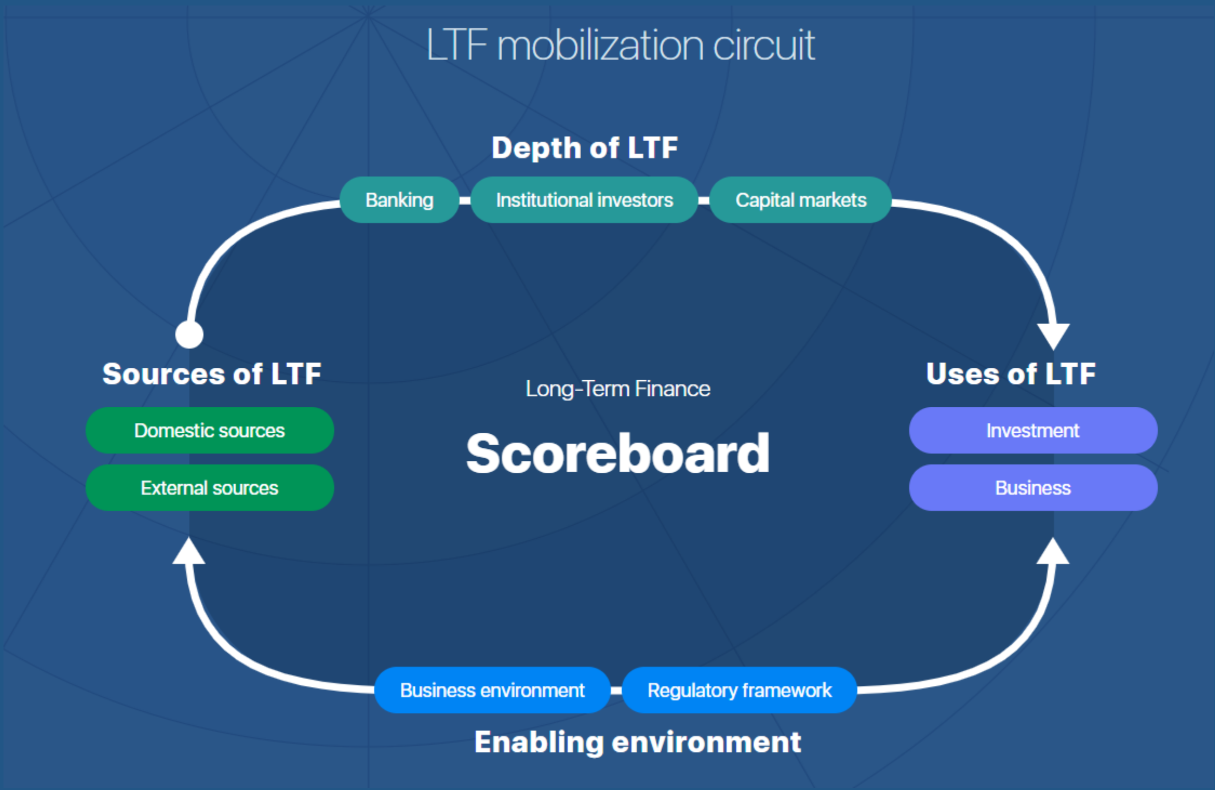
Africa Long-Term Finance Scoreboard

Data Collection Report

May 2021



Making Finance Work for Africa

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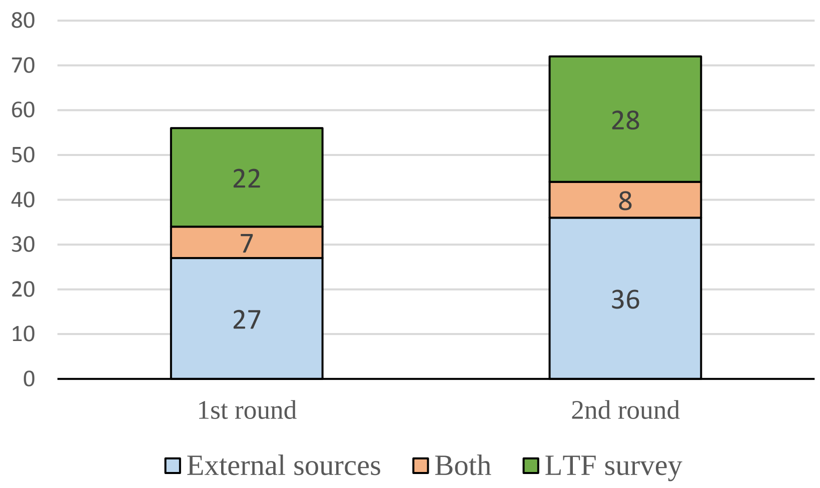
1. OVERVIEW

This report presents the Long-Term Finance (LTF) Scoreboard organizational framework and documents the progress made since the project was first launched in 2016. The LTF Scoreboard was developed as part of the LTF initiative, which is described fully in Section 2 of this report.

Data for the LTF Scoreboard were compiled from two different sources, namely: i) international databases (external sources) and ii) the LTF survey undertaken by the Statistics Department of the African Development Bank (AfDB). Relevant indicators with sufficient data availability in international databases were directly included in the Scoreboard, without any additional data collection effort. The LTF survey focused on data that were not available in international databases, or where data coverage in such databases was very limited. The survey was sent to focal points (coordinators appointed by Central Banks) across the 54 African countries. Data from both sources (i.e. international databases [external sources] and the LTF survey) were combined if data availability from either one of them was limited and if greater data coverage could be obtained by combining the two sources.

Since the inception of the LTF project, two rounds of data collection have been carried out. The first round covered the 2013–2017 period. In the second round, the number of indicators for the data collection was increased, and the period was extended to 2019. Figure 1 below depicts the number of indicators collected in each of the two rounds, disaggregated by the source of the data.

Figure 1: Number of indicators by data source; first and second rounds of data collection



Approximately half of the LTF indicators included in the Scoreboard were collected either through the survey alone, or through a combination of the LTF survey with existing external sources. As Figure 1 shows, the total number of indicators included in the LTF Scoreboard increased by almost 30% (from 56 to 72) between the first and the second rounds of data collection.

As described in sections 3 and 4 of this report, the Scoreboard distinguishes between four categories of indicators: (i) sources of long-term finance, both domestic and international; (ii) indicators of the size and liquidity (depth) of financial intermediaries and markets focused on long-term finance; (iii) uses of long-term finance based on household and enterprise surveys and other data sources; and (iv) indicators on the enabling institutional framework for long-term finance.

Figure 2 below shows how data collected through the LTF survey adds to the data coverage of other international databases, closing the gap in data availability between African countries, Latin America and Caribbean countries (LAC) and high-income OECD countries. For a selected number of indicators, the LTF survey (highlighted in green) assembles considerably more data than other international databases, including the World Bank's World Development Indicators (WDI), Bank for International Settlements (BIS), and the Intergovernmental Economic Organisation (OECD). Moreover, the LTF survey closes the existing gap in data availability relative to LAC countries. For some indicators, data coverage is comparable (or even exceeds) the data coverage of high-income OECD countries.

Figure 2. Long-Term Finance (LTF) data availability – added value of the LTF survey

This figure shows, for several indicators of LTF, the percentage of countries for which data are available through external sources (blue bars), and the additional percentage of countries for which data are available through the LTF survey (green color). Data availability is disaggregated for the regions of Africa; Latin America and Caribbean countries (LAC); and high-income OECD countries (HIC OECD).

Source Notes: World Development Indicators (WDI), Bank for International Settlements (BIS); Intergovernmental Economic Organisation (OECD).

Despite the progress made, this report shows that data availability is still limited for several indicators, especially for two categories, viz. "Depth of LTF" and "Uses of LTF." During the second round of data collection, a workshop with focal points was organized in Nairobi in February 2020. The objectives of this workshop were to promote the LTF initiative, present the results of the first round of data collection, obtain feedback on the LTF survey, and provide a forum to exchange experiences in the data collection process. The workshop was instrumental in increasing the response rate from focal points. Once circumstances allow, it is proposed that similar events be organized as an integral part of future rounds of data collection.

The data assembled on the LTF Scoreboard are to be found on the LTF Initiative website (https://altf.afdb.org/en/). The dedicated LTF website, launched in June 2021, provides information on the LTF Initiative, and includes both the LTF Scoreboard and the Country Diagnostics undertaken to date.

2. THE LTF INITIATIVE

This report was written in the context of the Africa Long-Term Finance Initiative, a joint initiative of the African Development Bank (AfDB), the Financial Sector Deepening Trust for Africa (FSDA), the German Federal Ministry of Economic Cooperation and Development (BMZ, implemented by GIZ), and the Making Finance Work for Africa (MFW4A) Partnership. Launched in 2017, the LTF initiative is hosted by the AfDB in Abidjan, Côte d'Ivoire.

While access to financial markets is far from universal across Africa, considerable progress has been made over the past decade, partly driven by financial innovation. Access to finance has been enhanced through traditional sources, predominantly banks and the deepening of short-term (mostly government) securities markets, as well as through the increasing prevalence and adoption of intermediation models pioneered by microfinance institutions, savings and credit cooperatives, agent banking, and mobile financial services. Less progress has been made, however, in developing long-term finance on the continent.

Against this backdrop, the LTF initiative's overarching objective is to boost the intermediation of long-term finance (LTF) in Africa to close the financing gap for firms[1] in order to increase their productive capacity, as well as for housing and infrastructure projects on the continent, which is a pressing need in view of increasing urbanization. This overarching objective will be accomplished through a two-pronged approach that aims to (i) improve market intelligence and development across Africa and (ii) provide impetus for effective reforms at the national level.

The first component is the new LTF Database and Scoreboard (the focus of this report). The purpose of this component is to enhance transparency about LTF in Africa and to benchmark specific indicators that will provide insight into the comparative level of development of LTF markets across the continent. The purpose is to inform policymakers, the private sector, donors and development institutions about the availability of LTF across Africa, to identify bottlenecks to further development of LTF, and to provide impetus for reform.

The second component takes the form of a series of country diagnostics. Going beyond comparative data, the country diagnostics provide in-depth analysis of LTF markets in individual jurisdictions. The diagnostics encompass enterprise finance with a focus on SMEs, housing finance, and infrastructure finance. The intention is to reveal strengths and weaknesses in the specific country context and to develop policy recommendations to improve the intermediation of LTF. The diagnostics follow a transaction-focused, bottom-up approach. The team has worked closely with private sector stakeholders to draw on their experience in servicing markets. The diagnostics also leverage international good practice from other developing and emerging countries to provide insights into innovative financing techniques relevant to the African context.

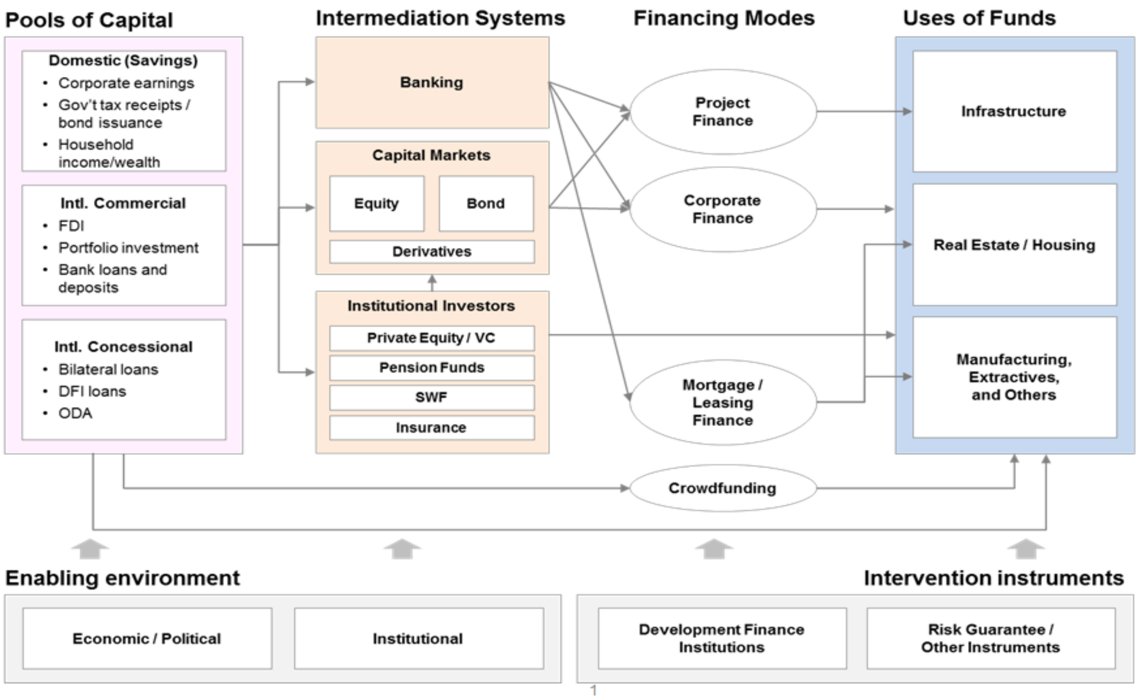
[1] Given that large firms are generally well-served by financial systems in Africa, the focus of the LTF initiative is on strengthening access to finance for small and medium-sized firms.

3. THE LTF SCOREBOARD

Figure 3 below sets out the organizational framework for the LTF Scoreboard. The left column categorizes various sources of capital, while the final column on the right presents the different uses of these funds. The two middle columns set out different modes of intermediation and financing. The intermediation process goes partly through capital markets (both public and private) and financial intermediaries (which partly use capital markets, as do for example mutual funds or insurance companies). Different intermediaries offer various types of products, ranging from deposit contracts in the case of banks, to contingent contracts for insurance companies, to equity shares for mutual funds. Some of the intermediaries are open to the public (most prominently banks), while others serve specific funding providers (e.g. sovereign wealth funds). Similarly, capital markets are organized according to different claims—equity, bonds, derivatives etc.

In terms of financing modes, these diverge according to the nature of the claim—debt, equity, or contingent. Claims may also be categorized by their use: corporate finance, project finance, and mortgage and leasing finance (which are parts of broader asset finance). Completely outside the traditional intermediation chain are peer-to-peer lending and crowd-funding platforms; these tools are still very much at a nascent stage, particularly as regards longer-term commitments. Beyond these formal intermediation systems and modes, there are numerous informal direct funding and intermediation systems, including financing by friends and families, credit cooperatives and moneylenders. Based on anecdotal evidence, most of this informal funding is short-term in nature.

Figure 3: LTF Scoreboard Framework



The LTF Scoreboard captures both the sources and uses of financing, thereby making it possible gauge where gaps may exist in long-term intermediation. Benchmarking the total volume of sources of long-term finance to a larger cross-country sample provides an upper limit in potential long-term funding and intermediation across countries in the region and, provided the data are available, with countries in other regions. This facilitates quantification of potential long-term funding gaps, while identifying private sector and public policy challenges in bridging such gaps. Similarly, benchmarking the uses of funds will be important in gauging the funding gap according to different uses (e.g., infrastructure gap, SME funding gap, mortgage gap, etc.). Identifying actual and potential gaps in funding sources can provide a more complete view on LTF demands and supply constraints faced by each country.

Underpinning an effective long-term finance system is the enabling environment, both economic/political and institutional. Macroeconomic stability—particularly to contain excessive government borrowing, which tends to crowd out credit to the private sector—is critical for the provision of long-term finance; but so too is political stability and a degree of political certainty. In terms of the institutional framework, an effective contractual and informational framework is critical for long-term finance.

In the absence of sufficient intermediation of long-term finance, governments and donors have a long history of interventions either (i) to support private provision of long-term finance or (ii) to directly substitute for non-existent private markets. Partial risk guarantees as well as refinancing facilities fall under the first category, while direct funding contributions and project guarantees provided by government capital budgets fall under the second category. Collecting data on these funding flows is important because such direct funding sources can be of a significant size in African economies compared to funds intermediated by financial markets. In addition, developing funding mechanisms and institutional capacity that leverages and strengthens utilization of these direct funding sources may well be the first step in deepening local markets for long-term finance.

Figure 4: LTF Scoreboard structure

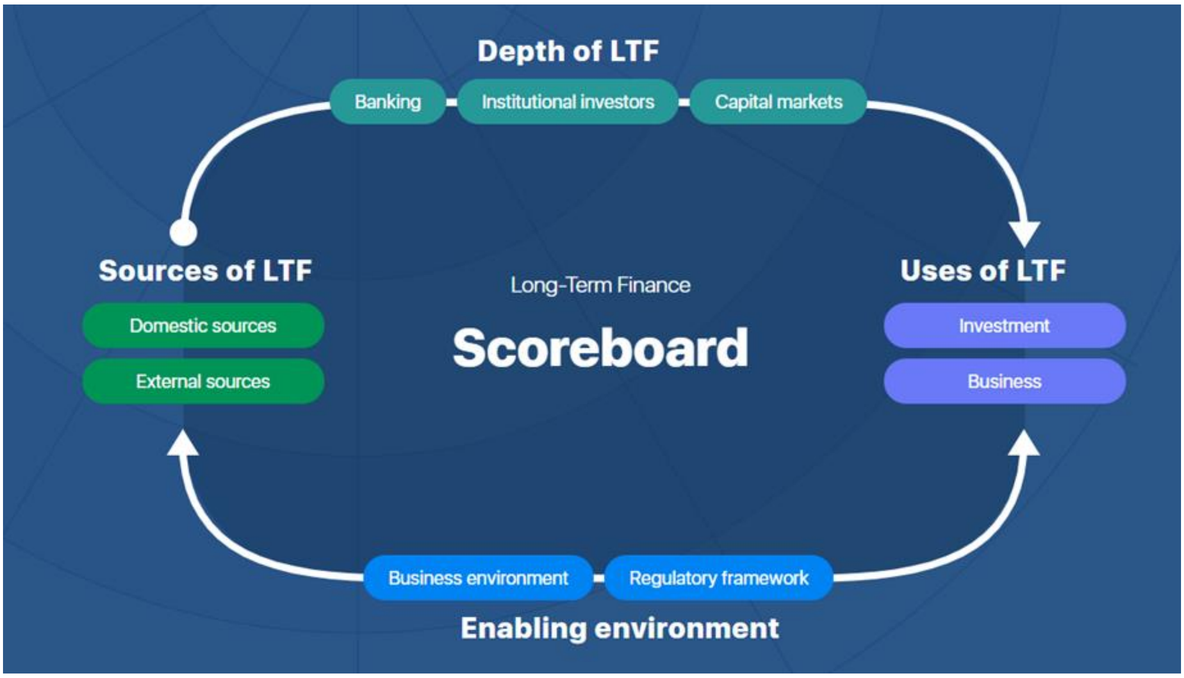


Figure 4 depicts the translation of the LTF Framework into the LTF Scoreboard, as presented on the LTF Initiative website. Each of the categories discussed above is further split into sub-categories that specify the type of data collected. “Sources of LTF” are split into domestic and foreign (external) sources. In the “Depth of LTF” category, we can distinguish between the banking sector, institutional investors, and capital markets. “Uses of LTF” can refer to investment or business activities. Finally, the “Enabling Environment” is composed of the business environment and the regulatory framework.

4. DATA COVERAGE

Currently, the LTF Scoreboard presents data on 72 indicators of Long-Term Finance across the four categories defined in Figure 4. Between the first and the second rounds of data collection, the total number of indicators included in the LTF Scoreboard increased by almost 30%, from 56 to 72 (see Table 1). In the first round of data collection, data for 27 indicators were retrieved from external data sources while data for 22 indicators came from the LTF survey, and data for 7 indicators were retrieved from a combination of both sources. In the second round of data collection, data for 36 indicators were retrieved from external data sources, data for 28 indicators from the LTF survey, and data for 8 indicators from a combination of both sources. Appendix 1 provides a detailed overview of the data availability, indicator definitions, and sources of data.

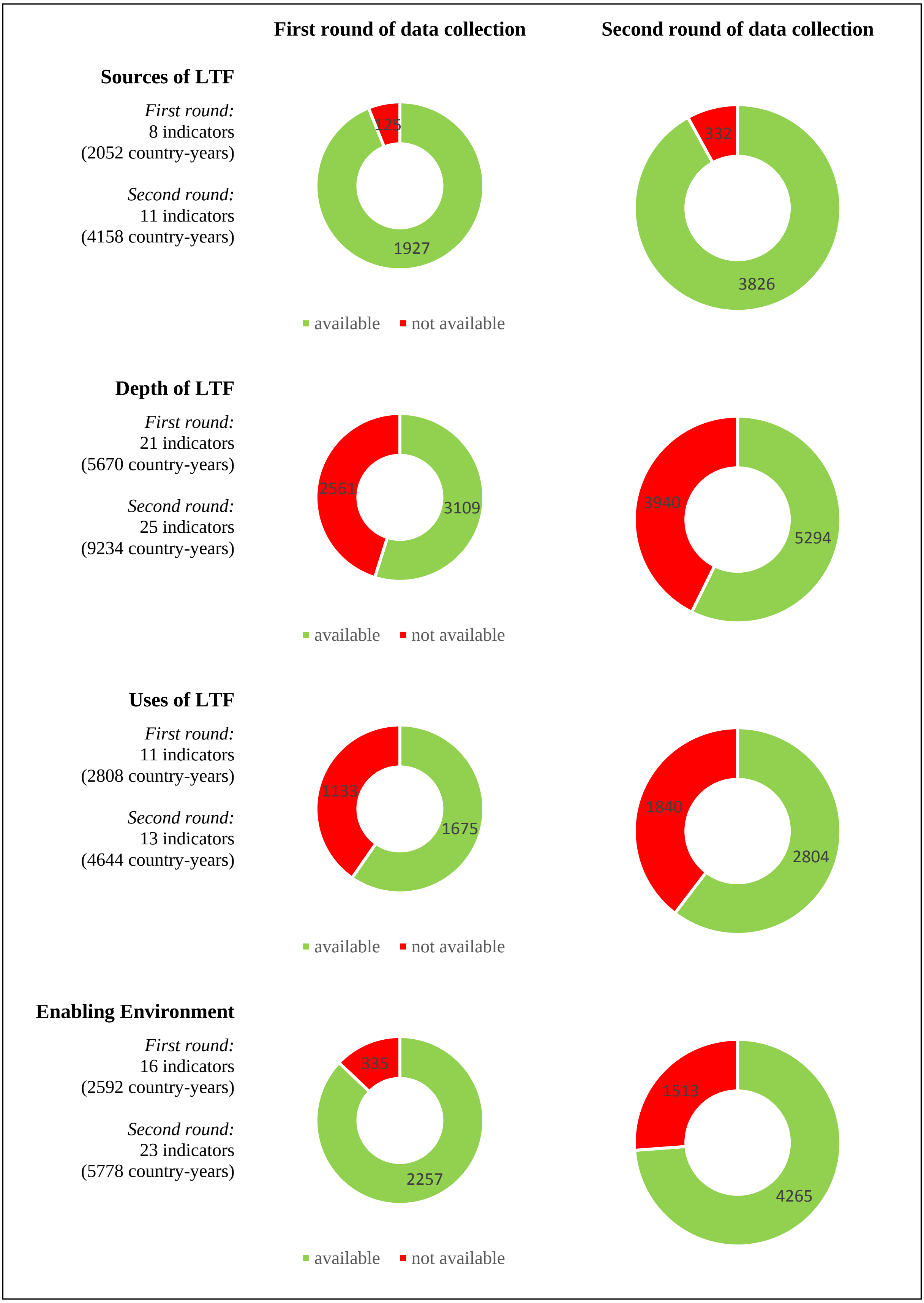
Table 1. Indicators and data sources

The table indicates, for each round of data collection and for each category of indicator, the number of indicators retrieved from the LTF Survey, external sources, and a combination of both.

1st round					
Data source	**Number of indicators**				
	Sources of LTF	**Depth of LTF**	**Uses of LTF**	**Enabling Environment**	**Total**
LTF survey	0	12	5	5	22
External sources	8	2	6	11	27
Both	0	7	0	0	7
TOTAL					**56**
2nd round					
Data source	**Number of indicators**				
	Sources of LTF	**Depth of LTF**	**Uses of LTF**	**Enabling Environment**	**Total**
LTF survey	0	15	5	8	28
External sources	11	3	8	14	36
Both	0	7	0	1	8
TOTAL					**72**

Figure 5 below summarizes the data coverage achieved in each of the two rounds of data collection, split by category. The figure depicts, for each of the four categories, the number of indicators and collectable data points based on the number of countries and years. The graphs show the number of data points: (i) where data are available (in green), and where data are unavailable (in red). The number of data points increased across all categories between the two rounds of data collection, due to an increase in the number of indicators collected and the extension of the collection period. The figure reveals that data coverage on “Sources of LTF” is very good, however for the other categories (particularly “Depth of LTF” and “Uses of LTF”) there remain significant gaps. This underlines the need for a continued effort in subsequent rounds of data collection.

Figure 5: Data coverage by round of data collection and by data category



The composition of the sources of data (external sources vs LTF survey) varies considerably across the different categories of data. Data on "Sources of LTF" were exclusively retrieved from external sources, whereas data on the "Depth of LTF" were predominantly retrieved from the LTF survey. Data on "Uses of LTF" and the "Enabling Environment" were retrieved from both sources.

Progress in the data collection efforts will be stepped up in future rounds of the LTF survey, guided by the following priority areas:

- Despite the inclusion of questions related to corporate bonds, insurance, leasing, mortgages, pension funds and mutual funds, the data coverage for the indicators in these areas is limited. An effort will be made to collect missing data in the next round of data collection.
- No data were collected about project finance. This area deserves more attention in the future.
- Data on private equity were shared by EMPEA/AVCA, a proprietary data source. Every effort will be made to continue this data sharing, and indeed to establish similar arrangements with other data providers. Featuring elements of such proprietary data sources on the LTF website will serve to increase users' interest in exploring these sources.
- Data on some indicators of investment collected from the World Bank Enterprise Surveys database were discontinued after the first round of data collection. These indicators were substituted by similar indicators, but coverage remains limited. In future rounds of data collection, such indicators will be included in the LTF survey.
- An effort will be made to record the date regulations were introduced in the "Enabling Environment" category, in order to create a time series for such data.
- At present the Scoreboard only includes current credit ratings. In the next round of data collection, an effort will be made to retrieve past credit ratings.
- The Doing Business database uses a reviewed methodology in defining indicators. The Doing Business database documents how discontinued indicators are substituted with similar indicators. A similar strategy will be applied to the indicators used in the LTF Scoreboard.

APPENDIX I. Detailed data coverage

Panel A. Sources of Long-Term Finance

Table A. 1. Second round data collection—data coverage

This table shows, for each indicator included in the second round of the Scoreboard, the number of countries for which data were available in the 2013-2019 period. The indicators written in red are indicators added in the second round of data collection. The green color indicates that data are available for more than two-thirds of the countries. The yellow color indicates that data are available for between one-third and two-thirds of the countries. The red color indicates that data are available for less than one-third of the countries. Darker shades of each color indicate that the number of countries covered has increased between the first and the second round of data collection.

Category	**Indicator**	2013	2014	2015	2016	2017	2018	2019
Domestic Sources	Population	54	54	54	54	54	54	54
	GDP growth	54	54	54	54	54	54	54
	GDP	54	54	54	54	54	54	54
	Gross Domestic Savings	54	54	54	54	54	54	54
Foreign Sources	Remittances inflow	47	47	47	47	47	47	39
	Foreign Direct Investment (FDI)	54	53	53	53	53	53	53
	Official Development Finance (ODF)	54	54	54	54	54	54	54
	Cross-border lending (CBL)	54	54	54	54	54	54	54
	External debt	52	52	52	52	52	52	52
	Long-term external debt	49	49	49	49	49	49	47
	Share of private external debt	22	24	23	23	23	23	22

Table A. 2. Indicator definitions and data sources

Sub-category	Indicator	Definition	Data Source
Domestic Sources	Population	Number of country residents (in millions). This measure is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship. The values shown are midyear estimates.	AfDB (Statistics Department)
	GDP growth	Annual growth of Gross Domestic Product (in %). GDP growth measures the rate of increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percentage rate of increase in real Gross Domestic Product, or real GDP.	AfDB (Statistics Department)
	GDP	Gross Domestic Product expressed in billions of current USD. Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a specific time period.	AfDB (Statistics Department)
	Gross Domestic Savings	Gross Domestic Savings as a percentage of GDP ratio. Gross National Savings is gross disposable income less final consumption expenditure. For many countries, the estimates of National Savings are derived from national accounting data and from data on the balance of payments.	AfDB (Statistics Department)
Foreign Sources	Remittances inflow	Inward remittances as a percentage of GDP. Remittances represent household income sent from foreign economies arising mainly from the temporary or permanent movement of people to those economies.	UNCTAD
	Foreign Direct Investment (FDI)	Foreign Direct Investment as a percentage of GDP. Foreign Direct Investment (FDI) is an investment made by an investor in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company.	UNCTAD
	Official Development Finance (ODF)	Official Development Finance as a percentage of GDP ratio. Official Development Finance (ODF) measures the inflow of Official Development resources to recipient countries. ODF includes (a) bilateral official development assistance (ODA), (b) grants and concessional and non-concessional development lending by multilateral financial institutions, and (c) Other Official Flows provided for development purposes which have too low a grant element to qualify as ODA.	OECD
	Cross-border lending (CBL)	Outstanding amount of Cross-Border Lending as a percentage of GDP. Cross-border financing refers to any financing arrangement that crosses national borders, and includes cross-border loans, letters of credit, and banker's acceptances. Claims on an ultimate risk basis / Amounts outstanding.	BIS
	External debt	(Current USD) Total external debt covers the external debt stock of the public sector and the private sector of an economy. It is often referred to as "total external debt liabilities" and consists of all liabilities that are debt instruments as a financial claim by non-resident holder/creditor.	World Bank (International Debt Statistics)
	Long-term external debt	(Share of total external debt, %) Long-term external debt is debt stocks that have an original or extended maturity of more than one year. It has three components: public, publicly guaranteed, and private nonguaranteed debt.	World Bank (International Debt Statistics)
	Share of private external debt	(Share of total external debt, %) Private nonguaranteed external debt comprises long-term external obligations of private debtors that are not guaranteed for repayment by a public entity.	World Bank (International Debt Statistics)

Panel B. Depth of Long-Term Finance

Table B. 1. Second round of data collection – data coverage

This table shows, for each indicator included in the second round of the Scoreboard, the number of countries for which data were available in the 2013-2019 period. The indicators highlighted in blue were collected through the LTF survey (dark blue: complemented with other sources). The indicators in red were added in the second round of data collection. The green color indicates that data are available for more than two-thirds of countries. The yellow color indicates that data are available for between one-third and two-thirds of countries. The red color indicates that data are available for less than one-third of the countries. Darker shades of color indicate that the number of countries covered increased between the first and second rounds of data collection. Lighter shades of color indicate that the number of countries covered decreased between the first and second rounds of data collection.

Sub-category	Indicator	2013	2014	2015	2016	2017	2018	2019
Banking	Commercial banks' assets	35	43	43	43	43	22	14
	Private credit	50	50	50	49	49	49	42
	Long-term credits	31	36	37	37	37	27	24
	Share of long-term credits	31	36	37	37	37	27	24
	Share of medium & long-term credits	31	36	37	37	37	27	24
	Long-term deposits	43	48	48	48	42	34	32
	Share of long-term deposits	41	47	47	47	43	34	32
	Borrowers from commercial banks	32	33	35	33	32	28	14
Institutional Investors	Insurance companies' assets	41	42	41	41	38	30	28
	Insurance companies' long-term assets	22	34	34	35	35	30	25
	Insurance penetration	37	41	42	41	41	30	32
	Life insurance business	31	36	39	38	37	25	29
	Life insurance penetration	31	36	39	38	37	25	29
	Pension funds' assets	14	19	18	32	32	29	24
	Share of pension funds' long-term assets	5	7	7	23	23	19	17
Capital Markets	Government bond market capitalization	43	43	43	43			
	Government bond issuance	43	43	43	43	43	43	43
	Volume of government bonds	43	43	43	43	43	43	43
	Corporate bond market capitalization	8	8	8	8			
	Stock market capitalization	47	44	44	44	44	40	40
	Stock market turnover	30	30	30	30	30	20	19
	Listed firms	36	36	36	36	36	37	39
	Stock market' top 10 firms	10	10	10	10	10	7	8
	Private equity raised	19	19	18	16	10		
	Private equity deals	22	25	23	21	17		

Table B. 2. Indicator definitions and data sources

Sub-category	Indicator	Description	Data Source
Banking	Commercial banks' assets	Commercial banks' assets as a percentage of GDP.	LTF Survey
	Private credit	Private credit as a percentage of GDP ratio. Private credit refers to financial resources provided to the private sector by the financial system, such as through loans, purchases of non-equity securities, trade credits and other accounts receivable, that establish a claim for repayment.	LTF Survey & international databases
	Long-term credits	Long-term credits as a percentage of GDP. Long-term credits are banking system credits with a maturity of more than five (05) years.	LTF Survey
	Share of long-term credits	Long term credits (maturity > 5 years) as a percentage of total banking system credits	LTF Survey
	Share of medium & long-term credits	Medium & long- term credits (maturity > 1 year) as a percentage of total loans. Medium & long-term credits are banking system credits with a maturity of more one (01) year.	LTF Survey
	Long-term deposits	Long-term deposits as percentage of GDP ratio. Long-term deposits of a banking system are time and saving deposits	LTF Survey
	Share of long-term deposits	Share of long-term deposits as a percentage of total banking system deposits.	LTF Survey
	Borrowers from commercial banks	Borrowers from commercial banks are the reported number of resident customers that are nonfinancial corporations (public and private) and households who obtained loans from commercial banks and other banks functioning as commercial banks. For many countries, data cover the total number of loan accounts due to lack of information on loan account holders.	World Bank (WDI Database)
Institutional Investors	Insurance companies' assets	Insurance companies' assets as a percentage of GDP.	LTF Survey
	Insurance companies' long-term assets	Share (in %) of long-term assets in insurance companies' portfolios. Proportion of long-term assets in insurance companies' investments.	LTF Survey
	Insurance penetration	Ratio of gross insurance premium written to GDP (in %). The penetration rate reflects the level of development of the insurance sector in a country measured as the ratio of premium underwritten as a percentage of GDP.	LTF Survey
	Life insurance business	Share of life insurance business in total insurance activity (in %). Share of life-insurance business is the proportion of life insurance premiums in total insurance premiums.	LTF Survey
	Life insurance penetration	Ratio of gross life-insurance premium written to GDP (in %). Penetration rate reflects the level of development of the life-insurance sector in a country measured as the ratio of gross life-insurance premium written to GDP.	LTF Survey
	Pension funds' assets	Pension funds' assets as a percentage of GDP.	LTF Survey
	Share of pension funds' long-term assets	Share (in %) of long-term assets in pension funds' portfolio. It indicates the proportion of long-term assets in pension funds' investments.	LTF Survey

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Table B.2. Indicator definitions and data sources (cont.)

Sub-category	Indicator	Description	Data Source
Capital Markets	Government bond market capitalization	Government bond market capitalization as a percentage of GDP. A government bond or sovereign bond is a bond issued by a national government, generally with a promise to pay periodic interest or coupon payments and to repay the face value on the maturity date. Government bond market capitalization refers to the total market value of outstanding government bonds.	LTF Survey & international databases
	Government bond issuance	Government bond issuance as a percentage of GDP. Volume of government bonds issued during a particular period.	LTF Survey
	Volume of government bonds	Outstanding volume of government bonds as a percentage of GDP.	LTF Survey
	Corporate bond market capitalization	Outstanding value of corporate bonds issued as a percentage of GDP. Corporate bonds are issued by companies to raise capital. Corporate bond market capitalization refers to the total market value of companies' outstanding bonds.	LTF Survey & international databases
	Stock market capitalization	Outstanding value of issued equities as a percentage of GDP. Market capitalization is the total outstanding value of equities issued by enterprises on the local stock exchange.	LTF Survey & international databases
	Stock market turnover	Total value of shares traded as a percentage of total equity market capitalization. Total value of shares traded divided by the average market capitalization.	LTF Survey & international databases
	Listed firms	Number of listed firms on the local equity market.	LTF Survey & international databases
	Stock market top 10 firms	Share of top 10 firms in market capitalization (in %). The market capitalization of the top ten companies as a percentage of total market capitalization.	LTF Survey & international databases
	Private equity raised*	Private equity raised as a ratio of GDP (in %). Private equity financing is the process of raising capital through the sale of shares.	EMPEA/AVCA
	Private equity deals*	Number of private equity deals per year. Private equity is issued by investment partnerships as stakes in a selection of corporations. Private equity is unlisted equity that is not readily publicly traded on a stock exchange.	EMPEA/AVCA

Panel C. Uses of Long-Term Finance

Table C. 1. Second round of data collection—data coverage

This table shows, for each indicator included in the second round of the Scoreboard, the number of countries for which data are available in the 2013-2019 period. The indicators highlighted in blue are collected through the LTF survey (dark blue: complemented with other sources). The indicators written in red were added in the second round of data collection. The green color indicates that data are available for more than two-thirds of countries. The yellow color indicates that data are available for between one-third and two-thirds of countries. The red color indicates that data are available for less than one-third of countries. Darker shades indicate that the number of countries covered increased between the first and the second rounds of data collection. Lighter shades indicate that the number of countries covered decreased between the first and the second rounds of data collection.

Sub-category	**Indicator**	2013	2014	2015	2016	2017	2018	2019
Investment	Gross Fixed Capital Formation	50	50	50	50	50	50	50
	Infrastructure development	54	54	54	54	54	54	54
	Private Participation in Infrastructure (PPI)	54	54	54	54	54	54	54
	Mortgage penetration	16	24	24	24	24	18	22
	Crowd-funding volume	0	0	46	46	46	46	46
	Adults with loans for home purchase	-	36	-	-	39	-	-
Business	Agricultural loans	37	45	45	47	47	33	26
	Manufacturing loans	37	45	45	47	47	33	26
	Non-Manufacturing loans	37	45	45	47	47	33	26
	Services loans	37	45	45	47	47	33	26
	Firms using banks to finance investment	14	8	1	9	3	4	3
	Collateral to loan ratio	10	8	1	8	3	4	3
	Access to finance	15	8	1	9	3	4	3

Table C. 2. Indicator definitions and data sources

Sub-category	Indicator	Description	Data Source
Investment	Gross Fixed Capital Formation (GFCF)	Gross fixed capital formation (GFCF) as a percentage of GDP. GFCF is defined as the acquisition of productive assets, i.e. those assets that come into existence as a result of a production process.	AfDB (Statistics Department)
	Infrastructure development	Africa Infrastructure Development Index (AIDI) (0-100). The AIDI is a statistical indicator computed annually by the Statistics Department of AfDB to monitor the status and progress of infrastructure development across the continent. The AIDI is based on four major components: (i) Transport; (ii) Electricity, (iii) ICT, and (iv) Water & Sanitation. These components are disaggregated into 9 indicators that have a direct or indirect impact on productivity and economic growth.	AfDB (Statistics Department)
	Private Participation in Infrastructure (PPI)	Volume of private participation in infrastructure as a percentage of GDP. The term Private Participation in Infrastructure Projects (PPI projects) is used by a number of institutions to mean any modality of private investment and/or private management of infrastructure. Note that the PPI database used includes PPP projects, but also other projects and contracts with private participation that are not regarded as PPPs.	World Bank PPI Database
	Mortgage penetration	Ratio of outstanding housing loans to GDP (in %). The penetration rate reflects the level of development of the mortgage market in a country, measured as the ratio of mortgage volume credits as a percentage of GDP.	LTF Survey
	Crowd-funding volume	Crowd-funding raised as a percentage of GDP. Crowd-funding is the use of small amounts of capital from a large number of individuals to finance new business ventures. Crowd-funding makes use of social media and websites to match a large number of small investors with entrepreneurs, thereby increasing entrepreneurship by expanding the pool of investors beyond the traditional circle of owners, relatives and venture capitalists.	Allied Crowds
	Adults with loans for home purchase	Ratio of adults with loans for home purchase as a percentage of the population. Observed proportion of adults with a home loan funded by the national (or as applicable sub-regional) financial system.	Global Findex
Business	Agricultural loans	Loans to agricultural sector as a percentage of the bank's total lending.	LTF Survey
	Manufacturing loans	Loans to manufacturing sector as a percentage of the bank's total lending.	LTF Survey
	Non-Manufacturing loans	Loans to construction sector and mining & extractive industries as a percentage of the bank's total lending.	LTF Survey
	Services loans	Loans to services activities as a percentage of the bank's total lending.	LTF Survey
	Firms using banks to finance investment	Percentage of firms using banks to finance working capital.	World Bank (Enterprise surveys)
	Collateral to loan ratio	Value of collateral needed for a loan (% of the loan amount).	World Bank (Enterprise surveys)
	Access to finance	Percentage of firms identifying access to finance as a major constraint.	World Bank (Enterprise surveys)

Panel D. Indicators for the Enabling Environment

Table D. 1. Second round of data collection – data coverage

This table shows, for each indicator included in the second round of the Scoreboard, the number of countries for which data were available in the 2013–2019 period. The indicators highlighted in blue are collected through the LTF Survey (dark blue: complemented with other sources). The indicators in red were added in the second round of data collection. The green color indicates that data are available for more than two-thirds of countries. The yellow color indicates that data are available for between one-third and two-thirds of countries. The red color indicates that data are available for less than one-third of countries. Darker shades of each color indicate that the number of countries covered increased between the first and the second rounds of data collection. Lighter shades indicate that the number of countries covered decreased between the first and the second rounds of data collection.

Sub-category	**Indicator**	2013	2014	2015	2016	2017	2018	2019
Business Environment	Moody's ratings	-	-	-	-	-	-	10
	S&P ratings	-	-	-	-	-	-	21
	Fitch ratings	-	-	-	-	-	-	25
	Inflation	54	54	54	54	54	54	54
	Deposit Interest rates	33	41	42	42	43	42	41
	Lending Interest rates	45	45	44	44	45	37	36
	Mortgage interest rates	12	15	15	15	15	10	11
	Strength of minority investor protection	54	54	54	54	54	54	54
	Depth of credit information	54	54	54	54	54	54	54
	Cost of contract enforcement	54	54	54	54	54	54	54
	Recovery rate in insolvency	54	54	54	54	54	54	54
	Enforcing contracts	54	54	54	54	54	54	54
	Getting credit	54	54	54	54	54	54	54
	Protection of minority investors	54	54	54	54	54	54	54
	Registering property	54	54	54	54	54	54	54
	Access to finance	15	8	1	9	3	4	3
	Loans requiring collateral	10	8	1	8	3	4	3
Regulatory Framework	Existence of property registry	-	-	-	-	-	-	27
	Auditing and accounting standards	-	-	-	-	-	-	37
	Existence and extent of guarantee schemes targeted at long-term finance	-	-	-	-	-	-	38
	Restrictions on insurance companies' long-term investments	-	-	-	-	-	-	42
	Restrictions on pension funds' long-term investments	-	-	-	-	-	-	27
	Existence of PPP legislation	-	-	-	-	-	-	45

Table D. 2. Indicator definitions and data sources

Sub-category	Indicator	Description	Data Source
Business Environment	Moody's ratings	Assessment of the creditworthiness of a country A sovereign rating is an independent assessment undertaken by a credit rating agency of the creditworthiness of a country or sovereign entity. Sovereign credit ratings are used by investors to provide insight into the level of risk associated with investing in the debt of a particular country, including any political risk.	Moody's
	S&P ratings		Standard & Poor's
	Fitch ratings		Fitch
	Inflation	Annual inflation rate (%). Refers to an overall increase in the Consumer Price Index (CPI), which is a weighted average rate of inflation of prices for different goods. Annual inflation refers to the percentage change of the CPI compared to the previous year.	AfDB (Statistics Department)
	Deposit interest rate	Deposit interest rate is the rate paid by commercial or similar banks for demand, time, or savings deposits. The terms and conditions attached to these rates differ by country, however, limiting their comparability.	World Bank (WDI & LTF Survey)
	Lending interest rate	Average interest rate (weighted) on bank loans. Lending rate is the bank rate that usually meets the financing needs of the private sector. This rate is normally differentiated according to loan maturity, the creditworthiness of borrowers and objectives of financing. The terms and conditions attached to these rates differ by country, however, limiting their comparability.	LTF Survey
	Mortgage interest rate	Average interest rate charged on a housing loan used to purchase a piece of property. Mortgage interest compounds may be either fixed or variable. The majority of a borrower's payment goes toward mortgage interest in the earlier part of the loan.	World Bank (Doing Business Database)
	Strength of minority investor protection	The strength of minority investor protection index is the sum of the extent of disclosure index, extent of director liability index, ease of shareholder suits index, extent of shareholder rights index, extent of ownership and control index and extent of corporate transparency index.	World Bank (Doing Business Database)
	Depth of credit information	The score for the depth of credit information benchmarks economies with respect to the regulatory best practice on the indicator. The score is indicated on a scale from 0 to 100, where 0 represents the worst regulatory performance and 100 the best regulatory performance.	World Bank (Doing Business Database)
	Cost of contract enforcement	(Index or score) The score for the cost of contract enforcement benchmarks economies with respect to the regulatory best practice on the indicator. The score is indicated on a scale from 0 to 100, where 0 represents the worst regulatory performance and 100 the best regulatory performance.	World Bank (Doing Business Database)
	Recovery rate in insolvency	(Index or score) The score for recovery rate benchmarks economies with respect to the regulatory best practice on the indicator. The score is indicated on a scale from 0 to 100, where 0 represents the worst regulatory performance and 100 the best regulatory performance.	World Bank (Doing Business Database)
	Enforcing contracts	The score for enforcing contracts is the simple average of the scores for each of the component indicators: the time and cost for resolving a commercial dispute through a local first-instance court, as well as the quality of judicial processes that promotes quality and efficiency in the court system.	World Bank (Doing Business Database)
	Getting credit	(Index or score) Measures the ease with which enterprises are able to access credit topic reflecting the legal rights of borrowers and lenders with respect to secured transactions through one set of indicators and the reporting of credit information through another.	World Bank (Doing Business Database)
	Protection of minority investors	(Index or score) Measures the protection of minority investors from conflicts of interest through one set of indicators and shareholders' rights in corporate governance through another.	World Bank (Doing Business Database)

(continues on next page)

Table D.2: Indicator definitions and data sources (cont.)

Sub-category	Indicator	Description	Data Source
Business Environment	Registering property	The score for registering property is the simple average of the scores for each of the component indicators: the procedures, time, cost to transfer property between two local companies, as well as the quality of land administration index that evaluates the reliability of infrastructure, transparency of information, geographic coverage, land dispute resolution and equal access to property rights.	World Bank (Doing Business Database)
	Access to finance	Percentage of firms identifying access to finance as a major constraint.	World Bank (Enterprise surveys)
	Loans requiring collateral	Proportion of loans requiring collateral (%).	World Bank (Enterprise surveys)
Regulatory Framework	Existence of property registry	Existence or not in the country of a property register (1 if yes).	LTF Survey
	Auditing and accounting standards	Usage or not of auditing and accounting standard (IAS / IFRS). Provides indication on the adoption / application of accounting and auditing standards (1 if yes).	LTF Survey
	Existence and extent of guarantee schemes targeted at long-term finance	Existence or not in the country of guarantee schemes for long-term finance (1 if yes).	LTF Survey
	Restrictions on insurance companies' long-term investments	Existence or not of particular restrictions on the long-term investments of insurance companies (1 if yes).	LTF Survey
	Restrictions on pension funds' long-term investments	Existence or not of particular restrictions on the long-term investments of pension funds (1 if yes).	LTF Survey
	Existence of PPP legislation	Existence or not in the country of a legislation on Public-Private Partnerships PPPs, either through a specific law or covered by the investment code (1 if yes / 0 if no / n.a. if no information). -	LTF Survey

APPENDIX 2. What do we mean by LTF and why does it matter?

Long-Term Finance (LTF) relates to funding to support medium-term and long-term investments by enterprises, households, and governments in a country's real economy. Long-Term Finance is typically defined according to a specific threshold maturity. In practice, however, the notion of LTF has different meanings for different markets. As an orientation, the minimum threshold for long-term financing as applied to the enterprise sector could be one year, whereas for investments in the housing and infrastructure sector the relevant thresholds could be 15 years. However, even within sectors, different types of assets require different loan tenors. Therefore, this report adopts a flexible definition of LTF based on the underlying asset: Financing is considered long-term if funding tenors match the lifetime of the productive assets being financed. In any event, the ambition is to lengthen maturities to achieve congruence between financing and asset life.

Long-Term Finance matters because it funds economic growth. Whereas the emphasis of policymakers and the donor community during recent decades has predominantly been on enhancing financial inclusion, a growing realization is that inclusion is only one side of the coin. As much as inclusion is important in reaching the marginalized or informal economy and in providing short-term loans as working capital for firms, long-term financing is needed to support the growth of productive activities in key economic sectors. Longer-term investments support growth by reducing costs (such as for transport and communication),[2] thus increasing productivity and competitiveness and creating jobs.

LTF also matters because it reduces risks and improves the affordability of investments. It is desirable that the maturity of financing approximates the economic life of the underlying asset. Where this is not the case, investors, firms, and projects are exposed to both liquidity and interest rate risks that may severely constrain investment. Providing long-term financing for investment projects is also essential to achieving affordability—whether in providing infrastructure services to consumers or in facilitating enterprise finance and mortgage finance. Long tenors reduce annual debt service and allow projects to have a development or "ramp up" period before starting debt repayment. Loans to finance hydroelectric projects or toll roads, for example, require 15 years or longer so that the amortization of the loan to pay the capital cost of the project covers a long-enough period to result in an affordable tariff to end-consumers. In the housing sector, a common practice is that developers offer rent-for-sale contracts instead of mortgage finance. In a rent-for-sale scheme, the developer retains the ownership of the property until the renter has paid for the full value of the property, rather similar to a leasing arrangement.

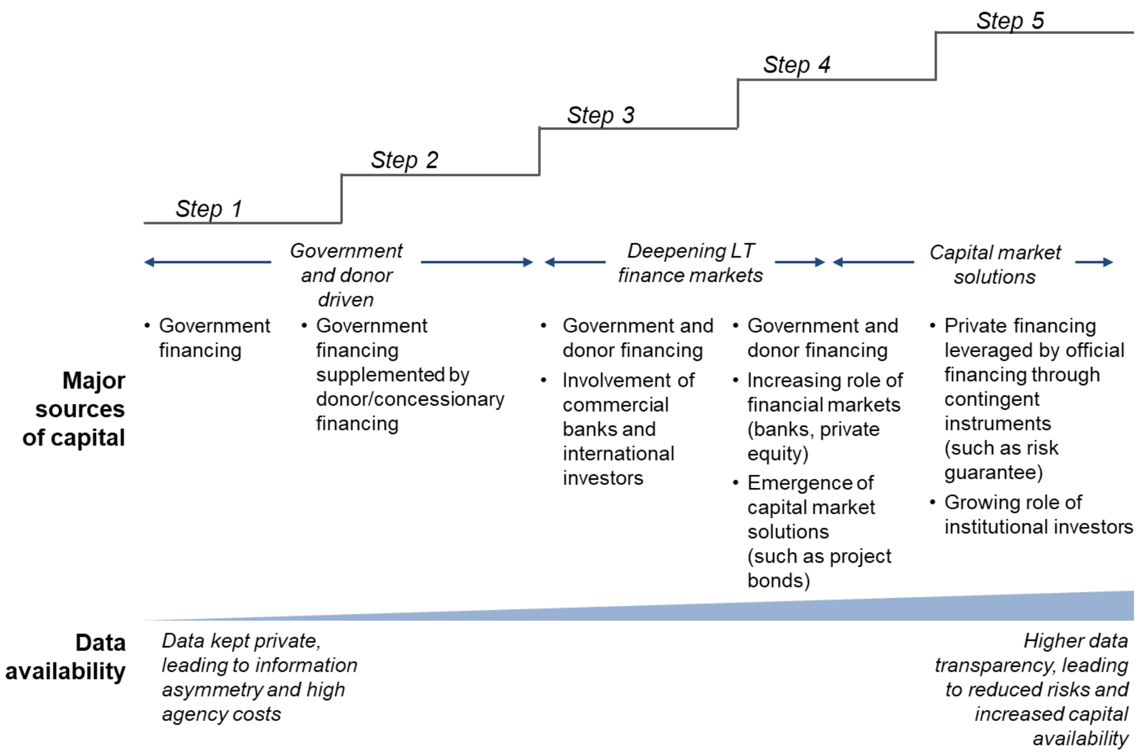
The focus of this initiative is primarily on deepening the domestic market for LTF. Although deepening domestic markets is a medium- to long-term endeavor, it is fundamental both to enhancing domestic saving and the efficient deployment of scarce domestic resources, and to reducing exposure to potential foreign exchange risks. Even though developing

[2] The current lack of or poor quality of infrastructure drives up the cost of doing business and poses a severe impediment to economic diversification and growth. According to the United Nations Economic Commission for Africa, the continent's infrastructure deficit lowers Africa's per capita economic growth by 2% a year and firm productivity by 40%t. UNECA, *Economic Report on Africa 2012: Unleashing Africa's Potential as a Pole of Global Growth* (Addis Abba, Ethiopia: UNECA, 2012).

economies will continue to rely on foreign capital resources as an important source of investment financing for the foreseeable future, strengthening the domestic financial system, particularly the enabling environment and institutional infrastructure, will be important both in gradually increasing the depth of local markets and reliance on domestic funding sources, and in attracting foreign sources of capital, such as foreign direct investment and portfolio investments.

This progression toward greater reliance on domestic markets in financing infrastructure is illustrated by the funding escalator in Figure A.1., which shows that reliance on government financing gradually declines in line with the deepening and diversification of local financial markets**.** Governments can support the development of local sources of long-term finance for infrastructure by strengthening the local legal, regulatory, and institutional environment. Governments and donors alike may also need to revisit their role in development finance to ensure that scarce public resources are used as effectively as possible in catalyzing private funding, rather than being used to directly fill financing gaps. Prudence in using fiscal resources is also crucial in supporting government efforts to keep public debt levels manageable. Because of risk aversion, banks prefer to invest in "risk-free" government securities rather than lend to the private sector, and where governments' domestic borrowing is excessive, it tends to crowd out bank lending to the private sector, thereby stalling the process of financial sector deepening and of establishing sustainable domestic solutions in the long term.

Figure A. 1. The infrastructure funding escalator



Source: Author's illustration.

Note: LT = long term.

Eventually, in moving up the escalator, lenders will be able to place greater reliance on capital markets as a funding source. However, in the short to medium term, recourse to capital markets will be associated with considerable challenges relating to (a) high preparatory costs arising from the need to corporatize the issuing entity and prepare relevant disclosures to potential investors (such as audited financial statements), (b) regulatory reforms (e.g. sanctioning the adjustment of tariffs to ensure cost recovery), (c) the small size of the investor base, and (d) significant issuance costs (in terms of preparing a prospectus, paying fees to the exchange, arranging for a bank, and so on). In addition, the advantages of issuing on the quoted market may be compromised because of the absence of market liquidity.

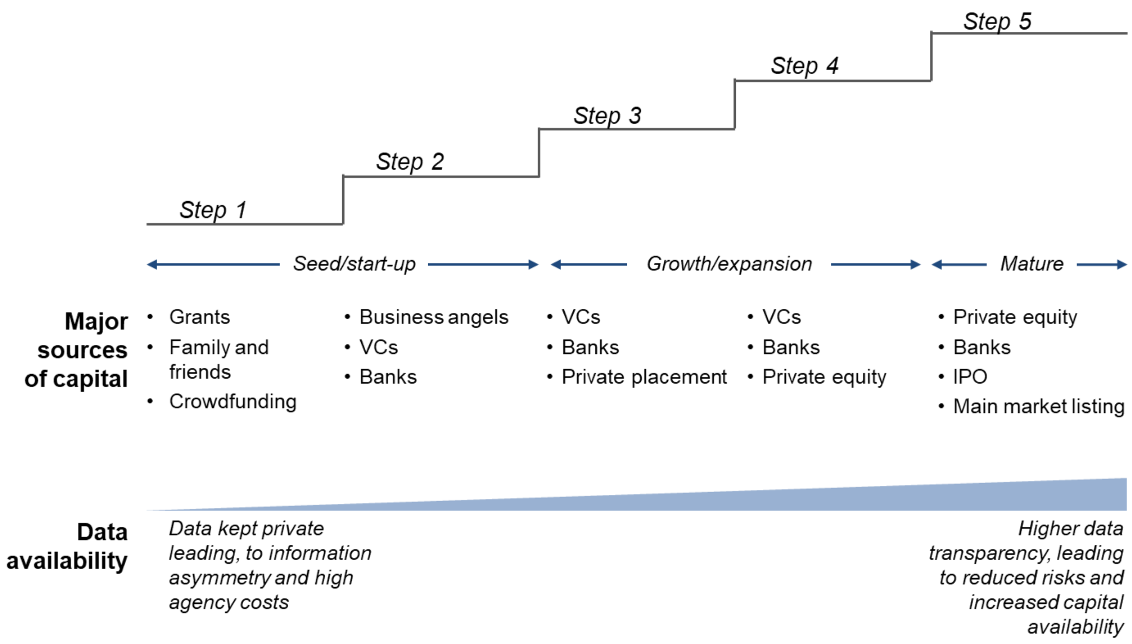
Small and medium-sized enterprises face serious challenges in accessing adequate long-term financing. Because the vast majority of SMEs do not produce audited financial statements that yield credible financial information, asymmetric information is a serious problem for SMEs, more so than for larger firms. Furthermore, the line of demarcation between the finances of the owner(s) and those of the business is often blurred in smaller firms. In addition, the ability of lenders to assess the business prospects of the activities undertaken by their borrowers (the principal-agent problem inherent in all financing operations) is particularly acute in the case of SMEs, which may undertake projects that lenders deem to be excessively risky. Against this backdrop the lack of credit histories and collateral often results in severe credit constraints for SMEs. Due to limits to the enforceability of contracts, collateral requirements often exceed the value of the loan. When a loan cannot be repaid, the lender invariably encounters problems liquidating the collateral and lengthy procedures for resolution of disputes.

In an analogy to the funding of infrastructure, a progression of the long-term finance market can be observed in enterprise finance. Rather than seeking funding on formal markets, SMEs may need to rely on funding provided by family and friends, although this is unlikely to be sufficient in size and maturity to satisfy their investment needs. Nonetheless, among policymakers the tendency has been to focus on the establishment of formal banking markets. When it comes to capital markets, policy implementation has often been focused on formal markets, and officials have not actively sought to promote the provision of a continuum of informal and formal, private, and public financing vehicles. A comprehensive review of the World Bank's approach to capital market development in 2016 found that equity market interventions, particularly when targeted at listing local SMEs on the stock exchange, had only limited success.[3]

A more diversified set of options for SME financing is required to support long-term investment. Making a dent in filling the gap in long-term financing is unlikely to take place on listed public markets. Rather, financing is likely to be generated through unlisted instruments and alternative sources of finance—for example, project bonds for infrastructure projects or, given the right incentives, through private equity or subordinated debt for SMEs. Figure A.2. illustrates how various sources of finance progressively become more available at various stages of market development. The evolution ranges from funds provided by family and friends, angel investors, and venture capital at one end to private equity and listed instruments at the other end of the spectrum.

Figure A. 2. The enterprise funding escalator

[3] World Bank Group, *The World Bank Group's Support to Capital Market Development* (Washington, DC: World Bank, 2016), p. 120. The report finds that the "costs of the traditional model of being a 'public, listed company' are inherently too high for most small businesses."



Source: Author's illustration.
Note: VC = venture capital; IPO = initial public offering.

Government interventions in the financing of SMEs take a different form than in the infrastructure sectors. Experience suggests that providing direct funding to SMEs is unlikely to be a sustainable approach, mostly because public institutions have difficulty assessing credit risks and implementing commercially sustainable lending practices. In recent years, governments have used more catalytic approaches that are designed to support the capacity of private banks to lend to SMEs, such as via credit lines and partial credit guarantees.[4] In addition, the authorities have a major role to play in improving the legal and regulatory environment for lending to SMEs, not least in strengthening the registration of movable and immovable property, in improving the process for foreclosure on collateral in the case of default by the borrower, and in establishing the enabling environment for credit bureaus to provide access to reliable and comprehensive information about borrowers' current and past repayment performance.

Moving up each step on the funding escalator is predicated on a reduction in information asymmetry and in agency costs. As formality in the provision of capital rises, financial markets can intermediate larger amounts of capital. Thus, there is a correlation between the steps on the escalator and the progression from market opacity to greater transparency.

CONCLUSION

For the purposes of the assessment provided in this report, two main conclusions can be drawn with respect to the funding escalators:

First, the public capital markets are at the highest level on the escalators. At early stages of market development, capital markets with publicly listed companies represent only a small fraction of the long-term finance being intermediated in the economy. Such markets may well

[4] Partial credit guarantee schemes can only play an important catalytic role only if they are financially sustainable. The success of partial credit guarantees is highly dependent on their design, factors such as: guarantee coverage, adequacy of fees charged, reliability, speed of payout in case of borrower default, and utilization, in particular banks' capacity to deploy the guarantee.

be able to function without the remaining components being active, but it is unlikely that they will be able to flourish, as financiers (whether they are governments or private sponsors) will gradually work their way up the escalators in generating “deal-flow.” Leapfrogging is likely to be the exception rather than the rule.

Second, reducing information asymmetry and agency costs is crucial to moving up the funding escalators and enabling larger levels of capital to be intermediated on financial markets. There is a logical relationship between moving up the steps on the escalator and progression from market opacity to greater transparency. At earlier stages of development with little private sector involvement in infrastructure finance—when enterprises largely rely on informal sources of finance (family or friends) and banks and homeowners predominantly rely on building their homes incrementally from current savings—little information is available to those agents who might arrange for third-party funding. Overcoming information asymmetries and reducing the agency costs are challenges that cut to the core of the effort to develop markets that can better serve the long-term funding needs of developing African economies.