Key findings

# Finance in Africa report finds that banks want to move faster into green lending

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Finance in Common

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**The EIB Banking in Africa survey for 2022 shows that, following the outbreak of the war in Ukraine, the main concerns for banks are the cost of local currency funding, competition from the non-banking sector and deteriorating asset quality. Last year, following the onset of the pandemic, banks were chiefly worried about asset quality, and had little concern about local currency funding costs. The rollout of FinTech continues to transform the traditional banking-dominated financial sector across the continent. The entire FinTech ecosystem in Africa has experienced rapid growth. As of April 2022, there were more than 1 000 active companies, up from 450 in 2020.**

**Banks are also doing more to improve access to finance for women. Seventy percent of the banks surveyed have a gender strategy in place and sponsor women- and gender-focused initiatives in the community, an increase of 10 percentage points on the share in the 2021 survey. Finally, Sub-Saharan African banks are reacting to the multifaceted challenges posed by climate change and are more proactive in terms of screening both their existing loan book and prospective projects for climate risk.**

## Objectives and research questions

The EIB lends extensively in Africa, including to financial institutions, to promote on-lending in support of key development goals. The objective of the Finance in Africa Report is to understand the current financial landscape in Africa. An important part of this is to understand the challenges facing the banking sector so that the EIB can better target its operations on the continent. While the banking sector is the predominant focus, the report also takes stock of financial development in Africa, green capital flows, trends in the microfinance industry and the evolution of private capital markets in Africa. The report also seeks to understand the latest developments in digitalisation and climate as they pertain to the banking sector, again to see how the EIB can support the twin (digital and green) transition in Africa.

## Methods

The European Investment Bank (EIB) has completed its annual survey of banks in Africa in 2022, supported by Making Finance Work for Africa. It elicited responses from 70 banks in sub-Saharan Africa, accounting for approximately 30% of the continent's assets. The survey was carried out between April and June 2022. The survey is a critical input to the analysis in the report. However, we also use several other data sources to build up a picture of the financial sector including financial market data from Bloomberg, proprietary data on the size and scope of the FinTech industry in Africa, data on external assets and liabilities of Africa countries, data on equity market development, performance data for the microfinance industry and data on trends in private capital markets.

## Results

Several key results are covered in the abstract. However, another key result from the banking survey is that the share of banks planning to expand lending operations is somewhat higher in the survey for 2022 compared to 2021. Therefore, despite clear concerns about asset quality, the mood that seems to characterise the sector is therefore one of cautious optimism.

African private capital markets also had a strong year in 2021. Fundraising by private equity and venture capital funds reached pre-pandemic levels, following a significant fall during the pandemic. Private investment, which had remained quite resilient during the pandemic, grew by 48% annually to reach $6.3 billion, surpassing the previous peak of $5.4 billion set in 2014/2015. The increase in investment in 2021 was driven largely by the venture capital side.

## Recommendations

The situation in relation to non-performing loans is worse for the small and medium enterprises (SME) than for large corporates. In addition, headline non-performing loan figures do not tell the whole story — there are significant shares of loans under moratoriums or restructuring. Banks' concerns about asset quality suggest that higher non-performing loans are likely in some countries as support measures are withdrawn and tough global economic conditions persist. This means that policymakers and regulators need to be vigilant, particularly in relation to SMEs.

Nearly 70% of banks see climate lending as an opportunity but only one-fifth of banks have introduced green lending products, meaning there is significant scope to expand green lending. About 60% cite lack of expertise, data and tools for climate risk as a barrier to doing more on identifying climate risks and opportunities. In addition, two-thirds of banks think that IFIs can help them expand green lending by providing training and technical assistance. This sets out a clear policy objective for IFIs in terms of growing green lending.



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