

This chapter now turns to the role of Chinese stakeholders in African financial systems to date, as well as potential areas of engagement. It takes into account the progress and challenges of the African financial system, as well as China's own, in some cases unique, ways of engaging with the rest of the world.

We sourced the insights for this chapter from a combination of more detailed China-specific desk research, as well as interviews we conducted with Chinese organisations operating in African countries, and especially the three case-studies elaborated in the preceding chapter. As a result, it should be noted that this means the discussion below is by no means comprehensive. However, by design, because the case studies do include such varied African countries, our hope is that our results do outline fairly accurately the broad *range* of current experience, as well as where future opportunities lie across the continent, even if the *scale* of those experiences and opportunities are not possible to extrapolate from our work.

4.2. How do Chinese stakeholders currently engage in African countries?

Modern Sino-African relations date back to 1956 and the early 1960s when a number of African countries officially recognised the People's Republic of China. Several of these countries also signed official bilateral trade agreements - including Algeria, Egypt, Guinea, Somalia, Morocco and Sudan. In late 1963 to early 1964, the then President Zhou Enlai made a ten-country tour in Africa including to Ethiopia who in 1970 established diplomatic relations with China[178]. Now, 53 of Africa's countries have diplomatic relations with China – the most recent countries being South Africa (1998), Senegal (2005), Malawi (2007), South Sudan (2011), Sao Tome and Principe (2016), and Burkina Faso (2018)[179].

Alongside this political ties, economic ties have also deepened considerably.

For instance, with regards to trade. In 1980, the total Sino-African trade volume was US$1 billion, out of total trade with the entire world worth $136.4 bn[180]. In 2000, it was US$10 billion, compared to US$38bn with the US. But since 2008, China has been Africa's largest bilateral trade partner (though it still lags behind the EU as a whole). China (22%) and the EU as a whole (33%) are now also the largest importers of African products in the world[181]. Africa has become more important as a source of imports to China. In 2000, China imported approximately 43 times more goods from non-African sources (in other words, Africa made up less than 2.5% of China's imports[182]). Now, China imports 22 times more goods from non-African sources (making up 4.5% of imports[183]). In contrast, the US also used to import around 43 times more goods from non-African sources than Africa in 2000, but in 2018 imported 70 times more goods from non-African sources than African sources.

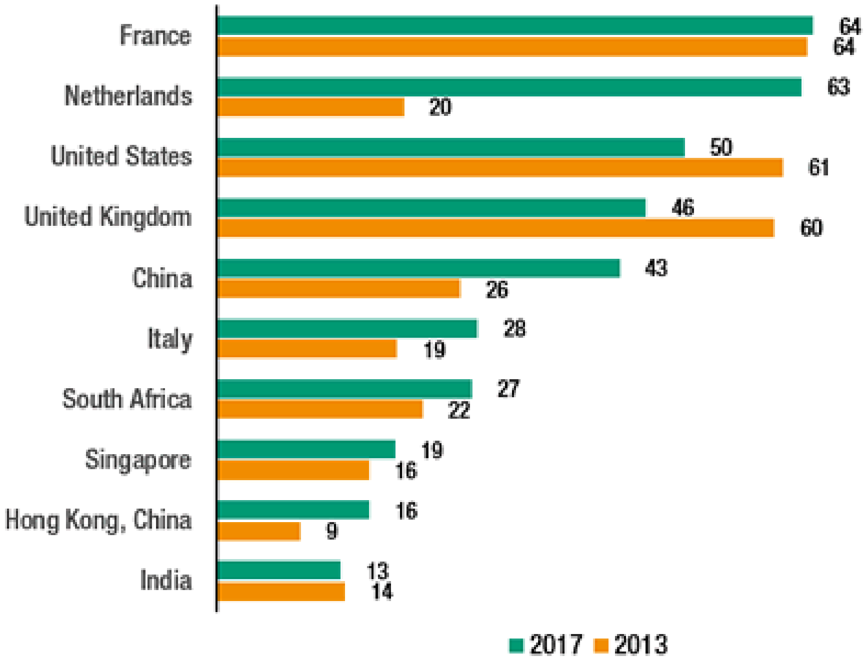
Although FDI lags behind trade, it has shown similar trends and is catching up fast. In 2016, Africa made up less than 3% of Chinese FDI flows. But overall FDI stocks from China also now make up around 5% of Africa's FDI stocks, at around $43bn USD, up from under $0.5bn in 2003[184].

In 2003, the most significant Chinese FDI was in then established investment markets like Mauritius, Nigeria, and South Africa. By 2014, 50% of China's FDI stock in Africa was in six countries, with 18% going to South Africa, and five other countries — Algeria, Nigeria, Zambia, Democratic Republic of the Congo, and Sudan — all resource-rich countries. Trends in Chinese FDI inflows to Africa are however shifting away from resource extraction. For example, China has increased its share of FDI in non-resource rich African countries[185]. Once the top 20% of African resource-rich and leading global FDI recipients are excluded, China's share of FDI in Africa has increased to 9% of inflows in 2015, up from just 1% in 2004[186]. In line with other

[178] http://cpcchina.chinadaily.com.cn/2012-02/02/content_14526996.htm
[179] https://www.focac.org/eng/ltjj_3/ltffcy/
[180] https://unctadstat.unctad.org/wds/TableViewer/dimView.aspx
[181] https://developmentreimagined.com/2019/06/24/is-the-g20-helping-to-increase-african-trade/
[182] (The African Development Bank Group Chief Economist, 2010)
[183] (The African Development Bank Group Chief Economist, 2010)
[184] (Brautigam, Diao, McMillan, & Silver, 2017)
[185] (Brautigam, Diao, McMillan, & Silver, 2017)
[186] (Brautigam, Diao, McMillan, & Silver, 2017)

global investors, China is increasingly attracted to the most rapidly developing economies in Africa such as Ethiopia[187].

Figure 9: FDI stocks in Africa, 2013 and 2017 compared



Source: UNCTAD[188]

FOCAC 2015 Financial Pledges	FOCAC 2018 Financial Pledges
$ 60 billion in financing to Africa: - **$35 bn preferential and concessional loans** - **$5 bn grants and interest free loans** - **$5 bn to CADfund** - **$5 bn special loan for development of African SMEs** - **$10 bn for the China-Africa production capacity cooperation fund**	$ 60 billion in financing to Africa: - $15 bn grants, interest-free loans and concessional loans - $20 bn of credit lines - $10 bn special fund for development financing - $5 bn special fund for financing imports from Africa - $10 bn of investment in the next 3 years

Some of this has been driven and backed by governments. China consistently been increasing its commitments to African countries at government to government meetings, called the Forum for China Africa Cooperation (FOCAC), in place since 2000. For example, China's loan commitment increased from US$5 billion in 2006 to US$10 billion in 2009, US$20 billion in

[187] https://www.controlrisks.com/our-thinking/insights/chinese-investment-in-south-africa
[188] https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2109

2012 and Us$35bn in 2015. In summary, at the 2015 and 2018 FOCAC, the following financial commitments were made[189]:

Commitments in non-financial areas have also been made, with some implications for the financial sectors (we will discuss this later). China committed to training 10,000 African personnel in various fields in 2003, 15,000 in 2006, 20,000 in 2009 and 30,000 in 2012.[190] At the 2003 FOCAC, China announced its decision to grant zero-tariff treatment to exports from least developed countries (LDCs) in Africa; at the 2006 FOCAC, the number of such eligible export items was increased from 190 to 440; in 2009, it promised to gradually grant tariff-free treatment to 95 percent of all exports from African LDCs and further increased this number to 97 percent in 2012.[191] Similarly, in 2006 China announced it would set up 10 agricultural demonstration centres across Africa, and increased this to 30 in 2009, in partnership with the United Nations' (UN) Food and Agriculture Organization (FAO). A final example is the US$5 billion China-Africa Development Fund announced at the 2006 FOCAC summit, which has since been increased to $15bn, and has supported Chinese investment in Africa, including six special economic zones in five African countries: Zambia, Nigeria, Ethiopia, Mauritius and Egypt.[192]

Alongside these, financial institutions have no-doubt played a part and achieved indirect benefits. However, no explicit cross-country commitments have been made in relation to the financial sector development of banking via FOCAC or via the Belt and Road Initiative- China's more recent and broader foreign policy tool since 2013. As set out in Chapter 2, Chinese banks made their first steps into African countries just over 22 years ago, starting in 1997 in Zambia, one of the case-study countries chosen for this report. Growing trade in principle creates the need and propensity for invoicing, settling and financing trade in different currencies by businesses. However, progress has been uneven and slow in reality for a variety of Africa-related as well as China-related reasons, as the analysis will demonstrate below. That said, typically, foreign financial sector involvement (and the experience *of* China to date elsewhere) follows three phases— first as usage for trade finance, then for investment, and in the longer term, as reserve currency.

It remains to be seen whether China's financial institutions and partnerships will or can play a stronger role in future. If they can, what sort of role - especially if trade and investment continue to strengthen Africa-China relations. Finally, can such activities or partnerships accelerate these trends and sustainable development on the continent more broadly.

[189] Reprinted from a collection by Lina Benabdallah of Xi Jinping's speeches at FOCAC 2015 and FOCAC 2018
[190] https://developmentreimagined.com/2018/01/30/who-does-china-prioritise-our-first-investigation/
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[192] https://developmentreimagined.com/2018/01/30/who-does-china-prioritise-our-first-investigation/

4.3. China's engagement in Africa's banking sector to date

It is worth noting that before 2004, the yuan (renminbi or RMB) was not allowed outside of China[193]. Cross-border payments of current account items with any country in the world have only been possible by law since 2010[194]. There also remain strict controls (with some exceptions in free-trade areas in China) on sending money from China to overseas – most transactions cannot exceed US$50,000[195].

These regulatory restrictions have naturally placed considerable limitations on Chinese stakeholders' abilities to engage with local (or other foreign) banks in African countries as well as elsewhere. This, to some degree, explains why Chinese banking institutions have less of a presence on the African continent than many other foreign banks, despite many trade and infrastructure contracts, for instance, going to Chinese partners versus other foreign operators. In the past, most companies that undertake infrastructure and other "Engineering, Procurement and Construction" (EPC) projects in Africa (and elsewhere) tended to obtain their loan from a Chinese Bank, and then make all financial transactions – from wages to loan repayments – in China.

This "pay within China" still occurs, even for other types of firms. In interviews, one Chinese company in Zambia told us that Chinese clients often sign contracts in China and settle directly with their Chinese parent company. They then have the Zambian branch take care of specific issues on the ground, not financial issues. This limits their capacity in Zambia. During interviews, several stakeholders mentioned these restrictions from the China side as **the** major obstacle to either engaging with local banks, or vice versa – engaging Chinese organisations as clients.

However, there are a number of wider developments across the Africa-China banking sector that may lead to easier and cheaper cross-border transactions in future. In particular, if it becomes easier to convert between RMB and local currencies, this will make banking locally more attractive. Currently, unless they only use the RMB in China, they face currency risk from converting local currencies into USD (or sometimes Euros).

The developments are as follows:

- In January 2010, the first successful African RMB trade financing loan was made by the Bank of China (BoC).[196]

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[193] https://www.reuters.com/article/us-yuan-timeline-idUSTRE5AF03C20091117
[194] https://www.china-briefing.com/news/china-allows-companies-to-settle-trade-in-rmb/
[195] https://www.scmp.com/economy/china-economy/article/3008303/china-closes-online-currency-regulation-loopholes-ease-fears
[196] Yi Ren Thng, Centre for Chinese Studies, Stellenbosch University COMMENTARY: The Internationalisation of Renminbi in an African Context, 19 September 2016, accessed at: http://www0.sun.ac.za/ccs/wp-

- In 2012, China Development Bank issued the first African "dim-sum bond" where African central banks collectively bought approximately $ 80 million (RMB 500 million) worth of these bonds[197].
- IN 2013, South African Reserve Bank signed an agreement with the People's Bank of China (PBOC) for an estimated $ 1.49 billion (RMB 9 billion) investment in China's interbank bond market.[198]
- In 2014, Zimbabwe made the RMB one of the legal tender currencies in its multiple currency system[199].
- In 2015 South Africa became the first African country to sign a bilateral currency swap agreement with China. It was valued at $4.6 billion, just less than 1% of total currency swap value in 34 countries from 2008 to 2015[200]. A currency swap is the exchange of a loan in one currency for another and the placing of a share of reserves in the RMB;
- In July 2015, Africa's first RMB clearing house was established through the BoC in Johannesburg, South Africa.[201]
- In September 2015, the BoC became a clearing house for RMB in Zambia[202].
- In 2010, South Africa's Standard Bank (with ICBC) established individual RMB-denominated accounts[203]
- In 2015, the state-owned National Bank of Kenya opened a clearing house facility in Nairobi and plans to set up a representative office in Beijing by October 2019[204].
- In August 2016, the Common Market for Eastern and Southern Africa (COMESA) effectively created a new clearing house by including the RMB as a settlement currency through the Regional Payment and Settlement System.[205]

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[199] See: https://www.un.org/africarenewal/magazine/august-2014/chinese-yuan-penetrates-african-markets

[200] https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/files/park_final.pdf

[201] Yi Ren Thng, Centre for Chinese Studies, Stellenbosch University COMMENTARY: The Internationalisation of Renminbi in an African Context, 19 September 2016, accessed at: http://www0.sun.ac.za/ccs/wp-content/uploads/2016/09/CCS_Commentary_-Internationalisation-of-RMB-in-an-African-Context_Yi-Ren_19SEP2016.pdf

[202] https://www.reuters.com/article/ozabs-uk-china-zambia-yuan-idAFKCN0RU0ME20150930

[203] https://www.standardbank.com/standimg/StandardBankGroup/web/newsArticle/2010/NewsArticle-19oct2010.html

[204] http://www.xinhuanet.com/english/2019-08/16/c_138314485.htm

[205] Yi Ren Thng, Centre for Chinese Studies, Stellenbosch University COMMENTARY: The Internationalisation of Renminbi in an African Context, 19 September 2016, accessed at: http://www0.sun.ac.za/ccs/wp-content/uploads/2016/09/CCS_Commentary_-Internationalisation-of-RMB-in-an-African-Context_Yi-Ren_19SEP2016.pdf

- Various African central banks including Egypt on December 6, 2016[206] and Nigeria in April 2018[207] have diversified their foreign exchange reserves to include RMB reserves (via currency swaps)
- As early as June 2014[208], the Bank of Ghana began to promote its banks to use the RMB as settlement currency.

Finally, on November 30th, 2015, the IMF admitted the yuan into its benchmark currency basket[209], which is expected to result in more central banks in Africa including the currency in their foreign exchange reserves. African central banks are also looking into issuing 'panda' bonds, or RMB-denominated bonds sold in Chinese onshore markets by non-Chinese issuers. These panda bonds tend to incur lower borrowing costs than Eurobonds, or other international bonds[210].

4.4. China's engagement in Africa's non-banking sector to date

If China's engagement in the African banking sector has been fairly limited to date, it has been even less in the non-banking sector. During our interviews, we came across no references to non-banking sector interactions, nor have we found any such references in our desk research. This therefore remains an area for further research and potential development.

4.5. China's engagement in personal financing solutions in Africa to date

Chinese stakeholders currently primarily engage with personal financing solutions through companies with an operational presence in African countries – e.g. they have factories and therefore employ local staff. Several of the Chinese companies we interviewed pointed to using the local and/or other foreign owned banks for salary disbursement, insurance and tax payments of the local staff. The constraint they face is that in some cases, as explained earlier in Chapters 2 and 3, many people in the countries they work in are unbanked and or don't use formal financial services. Some of the Chinese companies we interviewed simply had to pay their local workers in cash.

It was clear that local banks are trying to attract Chinese clients and see this as a potential growth area. Two local banks we interviewed had created "China desks" with full-time staff

[206] https://af.reuters.com/article/investingNews/idAFKBN13V0ZC
[207] http://www.xinhuanet.com/english/2019-05/21/c_138077809.htm
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that can speak Mandarin fluently, enabling them to attract and manage Chinese clients. One bank said they had attracted 40 new Chinese clients this way. Indeed, a key recommendation from Chinese companies to local banks was to employ Mandarin speaking staff.

The full extent of Chinese companies' engagement with personal financial solutions across all three case studies and for all types and sizes of firms we interviewed, seemed to be as standard bank clients. We did not find one firm, for instance, that was cooperating with a microfinance bank or one of the mobile payments operators to extend banking services to their employees, or even more broadly to other parts of the population that could benefit from financial inclusion. There is however precedence for foreign investors, and in future Chinese investors, to take part in such partnerships. One of the microfinance banks we interviewed gave us an example of a project they have with a Japanese company to support the modernization of the agriculture sector through more sophisticated techniques.

Two microfinance institutions were also interested in potentially digitizing their microfinance operations, and thought that Chinese stakeholders, including payments operators, could be well positioned for such a collaboration. One mentioned the potential to combine microfinance and micro-payments, even for the non-banking sector (e.g. insurance, product purchase, etc). One microfinance bank noted that, in 2018, they had launched a new digital system in partnership with telecom companies, offering up to $100 loans. As a result, their client base expanded from 134 thousand to 400 thousand in less than a year.

4.6. China's engagement in financing the private sector in Africa to date

If China's engagement in personal financing in Africa has been limited to date, it has been even more so with regard to the continent's private sector financing. It has, so far, tended to focus on Chinese needs, arguably passing up the opportunity to holistically fill gaps in the sector, as other foreign banks have previously done.

For instance, a number of Chinese companies operating in our 3 African case studies noted that there is more incentive to make bank deposits in China, as local banks charge around $10 a month in management and transaction fees, while Chinese banks don't. A number of other companies also cited high interest loans in local and foreign banks as barriers to applying for local financing, versus financing in China. These costs may have implications beyond company decisions. Institutions such as Exim Bank, China-Africa Development Fund (CADFund) and the China-Africa Fund for Industrial cooperation (CAFIC), the main institutions that have and continue to invest in most of the large Chinese projects in Africa, complete most of their transactions in China. Even CADFund – with five offices across Africa to date (in order - South Africa, Ethiopia, Zambia, Ghana and Kenya)- has limited engagement with local banks.

However, conversely, Chinese firms also pointed out reluctance of Chinese banks to use or recognize oversea assets as collateral when offering loans. This therefore places major constraints on their ability to raise funds from China. It is not unusual. Many of the challenges that small and medium enterprises face, particularly in Africa, include difficulties to find guarantees (collateral – e.g. due to problems on land titling, etc), high loan application requirements and high interest rates. China's reluctance may well be a reflection of these challenges and could be encouraging Chinese companies to look locally. It may also have the effect of distorting the type of Chinese firms establishing themselves in African countries (i.e. only firms with limited assets/FDI will go to Africa), and constraining FDI rather than enabling it.

One of the largest Madagascan firms told us they had been able to cooperate with Chinese companies to issue bonds, discount bills overdraft, handle payments in USD, provide letters of credit, pre-finance exports, manage deposits (online and in-person banking), payments of suppliers, and so on – meaning it *is* possible to overcome some of these issues. A Chinese firm confirmed that they have applied for loans in Mauritius because the interest rate was about 3-4%, lower than in China. Additionally, neither China nor Mauritius imposed any foreign exchange controls because the firm was located in a special economic zone/industrial park. Another interviewee in Mauritius said the fairly simple loan application process was compelling.

These types of positive experiences can be built on. There is also an opportunity for Chinese stakeholders and banks to consider how they can participate in solving these problems for others. For instance, we were informed that in Madagascar the government has talked about creating "a bank of investments" to promote and support investments by and for small and medium enterprises in particular. A Chinese bank could easily partner on this to get experience of supporting African private sector growth.

4.7. China's potential role in addressing Future Challenges to Financial Development in Africa

Our three case studies illustrate that across the board, whether a high or low-income country, the banking sector is highly consolidated in Africa. This leads to numerous distortions, some of which the microfinance and mobile-banking institutions have addressed, flourishing as a result.

There is certainly room for Chinese banks to, individually or in partnership with African stakeholders, foster competition by innovating creative ways to reduce the cost of loans, both for personal and corporate banking. There is also opportunity, as far as large infrastructure projects go, to work with Chinese and local banks to come up with creative public-private partnership (PPP) models that both attract FDI, while also reducing debt exposure by governments. As previously discussed, there is a large financing gap for African infrastructure needs.

Getting to this will require more dialogue and deeper understanding. During interviews, we discovered the China-Africa Inter-Bank Association (CAIBA) was established in Mauritius in 2018 following the initiative of the China Development Bank (CDB). The aim of the CAIBA is to promote information sharing and personnel exchanges, strengthen partnerships and collaboration in project development, and build financing and investment mechanisms tailored to the needs of China and Africa. There is potential for many more such initiatives.

4.8. African opportunities for financial development in partnership with China

During our interviews, we were deeply aware that African stakeholders are seeking to cooperate with their Chinese counterparts and gain more Chinese investment and clients. However, there has been little exchange of information within the African context on what works and what doesn't to drive cooperation and new business opportunities with China.

For instance, we interviewed an African bank with a representative office in China who found that, while the structure allows them to establish a permanent presence, they can only conduct non-revenue-generating activities such as studying the market, building business relationships, and marketing new products through magazines, reports and online platforms on behalf of their overseas headquarters. This fairly limited role hinders their potential. Considering other African banks are establishing similar Chinese offices, this, if not productive, presents an opportunity cost for them and the wider sector. Banks such as Standard Bank have, in contrast, expanded into China through joint ventures. While there are different reasons for how and why these institutions chose to enter China, there could still be valuable lessons to be shared.

Another aspect of investment promotion which could benefit from more cohesive conversation is the linking of financial sector policy to broader economic development and reform. Broad brush policies to attract FDI (e.g. tax holidays, etc.) are being enacted with limited understanding of how Chinese (and other foreign) FDI is constrained by policies within China. Little advocacy is taking place within China to address these issues. This study is an attempt to shed light on these types of challenges.

Now that we have looked into China's current and potential role in African financial systems, as well as clearly set the context of the financial sector in Africa, we will now provide recommendations addressed to African and Chinese banks and firms, and (Chinese and African) governments.

Now we have delved into the current and potential role of China in Africa's financial systems, we will conclude with recommendations, specifically addressed to relevant African and Chinese banks, firms and governments.

Chapter Five: Conclusions and Recommendations

This study, while not aiming to be comprehensive, has elaborated on the progress and key challenges that African countries face in creating accessible and dynamic financial services as a primary means to drive new investment.

Through an in-depth study of the financial markets in three African countries, including thorough interviews with local private businesses in those three locations, we have identified the common problems and challenges and summarized the experiences and best practices for the financial markets of these three countries and for the African region as a whole.

We have also been able to explore the specific Chinese experience and potential opportunities for China's future engagement in this area, providing novel insights for policy makers focused on these topics.

We have found that, overall, while debt levels are not yet "unsustainable" in most African countries, billions of dollars of public and private, domestically and externally raised finance are needed to deliver the Sustainable Development Goals on the continent. Therefore efficient, creative and low-cost financing urgently needs to be directed to productive projects and assets, from all directions.

We have also found that the African banking sector and broader financial system can be improved considerably. The banking sector is highly concentrated, government facing and "big infrastructure" focused rather than private sector and SME focused. Further, while financial inclusion has recently increased dramatically, there are still major constraints and vulnerable populations remain left out.

Finally, we have found that as China's trade volumes with, and loans and direct investment into Africa increase, China's stakeholders directly experience all the aforementioned challenges. At present they largely remain focused on solving immediate problems. However, they can, and we argue they should, as other investors have before them, create and add value by providing new services to tackle the broader challenges.

Our recommendations therefore aim to encourage both African and Chinese stakeholders to work together to deepen their interaction in the financial sector, and drive improvements that will be of both immediate and longer-term benefit. They also give voice to some of the needs directly pointed out by our interviewees.

We provide recommendations in three areas and break down each area into recommendations for three distinct sets of relevant stakeholders – African banks and firms, Chinese banks and firms, and (Chinese and African) governments.

Recommendation 1: Encourage Chinese companies to become clients in Africa's financial sector

With the expected growth of Chinese trade and FDI, it is a no-brainer to try to engage Chinese companies as clients in Africa's financial sector.

Steps that could be taken by **African banks and firms** to encourage this are:

- African (and foreign banks in Africa) should create a "China desk" in the short-medium term – it is working for others
- Seek means to reduce high borrowing cost – offer specific discounts for Chinese clients in short-term or over specific periods
- Cut down loan paperwork to absolute essentials
- translate all documents (and online services) into Chinese and explain differences in systems better
- If possible, find a niche to engage Chinese clients with – e.g. Mauritius' relatively developed financial sector and low regulatory environment has allowed it to become a ***settlement centre*** for companies with operations in several African countries.
- Consider some operations /representatives in China – but seek ability to fully engage and make profit within China.

Steps that could be taken by **Chinese banks and firms** to encourage this are:

- Seek more cooperation with local banks that are well integrated across Africa and ideally also have local clearing capacities, so as to provide more support for business such as letters of credit
- Engage with local and foreign banks (e.g. via the Mauritian China-Africa Inter-Bank Association) to understand their perspective and experiences, especially since systems (esp. legal) may be very different from China's.

And last but not least, steps that could be taken by **governments (both in Africa and China):**

- Reduce capital controls for African countries (preferentially if needed) and/or share more information about exactly where FOREX controls are relaxed (e.g. certain industrial zones, parks, etc)
- Create some local incentives for Chinese firms to take out local loans and invest in scaling up their operations

- Seek more RMB clearance centres at national and regional level – including through joint ventures (JVs) and special purpose vehicle (SPVs)
- Consider using panda bonds for infrastructure development (and discuss degree of "tie" to Chinese contractors)
- Hold a regular cross-continental financial dialogue as part of FOCAC to agree key areas of progress.

Recommendation 2: Encourage Chinese companies to expand cooperation in financial sector development and continued FDI

With their own experience of rapid development, rapid financial inclusion and management of huge FDI flows, there is a real opportunity for Chinese cooperation to contribute to stronger financial sector development across Africa, especially in low-income and middle-income countries such as Madagascar and Zambia. Indeed, there are huge gaps in Chinese engagement – e.g. the non-banking sector such as insurance – with a potential role for Chinese equity funds to invest directly in African firms.

Steps that could be taken by **African banks and firms** to encourage this are:

- Seek to engage Chinese banks in discussions of new financial product offering, brainstorm together and seek to enable collaboration;
- Consider creating SPVs for Chinese investors that have a strong focus on sustainable development (SD) through infrastructure or other types of FDI, and/or are focused on providing use of financial services by the most unreached;

Steps that could be taken by **Chinese banks and firms** are:

- Try to provide all payments to workers either using bank accounts or mobile financing solutions, rather than cash, to encourage uptake of these more efficient financial products.
- Explore using Chinese solutions to financial inclusion and literacy for African people (as well as Chinese people e.g. tourists) and advocate for progress (e.g. use of Alipay by all, debit cards for all in RMB, etc)
- Thoroughly research various African FDI destinations before investing – to understand distinct challenges in the country beforehand.
- Explore potential market for insurance in African countries.

And last but not least, steps that could be taken by **Governments (both in Africa and China):**

- Encourage set up of SPVs for Chinese investors with a strong SD focus and/or use of financial services by the most unreached.
- Encourage one of the Chinese Banks to create a mid-size equity fund for SMEs in Africa – managed by a competent African fund manager who fully understands the situation on the ground.

Recommendation 3: Encourage Chinese companies/officials to share their experience of financial sector development

At the beginning of this study we noted that Africa's financial sector cannot be understood without knowing about the massive financial reforms that took place in the early 1980s, driven by the World Bank's structural adjustment program. Then, China was going through its own changes and circumvented the World Bank's policy prescriptions. Therefore, China can offer lots of interesting insights on how to develop differently, while tackling live issues that arise from the very real differences in their systems.

Steps that could be taken by **African Banks and firms** to encourage this are:

- Ask Chinese stakeholders about how China's financial systems are set up, including aspects such as how mobile/online payments work and are linked to bank accounts, or how collateral is able to be issued by Chinese banks for 10, 20, 50 year leased land or other temporary assets, and consider using these ideas for clients, etc.

Steps that could be taken by **Chinese banks and firms** are:

- Share more information about how China's financial systems are set up with others – including discussing wins and failures;

And last but not least, steps that could be taken by **Governments (both in Africa and China):** Encourage sharing of practice across African countries – e.g. by African diplomats or private sector organisations in Beijing, etc.

Annex 1 – Supplementary Material

Chapter Two

Major Pan-African Banks

No.	Name	Location of headquarter	Majority ownership/largest minority shareholder	Number of African countries
1	Ecobank	Togo	South Africa	32
2	United Bank for Africa (UBA)	Nigeria	Nigeria	19
3	Standard Bank Group (Stanbic)	South Africa	South Africa	18
4	Banque Marocaine du Commerce Extérieur (BMCE)	Morocco	Morocco	18
5	Banque Sahélo-Saharienne pour l'Investissement et le Commerce (BSIC)	Libya	Libya	14
6	Attijariwafa Bank	Morocco	Morocco	12
7	Banque Centrale Populaire du Maroc (BCP)	Morocco	Morocco	11
8	Barclays Africa Group	South Africa	UK	10
9	Access Bank	Nigeria	Nigeria	9
10	Guaranty Trust Bank Ltd.	Nigeria	Nigeria	9

Source: Table 1.2: List of Major African Cross-Border Banks reprinted from Making Cross-Border Banking Work for Africa

Major foreign banks in Africa

No.	Name	Location of headquarters	Majority ownership/largest minority shareholder	Number of African countries
1	Société Générale	France	France	17
2	Citigroup	USA	USA	15
3	Standard Chartered	UK	UK	14
4	BNP Paribas	France	France	13
5	Bank of Baroda	India	India	9
6	Access Holding	Germany	Unknown	5
7	Albaraka Bank (Group)	Bahrain	Bahrain	5
8	HBL Pakistan (Habib Bank Ltd.)	Pakistan	Tanzania	5
9	International Commercial Bank (ICB)	Switzerland	Malaysia	5
10	Rabobank	Netherlands	Netherlands	5

Source: Table 1.1: Table 1.1: List of Major International Cross-Border Banks in Africa from Making Cross-Border Banking Work for Africa

Chapter Three

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13. Priority areas for (Chinese) and other external development partners?
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Zambia

The list of Zambian banks operating in Zambia:

Type of Ownership	Name of Bank
I. Domestic bank – mixed ownership (1)	1. Zambia National Commercial Bank (Largest Bank)
II. Joint Venture (1)	2. Indo Zambia Bank
II. Domestic banks (4)	3. First Alliance Bank
	4. Cavmont Bank
	5. Finance Bank
	6. Investrust Bank
IV.Subsidiary of a foreign bank (13)	7. Intermarket Bank
	8. African Banking Corporation
	9. Bank of China
	10. Barclays Bank
	11. Citibank
	12. Stanbic Bank
	13. Standard Chartered Bank
	14. AB Bank
	15. Access Bank
	16. Ecobank
	17. First National Bank
	18. International Commercial Bank
	19. United Bank for Africa

Source: http://www.zambiainvest.com/finance/banking

Definition of MSMEs According the MSME Policy of the Ministry of Commerce Trade and Industry (MCTI)

A Micro or Small or Medium enterprise shall be any business enterprise registered with the Patents and Companies Registration Agency (PACRA) with the following characteristics:

Category	Micro Enterprise	Small Enterprise	Medium Enterprise *FYI - (No Incentives!)*
Total Investment (equipment)	K1-K80,000	K81-K200,000	K201-K500,000
Annual Sales Turnover	K1-K150,000	K151-300,000	K301-K800,000
Workers	Upto 10 employees	11-50 employees	51-100 employees

Enterprises above these thresholds do not qualify for registration as MSMEs with ZDA, and those in Financing

Source: ZDA MSME Application-Registration Form.pdf (format PDF / 432 KB)

Microfinance Institutions in Zambia[211]

1.Agora Microfinance Zambia Limited	Non-Deposit Taking Microfinance Institute
2.ALS Capital Limited	Non-Deposit Taking Microfinance Institute
3.Altus Financial Services Limited	Non-Deposit Taking Microfinance Institute
4.ASA Microfinance	Non-Deposit Taking Microfinance Institute
5.Bomach Finance Limited	Non-Deposit Taking Microfinance Institute
6.Chibuyu Financing Company Limited	Non-Deposit Taking Microfinance Institute
7.Christian Empowerment Microfinance Zambia Limited	Non-Deposit Taking Microfinance Institute
8.Direct Finance Limited	Non-Deposit Taking Microfinance
9.Easy Cash Financial Services Limited	Non-Deposit Taking Microfinance Institute
10.Elpe Finance Limited	Non-Deposit Taking Microfinance
11.FMC Finance Limited	Non-Deposit Taking Microfinance Institute
12.Goodfellow Finance Limited	Non-Deposit Taking Microfinance Institute
13.Innovate Capital Solutions Limited	Non-Deposit Taking Microfinance Institute
14.Izwe Loans Zambia Limited	Non-Deposit Taking Microfinance Institute
15.JMAC Financial Services	Non-Deposit Taking Microfinance Institute
16.Meanwood Finance Corporation Limited	Non-Deposit Taking Microfinance Institute
17.Microloan Foundation Limited	Non-Deposit Taking Microfinance Institute
18.Moneta Finance Limited	Non-Deposit Taking Microfinance Institute
19.Nchanga Financial Services Limited	Non-Deposit Taking Microfinance Institute
20.Unity Finance Limited	Non-Deposit Taking Microfinance Institute
21.Extenda Finance Limited	Non-Deposit Taking Microfinance Institute
22.Premier Choice Finance Limited	Non-Deposit Taking Microfinance Institute
23.Robert & Syls Microcredit Limited	Non-Deposit Taking Microfinance Institute
24.Sigma Financial Solutions Limited	Non-Deposit Taking Microfinance Institute
25.Tandiza Zambia Finance Limited	Non-Deposit Taking Microfinance Institute
26.YesCash Zambia Limited T/A Expresscredit.co.zm	Non-Deposit Taking Microfinance Institute
27.Zambou Financial Services Limited	Non-Deposit Taking Microfinance Institute

Name	Nature of Licence
1.Bayport Financial Services Limited	Deposit Taking Microfinance Institution
2.Ecsponent Financial Services LTD Trading as Mybucks	Deposit Taking Microfinance Institution
3.Madison Finance Company Limited	Deposit Taking Microfinance Institution
4.Microfinance Zambia Limited	Deposit Taking Microfinance Institution

211 (Bank of Zambia, 2019)

5.VisionFund Zambia Limited	Deposit Taking Microfinance Institution
6.Zampost Microfinance Zambia Limited	Deposit Taking Microfinance Institution
7.FINCA Zambia Limited	Deposit Taking Microfinance Institution

Below is a list of some of the SMEs in Zambia[212]

1.	Yeshua Technologies Limited
2.	Zambia Best Deals
3.	The Asset Label Company Zambia
4.	MashMap Consultancy Services
5.	Grandé Verde Zambia
6.	Nchitonet Dot Com Ltd.
7.	Out Resource Business Support
8.	Senate Perfumes
9.	3K&L Consultants
10.	Norwich Trading Limited
11.	MP & Associates Ltd
12.	Prosperity Agencies
13.	Car Junction Co Ltd
14.	Cemetery Management - Prosperity Agencies
15.	Kabon Foods Co
16.	Upstreet Consultancy Services Limited
17.	Apex Mega Trade Star S.p.A
18.	AWWSITES Business Solutions
19.	Reasons to use best HYIP templates
20.	Best MLM script software goodness
21.	Feela logistics and delivery services
22.	Key Finance Brokers
23.	H B Chalwa Associates
24.	N2style
25.	Golden Coin Bureau De Change
26.	MOMIN Wholesalers
27.	SAFCO Wholesalers And Distributors Limited
28.	Agric Technical & Professional
29.	Airways & Allied Workers Union of Zambia
30.	Associated Wholesalers & Distributors
31.	Forex King Bureau De Change
32.	Gragays Trading LTD

[212] https://www.zambiayp.com/category/Small_business/city:Lusaka

33.	Limbada M & Sons LTD
34.	Lusaka Teachers Savings & Credit Union
35.	M Frn Wholesalers & Retailers
36.	Modern Fashion Wholesalers
37.	National Union of Commercial Workers
38.	National Union of Public Service
39.	Pndor Wholesalers
40.	Saints Bureau De Change
41.	Zambia National Teachers Union
42.	Zambia Union of Financial Institution
43.	Zambia Union of SDA
44.	Zams Whosalers

Madagascar

List of Banks in Madagascar[213]

1.	Banque Malgache de l'Océan Indien (BMOI)
2.	BNI Madagascar
3.	The Mauritius Commercial Bank Madagascar SA (MCB Madagascar)
4.	SBM Madagascar
5.	BFV-Société Générale (BFV-SG)
6.	Bank of Africa Madagascar (BOA Madagascar)
7.	AccèsBanque Madagascar (ABM)
8.	BGFIBank Madagascar
9.	Microcred Banque Madagascar
10.	Banque des Mascareignes Madagascar (BM Madagascar)
11.	Société d'Investissement pour la Promotion des Entreprises à Madagascar (SIPEM)

List of institutions offering microfinance services in Madagascar[214]

1.	AccèsBanque Madagascar
2.	ACEP Madagascar SA
3.	ADEFI
4.	AECA Avotra
5.	CECAM
6.	CEFOR
7.	IFRA

[213] ((Banky Foiben'i Madagasikara) Central Bank of Madagascar, 2017)
[214] https://www.themix.org/mixmarket/countries-regions/madagascar

8.	MicroCred - MDG
9.	ONG VAHATRA
10.	Otiv Alaotra
11.	Otiv Diana
12.	Otiv SAVA
13.	Otiv Tana

Mauritius

The Mauritian Banking Sector[215]

Commercial Banks	Non-Bank Deposit-Taking Institutions	(Bureaux de Change)	Foreign Exchange Dealers
1. Bank of Mauritius 2. ABC Banking Corporation Ltd 3. AfrAsia Bank Limited 4. Bank of Baroda 5. Bank One Limited 6. Banque des Mascareignes Ltée 7. Barclays Bank Mauritius Limited 8. Habib Bank Limited 9. MauBank Ltd 10. SBI (Mauritius) Limited 11. Standard Bank (Mauritius) Limited 12. SBM Bank (Mauritius) Ltd 13. The Hongkong and Shanghai Banking Corporation (HSBC) Limited 14. The Mauritius Commercial Bank Ltd 15. Century Banking Corporation Ltd 16. Standard Chartered Bank (Mauritius) Ltd 17. BanyanTree Bank Limited 18. Investec Bank (Mauritius) Ltd	1. Cim Finance Ltd 2. Finlease Company Limited 3. La Prudence Leasing Finance Co. Ltd 4. Mauritian Eagle Leasing Company Limited 5. Mauritius Housing Company Ltd 6. SICOM Financial Services Ltd 7. SPICE Finance Ltd 8. The Mauritius Civil Service Mutual Aid Association Ltd	1. Abbey Royal Finance Ltd 2. EFK Ltd 3. Iron Eagle Ltd 4. Moneytime Co. Ltd 5. Unit E Co Ltd 6. Vish Exchange Ltd	1. British American Exchange Co. Ltd 2. Change Express Ltd 3. Cim Forex Ltd 4. Island Premier Foreign Exchange Ltd 5. Shibani Finance Co. Ltd 6. Thomas Cook (Mauritius) Operations Company Limited

Source: Bank of Mauritius

215 https://www.bom.mu/financial-stability/supervision/licensees/list-of-licencees

Annex 2 – Interview/Survey Questions

I. Questions for commercial banks and microfinance institutions

1. Could you give us a brief introduction of your institution 【background, how many years in Madagascar, number of branches, number of employees and localization level, costumers (corporates vs SMEs vs individuals, urban vs rural)】
2. How has your institution grown over the years, how do you remain competitive and attractive in a limited market?
3. What is your level of your cooperation with SMEs? What challenges do you face in this cooperation? What recommendations do you have for entrepreneurs seeking capital/financing for their businesses?
4. What is your level of your cooperation with the government? What challenges do you face in this cooperation? What is the role of the government in improving the general financial infrastructure?
5. What is your level of cooperation with Chinese companies (SOEs vs Private firms vs small businesses)? What challenges do you face in this cooperation?
6. What opportunities do you see for more cooperation with Chinese companies and what recommendations do you have for a better and improved cooperation to take place?

II. Questions for government and national investment agencies

1. Could give us a brief overview of the financial structure of this country?
2. What is the level of general participation of the population in the financial sector? What challenges do they face?
3. What is your level of participation of SMEs in the financial sector? What challenges do they face? What recommendations do you have for entrepreneurs seeking capital/financing for their businesses?
4. What is your level of your cooperation with commercial banks and microfinance institutions? What challenges do you face in this cooperation?
5. How do you view your role as a government agency in improving the general financial structures and infrastructure?
6. What recommendations do you have for a better cooperation between financial institutions and SMEs and individuals in urban as well as rural areas?
7. What opportunities do you see for more cooperation with Chinese companies and what recommendations do you have for a better and improved cooperation to take place?

III. Questions for local private enterprises

1. Could you give us a brief introduction of your enterprise 【background, sector, how many years in Madagascar, number of employees, income and profit levels, etc】
2. How has your business grown over the years, how do you remain competitive and attractive in the market?
3. What is your level of your cooperation with commercial banks/microfinance institutions? What challenges do you face in this cooperation? What recommendations do you have for a better and improved cooperation to take place?
4. What is your level of your cooperation with the government? What challenges do you face in this cooperation? How do you view the role of the government in improving the general financial infrastructure?
5. What is your level of your cooperation with international financial institutions such as the world bank, Afdb and others? What challenges do you face in this cooperation?

IV. Questions for Chinese private enterprises

1. Could you give us a brief introduction of your enterprise 【background, sector, how many years in Madagascar, number of employees (Chinese vs local), income and profit levels, etc】
2. How has your business grown over the years, how do you remain competitive and attractive in the market?
3. What is your level of your cooperation with commercial banks/microfinance institutions? What challenges do you face in this cooperation?
4. What opportunities do you see for more cooperation with local commercial banks and what recommendations do you have for a better and improved cooperation to take place?
5. What is your level of your cooperation with the government? What challenges do you face in this cooperation? How do you view the role of the government in improving the general financial infrastructure?
6. What is your level of your cooperation with other international financial institutions such as the World Bank, African Development Bank and others? What challenges do you face in this cooperation?

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Annex 4 – Interviewee Contacts

Institution	Address	Contact Details (name, email address)	Interview Date for this Report
1. EDBM Mauritius	8eme etage, One Cathedral Square Building, Port Louis, Mauritius	Ken Poonoosamy edb@edbmauritius.org +230 2033800 www.edbmauritius.org	Oct. 27, 2018
2. Mauritius Chamber of Commerce and Industry	2nd Floor, Anglo-Mauritius House, 6, Adolphe de Plevitz Street, Port Louis	Faeeza IBRAHIMSAH mcci@mcci.org +230 2034830 www.mcci.org	Oct. 28, 2018
3. Bank of China Mauritius	5th floor, Dias Pier Building, Caudan Waterfront, Port Louis, Mauritius	Tang Shengli +2302034878 Services.mu@bankofchina.com www.bankofchina.com/mu	Oct. 28, 2018
4. State Bank of Mauritius	1, Queen Elizabeth II Avenue Port Louis, MAURITIUS	K.C. Li Kwong Wing +230 202 1546 sbm@sbmgroup.mu www.sbmgroup.mu	Oct. 29, 2018
5. Mauritius Jinfei Economic Trade Cooperation Zone Ltd	Silkroad, Riche Terre, Terre Rough, Mauritius	Yangchanghe +23052597999 www.mlqsydy.com	Oct. 29, 2018
6. HUAWEI Mauritius	Nexteracom Tower 1，Cybercity，Ebene	Wang Meng +23055784468 www.huawei.com	Oct. 30, 2018

7. Tianli Spinning Mauritius Co. Ltd	Belle rive, eau coulee, Mauritius	Wang Zaijing tianlispinning @tianlispinning.intnet.mu	Oct. 30, 2018
8. China Africa Development Fund Zambia	Millennium Village, Villa No.42, Lusaka	Ji Jun +26 0974748263 zanbiya@cadfund.com www.cadfund.com	Nov. 7, 2018
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11. CJ Logistics (Zambia) Ltd	Mukuba Complex, Plot No. 186 3rd Street Mwambula Rd Jesmodine, Lusaka, Zambia	Chen Qingmin +260960976087 www.cjsmartcargo.com	Nov. 8, 2018
12. Bank of China Maurtitus(in CABC)	Room 2106, A21 Floor, Lead International, Chaoyang District. P. R. China	Shen Hongshi +2302034878 Services.mu@bankofchina.com www.bankofchina.com/mu	Nov. 15, 2018
13. Standard Chartered Bank (China) Limited Beijing Branch	G/F & 11/F, 12/F, Standard Chartered Tower, World Finance Centre, No. 1 East Third Ring Middle Road, Chaoyang District, Beijing, 100020, P.R. China	+8610 59188828 www.sc.com/cn	Dec. 19, 2018
14. Zenith Bank PLC Beijing Representative Office	1559,15TH Floor, China Beijing World Towers, Chaoyang District, Beijing, China	Ms. Lv Xin https://www.zenithbank.com/	Dec.18, 2018

15. Economic Development Board of Madagascar	Gal Ramanatsoa Av, Antaninarenina, Antananarivo 101, Madagascar	Haigo Ranaivomanantsoa Lalanirina Adriamparany www.edbm.mg edbm@edbm.mg	Mar. 12,2019
16. Comapagnie Vidzar	Anosibe Angarangarana, B.P 4403 Antananarivo, Madagascar	Gerard Andriamihaja	Mar.12,2019
17. SOCIETE GEBERALE MADAGASIKARA	14 Rue General Rabehevita- BP 196 Antaninarenina, Antananarivo 101, Madagascar	Zdenek Metelak Fredderic Leiritz Relation.client@socgen.com	Mar.14,2019
18. BANQUE SBM Madagascar	Rue Andrianary, Ratianarivo Antsahavola, Antananarivo 101, Madagascar	Gilbert Lagaillarde sbm@sbmgroup.mu www.sbmgroup.mu	Mar. 11,2019
19. Premiere Agence de MicroFinance Aga Khana Agency for Microfinance	1, Lalana Solomavamahoaka Frantsay 77 Antsahavola,Antananarivo 101, Madagascar	Davlatylor Jumakhonov www.akdn.org/microfinance	Mar. 13,2019
19. Bank of Africa Groupe BMCE Bank	B P183 Antananarivo 101, 2 Place de l'Indepedance Antananarivo , Madagascar	Joseph Michel info@fondationboa.net	Mar. 13,2019
20. BNI Madagascar	74 Rue du 26 juin 1960 Analakely BP 174 Antananarivo 101	Barijaona Ramaholimihaso Tel: 032 32 03 093 Tel: 020 22 396 50 www.bni.mg	Mar. 15,2019
21. Madagascar King Deer Cashmere Co. Ltd	B P 1476 Zone Industrielle Forello Tanjombato, Antananarivo 102	Feng Haigen TEL: 0472-411 2981 http://www.kingdeer.com.cn	Mar.11,2019
22. UINICECAM	Lot IVM 105 RD Andohatapenaka I Antananarivo 101 - Madagarscar	Jose Serge Rajaonarison unicecam@unicecam.org	Mar. 16,2019