Journal of Scientific Research & Reports

14(6): 1-12, 2017; Article no.JSRR.34103
ISSN: 2320-0227

Investment Climate in Financial Services in Africa (Country Attractiveness Indices)

Satinder Bhatia[1*]

[1]Indian Institute of Foreign Trade, New Delhi, India.

Author's contribution

The sole author designed, analyzed and interpreted and prepared the manuscript.

Article Information

DOI: 10.9734/JSRR/2017/34103
Editor(s):
(1) Luigi Rodino, Dipartimento di Matematica, Università di Torino, Italy.
Reviewers:
(1) Ahmadu Abubakar, Federal University, Dutsinma, Nigeria.
(2) Afsin Sahin, Gazi University, Turkey.
(3) Muhammad Azam Khan, Abdul Wali Khan University, Mardan, Pakistan.
Complete Peer review History: http://www.sciencedomain.org/review-history/19809

Original Research Article

Received 13th May 2017
Accepted 28th June 2017
Published 1st July 2017

ABSTRACT

This paper analyses the relative investment climate of financial services in the African continent by studying both the domestic state of affairs in the sector and the macro governance indicators that impact the amenability of the domestic environment to foreign investment. Relative attractiveness indices for each country relative to its region and the African continent as a whole are calculated and rankings of countries within each region are arrived at. This is followed by ranking of regions based on weighted averages of performance indicators of the countries comprising the regions. The Study shows that Southern Africa and North Africa remain the two most attractive regions followed by West Africa, East Africa and Central Africa. The most attractive countries in each of these regions are Mauritius, Tunisia, Cape Verde, Seychelles and Gabon respectively. Mauritius has also been found to be the most attractive for financial services in the continent closely followed by Botswana, Cape Verde and South Africa. The Study also finds that though low income countries generally have low investment attractiveness scores, Madagascar, Gambia and Burkina Faso are outliers with especially good governance indicators. In fact, these countries have much higher investment attractiveness scores as compared to high income countries like Equatorial Guinea, Libya and Angola. The financial parameter and governance parameter indices, thereby, provide indications of government interventions that may be prioritized to increase the investment attractiveness potential of the financial services sector in African countries.

Keywords: Investment climate; financial services; Africa.

**Corresponding author: E-mail: satinderbhatia@iift.edu;*

1. INTRODUCTION

The African continent today stands at a threshold of opportunities. The continent is heterogeneous in its cultural, economic and geographical aspects in so far as the domain contains more than 50 countries and different economic and regional blocs. The diversity embodied in geographical, economic and cultural aspects extends to the financial front as well. Understanding this financial diversity is important as investment decisions are dependent on the state of financial and governance parameters in any economy. Financial services like credit, savings, banking, insurance, payments etc. are closely tied with all sectors of the economy; hence, governments strive to close the gap between the financial needs of entities and access of services through additional investments.

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

2. STATE OF FINANCIAL SERVICES IN AFRICA

The African continent is gradually moving away from natural resources as the major force for inward foreign direct investment. Today, institutions that provide legal and financial security to the citizens and provide the requisite skill sets are beginning to become the new magnets for foreign direct investment [1,2]. As per the Santander trade portal [3], the top three sectors in Africa receiving FDI in 2013 were technology, media and telecom accounting for over 50% of FDI projects. And South Africa, on account of sound institutions, received more than 20 per cent of FDI inflows into the continent. In 2016, FDI influx to South Africa increased by 38% compared to 2015. In fact, the 2017 A.T Kearney FDI Confidence Index [4] included South Africa and UAE marking it the first time since 2014 that an African Country or a Middle Eastern country appeared among the top 25. Eller M, Haiss P, Steiner K [5] had concluded that the level and quality of foreign investment influences the financial sectors' contribution to growth in emerging markets and that above a certain threshold, crowding-out of local physical capital via foreign bank entry slows growth. Luiz JM, Charalambous H [6], in their study, show that South African financial services sector is most strongly influenced by the political and economic stability of the country in question as well as the profitability and long-term sustainability of its specific markets. The degree of available infrastructure in terms of information and communication technology as well as the existence of credible financial systems was also viewed as highly significant in the study. The United Nations Conference on Trade and Development (UNCTAD) report of 1999 [7] and studies by Vesna B et al. [8] Hattari R et al. [9] and Cuffe Jamie [10] had noted that despite modest improvements overall, investment in some countries and some sectors seemed to be more profitable than in most other regions. The new emphasis, as indicated by Leslie Wentworth of the South African Institute of International Affairs, is on ensuring sustainable investment that addresses economic challenges in host countries and institutes affirmative action programs such as black economic empowerment measures [11]. That is why, it is important for foreign investors to approach investment into Africa on a country and sector specific basis often by forming strategic partnerships with local partners identifying the key legislation that is designed to encourage them to invest or to protect the domestic market. Kunt and Klapper [12] had earlier analyzed financial inclusion based on account penetration, savings needs and access to credit and insurance for African households and Small and Medium Enterprises (SMEs) in 2012. They had concluded that less than a quarter of adults in Africa have an account with a formal financial institution and that the majority of SMEs in Africa were unbanked and access to finance was a major obstacle. As per the report by the Committee on the Global Financial System in 2005, the surge in financial sector FDI has been instrumental in integrating emerging economies into the global financial system [13]. This report and other studies analyzing emerging markets including ASEAN region and Africa showed that integration has brought substantial benefits to host countries' financial systems in terms of efficiency and stability [14,15,16,17,18]. A survey by the Economic Intelligence Unit in 2012 also concluded that Ireland's specific advantage for attracting investment in financial services was access to the EU, legal and fiscal stability, corporate tax regime and access to skills locally [19]. Prabhakar AC, Azam M, Bakhtyar B, Ibrahim Y [20] had also shown that regional integration helps maximize the gains from FDI. In UK, the financial services sector is the biggest growth driver. In a survey conducted in 2016 by EY, 43% investors felt that banking, insurance, wealth and asset management services will drive UK growth and 73% of respondents said that the fintech industry was the prime driver of this growth [21].

The current study analyses the potential of African countries to attract investment in financial services by comparing parameters for each region with the averages for the whole of Africa. The research gap in terms of the relative attractiveness of the financial services sector of countries in Africa both as compared to their region and the African continent as a whole has been sought to be addressed through this paper. The Study, thus, takes forward the recommendation of previous researchers that a common perception about the investment climate in Africa may be erroneous. The Study also seeks to analyze the relationship of attractiveness indicators with prevalent per capita income levels.

Table 2 indicates these parameters for the African continent and shows that the use of technology for banking services needs to be improved in the continent; be it the usage of credit cards or debit cards or even the number of Automatic Teller Machines (ATMs) per 100,000 population. Most banking assets are concentrated in a few banks including dominance by foreign banks in certain cases. Further, the share of non-interest income to total income is also very high.

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

i) Financial Indicators; and
ii) Governance Indicators

As there is wide disparity in Africa, region-wise and country-wise analysis has also been conducted. The countries for which data was available were, thus, divided into five regions: East Africa (9 countries), Southern Africa (11 countries), West Africa (12 countries), North Africa (6 countries) and Central Africa (7 countries). The methodology adopted for these 45 countries was as follows:

I. The WDI financial indicators are first divided into two categories:

   i) Constraining Variables; and
   ii) Supporting Variables

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

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

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

a. Average Number of ATMs per 100,000 population
b. Number of Bank Branches per 100,000 adults
c. Number of Bank Accounts per 1,000 adults
d. Debit Card Usage
e. Credit Card Usage

f. Mobile Phone Usage
g. Electronic Payments by population above 15 years
h. Foreign Banks among Total Banks
i. Foreign Bank Assets among Total Bank Assets
j. Remittance Inflow
k. Savings at Formal and Informal Institutions

II. The next step was to arrive at regional average for each variable for each year of the selected period 2000-2011. Thus, a regional average for each variable and each year was arrived at.
III. The raw data was next converted into indices with the regional average taken at 100. Thus, year-wise, indices were arrived at for each country for each of the variables indicating the country's position vis-a vis the regional average.
IV. Next, year-wise, the indices were grouped into two categories defined earlier – Constraining Variables and Supporting Variables and an average yearly index for each of the groups arrived at.
V. In order to get a snapshot picture for the two groups of variables for each country over the entire period 2000-2011, an average of the yearly indices was then calculated.
VI. Similar averages for the two groups were calculated for the whole of Africa taking an average of all the regional averages.

Studying each country's position relative to its region and the whole of Africa in the financial services sector helps to draw conclusions regarding opportunities for foreign investment in the country's financial services sector. Nonetheless, for foreign investment to come in, a country's governance indicators must also be favorable. Each country's relative attractiveness index was calculated by assigning 50% weight to the index of favorable financial factors and 50% weight to governance indicators (measured by indices on regulatory quality, rule of law and control of corruption WDI data).

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

2.1 Financial Sector Investment Attractiveness of East Africa

If we look at East Africa, we find that while it is made up of economies such as Kenya, Djibouti and Seychelles which are doing very good in financial terms compared to the region and the continent, there are others such as Burundi, Comoros, Rwanda and Sudan that are lagging behind both regional and the continent averages (Table 3). Tanzania and Uganda have shown moderate performance with respect to the region. As explained earlier, the attractiveness indicators were arrived at by assigning 50% weight to the financial parameter and 50% weight to the governance parameter.

2.2 Financial Sector Investment Attractiveness of Southern Africa

Southern Africa is a region of African continent which is considered to be a more developed region. In economic terms, the per capita GDP of the region on average is higher than other regions of the continent. Also within the region, there are noticeable disparities; for example, countries like South Africa, Botswana, Namibia and Mauritius are doing much better in economic terms compared to other economies like Malawi, Madagascar, Mozambique and Zimbabwe. If we gauge into the financial inclusion situation of the country we find that South Africa, Mauritius and Namibia have a more favorable financial situation compared to the region and the rest of Africa. In so far as Malawi, Zambia, Madagascar and Zimbabwe are concerned, they have a largely unfavorable financial position compared to both region and the whole of Africa. Angola is also not doing very good in comparison to the region. Botswana and Swaziland have exhibited an interesting trend in the sense that for the earlier part of the last decade, they had an unfavorable financial structure which they were able to reverse later. Table 4 provides summary relative attractiveness indicators using the methodology outlined earlier for all countries of this region.

2.3 Financial Sector Investment Attractiveness of West Africa

If we look at the economies of West Africa, we find that most of them have exhibited a similar unfavorable pattern in terms of their financial character over the last decade. For example, the financial conditions in the economies of Mali, Niger, Cote d' Ivor, Burkina Faso and Sierra Leone have remained strongly unfavorable compared to both the region and the continent. Liberia and Ghana have exhibited a rather interesting trend in the sense that although they have an unfavorable financial position compared to the whole of Africa, but as compared to the

Table 1. Per capita GDP of African countries (US $)

Eastern Africa	Per capita GDP (USD)	Southern Africa	Per capita GDP (USD)	West Africa	Per capita GDP (USD)	North Africa	Per Capita GDP (USD)	Central Africa	Per Capita GDP (USD)
Average	**2224**	**Average**	**3510**	**Average**	**1287**	**Average**	**4892**	**Average**	**2994**
Burundi	267	Angola	5668	Burkina Faso	684	Algeria	5361	Central African Republic	333
Comoros	894	Botswana	7317	Cote d'Ivoire	1521	Egypt	3314	Cameroon	1315
Djibouti	1668	Lesotho	1075	Cape Verde	3785	Libya	12167	Chad	1046
Eritrea	544	South Africa	6618	Ghana	1850	Morocco	3109	Congo, Rep.	3172
Kenya	994	Mozambique	593	Gambia	494	Mauritania	1070	Guinea	527
Rwanda	633	Malawi	226	Liberia	454	Tunisia	4329	Gabon	11571
Sudan	1753	Madagascar	471	Mali	715			Equatorial Guinea	20572
Somalia	-	Mauritius	9210	Niger	413				
Seychelles	14220	Zambia	1540	Nigeria	3010				
Tanzania	695	Zimbabwe	905	Senegal	1072				
Uganda	572	Namibia	5462	Sierra Leone	809				
		Swaziland	3034	Togo	636				

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

Table 2. Overview of key parameters of the African financial sector

Access	Average	Concentration/ control	Average	Efficiency	Average	Depth	Average	Use of Technology	Average
ATMs per 100,000 adults	8.69	5-bank asset concentration	85.81	Bank lending-deposit spread	11.15	Private credit by deposit money banks and other financial institutions to GDP (%)	21.71	Credit card (% age 15+)	3.41
Bank accounts per 1,000 adults	282.99	Bank concentration (%)	76.24	Bank net interest margin (%)	6.51	Private credit by deposit money banks to GDP (%)	19.94	Debit card (% age 15+)	11.31
Bank branches per 100,000 adults	6.19	Foreign bank assets among total bank assets (%)	52.79	Bank noninterest income to total income (%)	42.89			Electronic payments used to make payments (% age 15+)	3.35
Small firms with a bank loan or line of credit (%)	15.89	Foreign banks among total banks (%)	52.72	Bank overhead costs to total assets (%)	5.31			Mobile phone used to pay bills (% age 15+)	3.63
								Mobile phone used to send money (% age 15+)	9.32

Source: Calculations from WDI Data, 2013

Table 3. Summary relative country attractiveness indicators of East Africa (2000-2011) (Africa taken as average of 45 countries)

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

Source: Calculations from WDI Data, 2013

Table 4. Summary relative country attractiveness indicators of Southern Africa (2000-2011) (Africa taken as average of 45 countries)

Country	Index		Rank	
	Relative to region	Relative to Africa	Rank in region	Rank in Africa
Angola	0.541	0.797	9	29
Botswana	5.682	7.62	2	2
South Africa	4.135	6.286	3	4
Madagascar	0.717	1.324	7	14
Mauritius	6.022	8.15	1	1
Malawi	0.564	1.015	8	23
Mozambique	0.767	1.243	6	16
Namibia	3.231	4.925	4	6
Swaziland	0.955	1.423	5	12
Zambia	0.564	0.94	8	25
Zimbabwe	0.477	0.672	10	35
Average Index of Southern Africa		**3.13**		

Source: Calculations from WDI Data on financial and governance indicators, 2013

Table 5. Summary relative country attractiveness indicators of West Africa (2000-2011) (Africa taken as average of 45 countries)

Country	Index		Rank	
	Relative to region	Relative to Africa	Rank in region	Rank in Africa
Burkina Faso	1.471	1.435	4	11
Cape Verde	6.361	6.537	1	3
Cote d'Ivoire	0.728	0.696	10	34
Gambia	1.177	1.213	6	20
Ghana	4.389	4.425	2	7
Liberia	0.769	0.593	8	40
Mali	1.119	1.093	7	21
Niger	0.732	0.704	9	33
Nigeria	1.178	0.923	5	26
Senegal	1.681	1.676	3	10
Sierra Leone	0.677	0.59	12	41
Togo	0.68	0.639	11	38
Average Index of West Africa		**1.71**		

Source: Calculations from WDI Data on financial and governance indicators, 2013

region, they have a favorable position. This could be because of overall lower performance of the region. Gambia and Togo also had remained favorable compared to region for some years, but broadly compared to Africa and the region, the financial position over time for these countries have remained unfavorable. Senegal also does not seem to do well in comparison to whole of Africa. Cape Verde looks to be the only country in the region that has favorable financial position compared to the region and the continent. Table 5 gives attractiveness indicators for all countries of West Africa.

2.4 Financial Sector Investment Attractiveness of North Africa

North Africa is the oil rich region of the continent. It also has countries which are at different levels of economic development. Similar is the situation if we look at the financial position of these countries. The main laggards appear to be the economies of Mauritania and Libya. Here, the financial position compared to both the region and the continent has been weak throughout the period. On the other hand, there are economies like Morocco and Tunisia where the financial indicators are much more favorable and these countries have done better compared to not only the region but also the continent. Algeria and Egypt have shown a rather different trend compared to other countries in the region as they have exhibited unfavorable attractiveness indicators compared to the region, but compared to whole of Africa, they seem more attractive. Country-wise indicators of this region are given in Table 6.

2.5 Financial Sector Investment Attractiveness of Central Africa

Central Africa, a region composed of six countries, is noticeable as all countries of this region had one common feature over the selected period - all of them had poorer attractiveness indicators as compared to those for the whole of Africa (Table 7). This implies that compared to the rest of Africa, this region has remained underdeveloped in terms of the attractiveness of financial services. Interestingly, this includes countries with high per capita GDP and indicators more favorable than those for the region. For example, Equatorial Guinea and Gabon with high per capita GDP of USD 20,572 and USD 11,571 respectively (Table 1) and better indicators than the region as a whole have fared worse than the continent. Cameroon, too, has done better than the region and moderately high GDP per capita of USD 1315. Moreover, there are countries like Democratic Republic of Congo and Republic of Congo which have strongly unfavorable indicators. Incidentally, Republic of Congo has per capita GDP higher than Cameroon, Chad and Guinea. Certainly, much work remains to be done to improve the attractiveness of this region for investment in the financial services sector.

3. GROUPING OF COUNTRIES AS PER INVESTMENT ATTRACTIVENESS

Based on the above analysis, all the countries were categorized into three broad headings viz. High, Average, and Low depending on their degree of financial favorability (Table 8). The countries that were favorable in financial terms compared to both their respective region and Africa as a whole were placed in the 'High' category. Countries that were favorable compared to the respective region but unfavorable compared to the whole of Africa were placed in the 'Average' category and those that were unfavorable compared to both the region in which they fall as well as the whole of Africa were placed in the 'Low' category. Thus, we see that Morocco, Tunisia, Namibia, Swaziland, Mauritius, South Africa, Cape Verde, Djibouti, Kenya, Seychelles, Botswana and Nigeria are in the highly favorable category. In these countries, the prospects in the financial sector are most bright. Botswana and Nigeria turned favorable compared to the region in the last few years of the selected period. In the 'Average' category, there are countries like Gabon, Cameroon and Chad, which have shown favorable position compared to their respective region but not compared to the whole of Africa. These countries may be the most watched in terms of the investment environment as a better domestic environment can yield positive results. Another category of countries can be formed from among those countries which are in the 'Average' category. This category includes the economies of Egypt, Angola, Ghana, Tanzania, Algeria and Uganda which interestingly, do not have a favorable position compared to their respective region but have more favorable conditions compared to the whole of Africa. Finally, there are countries which fall in the category of low degree of favorability. This includes the economies of Central African Republic, Democratic Republic of Congo, Republic of Congo, Algeria, Libya, Mauritania, Zambia etc. as listed in Table 8. These are those economies which are having an unfavorable financial position compared to their respective region and the whole of Africa. They are the laggards and need to improve a lot in terms of financial and governance indicators.

4. INVESTMENT ATTRACTIVENESS INDICATORS AND PER CAPITA INCOME

Further analysis was carried out to see if there was a relationship between the degree of favorable indicators and the level of per capita income of these countries. Table 9 lists the financial and governance indicators of countries categorized as per the level of their per capital income.

Table 6. Summary relative country attractiveness indicators of North Africa (2000-2011) (Africa taken as average of 45 countries)

Country	Index		Rank	
	Relative to region	Relative to Africa	Rank in region	Rank in Africa
Algeria	0.933	1.242	3	17
Egypt	0.611	0.823	5	28
Libya	0.497	0.744	6	31
Mauritania	0.933	1.164	3	20
Morocco	2.374	2.937	2	9
Tunisia	3.699	4.391	1	8
Average index of North Africa		**1.88**		

Source: Calculations from WDI Data on financial and governance indicators, 2013

Table 7. Summary relative country indicators of Central Africa (2000-2011) (Africa taken as average of 45 countries)

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

Source: Calculations based on WDI Indicators, 2013

Table 8. Grouping of African countries as per investment attractiveness

Degree of investment attractiveness	Comparison with region and Africa	Countries
High	Favorable compared to both the region and the continent	Morocco, Tunisia, Namibia, Swaziland, Mauritius, South Africa, Botswana, Cape Verde, Nigeria, Djibouti, Kenya, Seychelles
Average	Favorable compared to region but not the continent	Gabon, Cameroon, Chad, Egypt, Angola, Ghana, Tanzania, Uganda, Algeria, Equatorial Guinea
Low	Unfavorable compared to both region and the continent	Central African Republic, Democratic Republic of Congo, Republic of Congo, Libya, Mauritania, Zambia, Zimbabwe, Mozambique, Malawi, Madagascar, Burkina Faso, Cote d'Ivoire, Gambia, Mali, Niger, Senegal, Sierra Leone, Togo, Liberia, Burundi, Comoros, Rwanda, Sudan.

Source: As per calculations shown in Tables 3-7

Table 9 shows a low correlation between per capita income and the financial & governance parameters defining the investment climate in different countries. Category I, for example, contains the richest country in Africa - Equatorial Guinea with a per capita income exceeding USD 20,000 and yet the country attractiveness rank for investment in the financial services sector for this country stood at 37 in the continent. On governance front, the highest overall relative governance indicator in the continent has been 13.73 of Botswana. The highest financial parameter defined as the ratio of favorable to unfavorable factors relative to the continent has been 3.713 of Cape Verde, placing it on top in terms of financial attractiveness.

Table 9. Investment attractiveness indicators and per capita income in Africa

Category I – High Per Capita Income Countries (> USD 5,000)				
	Per capita income	**Financial parameter index relative to Africa**	**Governance parameter index relative to Africa**	**Overall attractiveness rank in Africa**
Equatorial Guinea	20,572	0.811	0.469	37
Seychelles	14,220	2.367	8.724	5
Libya	12,167	0.874	0.614	31
Gabon	11,571	0.733	1.208	24
Mauritius	9,210	2.67	13.63	1
Botswana	7,317	1.51	13.73	2
South Africa	6,618	2.742	9.83	4
Angola	5,668	1.09	0.504	29
Namibia	5,462	1.22	8.63	6
Algeria	5,361	1.53	0.953	17

Category II – Moderately High Per Capita Income Countries (USD3,000–USD 5,000)				
	Per capita income	**Financial parameter index relative to Africa**	**Governance parameter index relative to Africa**	**Overall attractiveness rank in Africa**
Tunisia	4,329	2.13	6.651	8
Cape Verde	3,785	3.713	9.36	3
Egypt	3,314	1.07	0.575	28
Republic of Congo	3,172	0.475	0.575	43
Morocco	3,109	2.25	3.623	9
Swaziland	3,034	1.553	1.292	12
Nigeria	3,010	1.27	0.575	26

Category III – Moderately Low Per Capita Income Countries (USD 1000-USD 2000)				
	Per capita income	**Financial parameter index relative to Africa**	**Governance parameter index relative to Africa**	**Overall attractiveness rank in Africa**
Ghana	1,850	0.764	8.085	7
Sudan	1,753	0.783	0.506	36
Djibouti	1,668	1.052	0.603	27
Zambia	1,540	0.696	1.184	25
Cote d'Ivoire	1,521	0.78	0.612	34
Cameroon	1,315	0.77	0.679	32
Senegal	1,072	0.71	2.641	10
Mauritania	1,070	0.972	1.356	20
Chad	1,046	0.645	0.547	39

Category IV –Moderately Low Per Capita Income Countries (USD 500 - USD 1000)				
	Per capita income	**Financial parameter index relative to Africa**	**Governance parameter index relative to Africa**	**Overall attractiveness rank in Africa**
Kenya	994	1.886	0.955	13
Zimbabwe	905	0.944	0.40	35
Comoros	894	0.935	0.575	30
Sierra Leone	809	0.523	0.656	41
Mali	715	0.544	1.641	21
Tanzania	695	1.085	1.411	15
Burkina Faso	684	0.666	2.203	11
Togo	636	0.525	0.752	38
Rwanda	633	0.738	1.353	22
Mozambique	593	1.21	1.275	16
Uganda	572	1.085	1.381	18

Category V – Low Per Capita Income Countries (< USD 500)				
	Per capita income	**Financial parameter index relative to Africa**	**Governance parameter index relative to Africa**	**Overall attractiveness rank in Africa**
Gambia	494	0.85	1.575	20
Democratic Republic of Congo	484	0.192	0.433	45
Madagascar	471	0.46	2.188	14
Liberia	454	0.64	0.546	40
Niger	413	0.426	0.982	33
Central African Republic	333	0.306	0.545	44
Burundi	267	0.50	0.566	42
Malawi	226	0.477	1.553	23

Source: WDI Indicators 2013 and calculations based thereon

Thus, it is evident that investors place top priority to good governance indicators and scope for growth when considering investments in the financial services sector. The scope for growth in individual countries was estimated using the benchmark of 13.73 for governance indicator (achieved by Botswana) and 3.713 for financial indicator (achieved by Cape Verde). Given these parameters, some broad conclusions regarding countries that are more likely to attract investment are the following:

i) In Category I countries – the high per capita income countries, governance parameters are the best in Botswana, Mauritius, South Africa, Namibia and Seychelles. These are automatically the countries to begin with from an investment attractiveness point of view. Next, we see their financial parameters. Taking 3.713 as the benchmark, investment in the financial services sector can flow into all these countries but the greatest opportunities may lie in Botswana and Namibia as there is a larger scope for growth in these countries as compared to the high performers in this group.
ii) In Category II countries, Tunisia, with the best governance indicators, is more attractive for investors as compared to Morocco. Cape Verde, currently the leader, may also be able to further raise the benchmark by further improving its financial climate. The country can also capitalize on improvements in governance indicators.
iii) Category III countries are countries with per capita > USD 1000 but < USD 2000. In this category, Ghana is the clear leader with good governance indicators and large opportunities for investors in the financial sphere. Senegal is another country which has chances of attracting foreign investment.
iv) Category IV countries are countries with per capita < USD 1000 but > USD 500. A

number of East African countries are in this group. Burkina Faso has the best governance indicator of 2.203 and the overall financial parameter at 0.666 – indicating the gaps that may be filled in through additional investments. Burkina Faso is followed by Mali, Tanzania and Uganda. Nonetheless, the group as such is far less attractive than the first three groups of countries.

v) Category V countries are the really poor countries with per capita income below USD 500. In this group, Madagascar is the most attractive on account of good governance indicators followed by Gambia, Malawi and Niger. The scope for growth in financial parameters is overall less significant in this group as significant leverage needs to be first reaped through improvements in governance indicators. The investors, in the meantime, are likely to prefer the first three groups of countries as the investment conditions are better there.

5. CONCLUSIONS

The study, thus, analyses the investment attractiveness of financial services country-wise and region-wise in Africa that include per capita income, current depth of financial services sector and strength of governance. Currently, overall, South Africa and North Africa remain the two most attractive regions followed by West Africa, East Africa and Central Africa. Previous studies had focused on trends in different sectors and countries in the continent and analyzed the factors determining the same. This study focusing on analyzing the relative investment attractiveness of financial services sector country-wise and region-wise in the continent shows that high per capita income alone is not sufficient to attract investments into the sector. Institutions enhancing financial and governance quality are a pre-requisite. That is why, while some countries show a high degree of association between per capita income and development indicators for others, there is only a moderate association. South Africa, Mauritius and Seychelles may be good examples of high per capita income and sound financial and governance indicators and Democratic Republic of Congo, Central African Republic and Burundi of low per capita incomes and poor governance and financial parameters. There are other examples of high per capita income countries with moderate to weak governance/financial indicators and low per capita income countries with moderate to high governance/financial indicators. The Study, thereby, provides policy implications for each of these countries on governmental efforts that may be especially helpful in the improvement of investment attractiveness potential. For example, while the Study points out that governance climate that includes regulatory quality, rule of law and control on corruption needs especially to be improved in Chad, Equatorial Guinea, Libya, Central African Republic, Republic of Congo, Angola, Egypt and Comoros, each country can gauge the extent of possible improvements through the index of governance parameters. For example, South Africa and Namibia, though high on overall attractiveness index, still have the potential to further improve their governance climate. Similarly, each government can improve the financial sector infrastructure in terms of reduction of bank or bank asset concentration and increasing electronic payment transactions. Thus Botswana, though the best governed state in Africa and behind only Mauritius in terms of overall investment attractiveness for financial services, needs to pay more attention to its financial infrastructure. Cape Verde scores above all other countries in Africa in terms of the robustness of its financial infrastructure. The Study, thus, points out areas of intervention that may be prioritized for attracting more investment into financial services sector in different countries in Africa.

COMPETING INTERESTS

Author has declared that no competing interests exist.

REFERENCES

1. Adams K, Debrah YA, Williams K, Mmieh F. Causes of financial FDI inflows into Sub-Saharan Africa (SSA): Evidence from Ghana. Thunderbird International Business Review. 2014;56(5):439-59.
2. Adjasi C, Abor J, Osei KA, Nyavor-Foli EE. FDI and economic activity in Africa: The role of local financial markets. Thunderbird International Business Review. 2012;54(4): 429-39.
3. Santander Trade Portal. South Africa – Foreign investment; 2017. Available:https://en.portal.santandertrade.com/establish-overseas/south-africa/foreign-investment

4. Kearney AT. Foreign direct investment confidence index - Back to business: Optimism amid uncertainty. 2013;23:2014.
5. Eller M, Haiss P, Steiner K. Foreign direct investment in the financial sector and economic growth in Central and Eastern Europe: The crucial role of the efficiency channel. Emerging Markets Review. 2006;7:300-19.
6. Luiz JM, Charalambous H. Factors influencing foreign direct investment of South African financial services firms in Sub-Saharan Africa. International Business Review. 2009;18(3):305-17.
7. United Nations Conference on Trade and Development (UNCTAD). Foreign direct investment in Africa: Performance and potential; 2009.
8. Vesna Babic-Hodovic, Eldin Mehic, Emir Agic, Emina Resic. Influence of qualitative and quantitative factors of banking sector development of economic growth in CEE Countries. Conference Proceedings, International Conference of the Faculty of Economics Sarajevo (ICES). 2008;1-15.
9. Hattari R, Rajan RS. Understanding bilateral Asia. Asian-Pacific Economic Literature. 2009;23(2):73-93.
10. Cuffe Jamie. Has Africa benefited from foreign direct investment? 2014. Available:https://www.tutor2u.net/economics/blog/has-africa-benefitted-from-foreign-direct-investment
11. Wentworth Lesley, Schoeman Mark, Langalanga Azwimpheleli. Foreign direct investment and inclusive growth in Southern Africa. University of Cape Town; 2015. Available:2015.essa.org.za/fullpaper/essa_2942.pdf
12. Demirgüç-Kunt Asli, Leora F Klapper. Financial inclusion in Africa: An overview; 2012.
13. Committee on the Global Financial System. Foreign direct investment in the financial sector – Experiences in Asia, Central and Eastern Europe and Latin America; 2005.
14. Zhang GQ. Cooperation and competition between China and US in Africa (Doctoral dissertation). The George Washington University; 2016.
15. Allen F, Demirgüç-Kunt A, Klapper LF, Martinez Peria MS. The foundations of financial inclusion: Understanding ownership and use of formal accounts; 2012.
16. Choong CK, Yusop Z, Soo SC. Foreign direct investment, economic growth, and financial sector development: A comparative analysis. ASEAN Economic Bulletin. 2004;278-89.
17. Darrat Ali F, Elkhal, Khaled McCallum. Finance and macroeconomic performance: Some evidence for emerging markets. Emerging Markets Finance & Trade. 2006;42(3):5–28.
18. Deloitte Ltd. Foreign direct investment and inclusive growth: The impacts on social progress; 2015.
19. The Economist Intelligence Unit Ltd. Investing in Ireland - A survey of foreign direct investors; 2012. Available:http://www.matheson.com/images/uploads/documents/Investing-in-Ireland-A-survey-of-foreign-direct-investors.pdf
20. Prabhakar AC, Azam M, Bakhtyar B, Ibrahim Y. Foreign direct investment. Trade and economic growth: A new paradigm of the BRICS. Modern Applied Science. 2015;9(12):32.
21. EY. Foreign direct investment in UK financial services industry since; 2006. Available:http://www.ey.com/uk/en/newsroom/news-releases/16-06-13---foreign-direct-investment-in-uk-financial-services-industry-at-highest-level-since-2006)

Peer-review history:
The peer review history for this paper can be accessed here:
http://sciencedomain.org/review-history/19809