

Institution: University of Birmingham
Unit of Assessment: C19 – Business and Management Studies
Title of case study: Shaping banking regulatory reforms in Africa
<p>1. Summary of the impact</p> <p>The development and introduction of a new international regulatory framework for banking and financial markets (known as Basel III) following the 2007/8 financial crisis has been challenging for all parties. Murinde’s research has helped shape the response to Basel III by banking and stock market regulators in Africa. In particular, this work has enhanced the competitiveness of the financial services sector underpinned the articulation of the African voice on the transition to Basel III as expressed at the G20 Summit in Seoul in 2010; and directly enhanced the skills and knowledge of stock exchange regulators. As a result of this impact, the African Development Bank invited Murinde to contribute directly to knowledge and capacity building in Africa, and he was subsequently appointed the first Director of the African Development Institute at the African Development Bank in May 2011, on a three-year secondment from the University of Birmingham.</p>
<p>2. Underpinning research</p> <p>Bank regulation in Africa is at a crossroads. The transition from the Basel I international banking regulatory accord to Basel II was relatively smooth, although many regulators had doubted the feasibility of the Basel II codes. With the global financial crisis and the collapse of Basel II, the new financial regulatory architecture has been anchored on Basel III. Bank regulators in Africa, and commercial bankers in the continent, were worried about many features of Basel III, and the African voice has not been represented in the ongoing design of Basel III. Murinde’s work uses econometric studies to generate evidence to support practitioners and policy makers involved in shaping the landscape of bank regulation in Africa.</p> <p>During 2008-2013, the core empirical work at the Birmingham Business School by Murinde (Professor of Development Finance, Birmingham Business School) on ‘banking in Africa’ appeared in the European Journal of Finance (see output R1 below). This work stemmed from earlier research by Murinde on British banking (R2, R3).</p> <p>The core paper (R1) generated empirical models to identify bank-specific factors and specific macroeconomic variables which underpinned the performance of 89 commercial banks in nine Sub-Saharan African countries, for the period 1992-99. It was found that, in general, bank performance is seriously undermined by high costs, which are exacerbated by bad loans, high capital ratios and financial liberalisation. However, the size of the bank does matter: larger banks are more efficient. Also, foreign banks are generally efficient. Important policy implications are generated for bank managers and regulators in Sub-Saharan Africa.</p> <p>Murinde’s work also considered regulatory reforms for capital markets. The work has generated empirical methods for measuring the impact of these reforms in terms of desired outcomes such as enhanced liquidity, less volatility, lower transaction costs, or enhanced access to finance by firms. The core methods were developed during work on the UK stock exchange (R4). The methods were further refined and applied to the Indian stock exchange, which shares similarities with African stock markets (R5). The work investigated the impact of the March 1995 move to screen-based trading on the Mumbai Stock Exchange, using separate samples of more liquid (A) and less liquid (B) shares. It identified a significant cross-sectional relationship between the size of cumulative abnormal returns and firm-specific improvements in liquidity, efficiency, and volatility, with differences in the effects of reform on A and B shares. The study offers key specific regulatory lessons for stock markets and for company executives in emerging markets.</p> <p>Murinde’s work also uncovered evidence to support the argument that banks, financial markets and company finance were part of the story of why 6 out of the 10 fastest growing countries in the world during the last 10 years were in Africa (R6).</p>

3. References to the research (indicative maximum of six references)

Relevant Publications

- R1) Kirkpatrick, C., Murinde, V. and Tefula, M. (2008), 'The measurement and determinants of x-inefficiency in commercial banks in Sub-Saharan Africa', *European Journal of Finance*, Vol. 14, No. 7, pp. 625-639. [DOI: 10.1080/13518470701705769]
- R2) Matthews, K., Murinde, V. and Zhao, T. (2007), 'Competitive conditions among the major British banks', *Journal of Banking & Finance*, Vol. 31, No. 7 (July), pp. 2025-2042. [DOI: 10.1016/j.jbankfin.2006.11.009]
- R3) Zhao, T., Matthews, K. and Murinde, V. (2013), 'Cross-selling, switching costs and imperfect competition in British banks', *Journal of Banking & Finance* Volume 37, Issue 12, December 2013, Pages 5452–5462 [DOI: 10.1016/j.jbankfin.2013.03.008].
- R4) Green, C.J., Maggioni, P. and Murinde, V. (2000), 'Regulatory Lessons for Emerging Stock Markets From a Century of Evidence on Transactions Costs and Share Price Volatility in the London Stock Exchange', *Journal of Banking and Finance*, vol. 24, pp. 577-601 [DOI: 10.1016/S0378-4266(99)00081-3].
- R5) Green, CJ, Manos, R, Murinde, V, Suppakitjarak, N (2010), 'Share liquidity and market microstructure reform: the case of screen-based trading in Mumbai', *Asia-Pacific Journal of Financial Studies*, 39(3), pp. 361-395 [DOI: 10.1111/j.2041-6156.2010.01014.x].
- R6) Brambila-Macias, J., Massa, I. and Murinde, V. (2011), 'Cross-border bank lending versus FDI in Africa's growth story', *Applied Financial Economics*, Vol. 21, No. 16, pp. 1205-1213 [DOI: 10.1080/09603107.2011.566179].
- R7) Green, CJ and Murinde, V (2008) The impact of tax policy on corporate debt in a developing economy: A study of unquoted Indian companies, *European Journal of Finance*, 14(7): Special Issue), pp.583-607. [DOI: 10.1080/13518470701705702].

4. Details of the impact

Murinde's work on 'African banking' has helped shape banking regulation and stock exchange reform in a number of major African countries including Nigeria, Algeria and Egypt. This was achieved through take-up of his models by the African Development Bank (ADB) and through his further collaboration with the African Economic Research Programme and with senior African policy makers. This provided timely input for African countries in the process of revamping their regulatory policies in transition from Basel I and Basel II rules to the new Basel III codes for regulating banks and financial markets. As a consequence, the African Development Bank invited Murinde to contribute directly to knowledge and capacity building in Africa, and he was subsequently appointed the first Director of the African Development Institute at the African Development Bank in May 2011, on a three-year secondment from the University of Birmingham. He returns to the University of Birmingham in June 2014.

Enhancing competitiveness in the financial services sector through the ADB

The ADB has 53 African member countries and its mission is to spur sustainable economic development and social progress in its regional member countries, thus contributing to poverty reduction [see source 1 below]. The immediate impact achieved from Murinde's work was that the models in the core paper were operationalized by the ADB to guide the bank in helping their African member countries enhance their competitiveness in the financial services sector.

The Chief Economist and Vice President (CE&VP) of the Bank asked Murinde to lead a team of Bank staff to produce a blueprint. The output, titled "Restructuring for Competitiveness: The Financial Services Sector in Africa's Four Largest Economies", was part of the *African Competitiveness Report 2009*, produced by the African Development Bank, the World Bank, and the World Economic Forum. The team of collaborators include Mr Louis Kasekende (CE&VP of the African Development Bank at the time) and Mr Kupukile Mlambo (who was Advisor to the CE&VP at the time and is now Deputy Governor of the Reserve Bank of Zimbabwe). The impact of the work was that it underpinned the African Development Bank intervention in the financial services sector in Algeria, Nigeria and Egypt.

The research output also formed the key information for the subsequent strategic meeting of Committee of 10 (C-10). The C-10 is a committee of 10 African Ministers of Finance and Central

Impact case study (REF3b)

Bank Governors of Algeria, Botswana, Cameroon, Egypt, Kenya, Nigeria, South Africa, Tanzania, the Central Bank of West African States (CBWAS), the Central Bank of Central African States (CBCAS). The African Development Bank serves as the Secretariat, jointly with the African Union (AU) and the Economic Commission for Africa (ECA). The C-10 introduced policy measures that the CE&VP of the ADB has said were “*instrumental in maintaining bank viability and mitigating the adverse effects of the financial crisis of 2007-8. The major policy consensus was on strengthening of bank capital, which is also the key finding throughout Murinde’s work.*” [source 2]

Another example of impact of the core paper was that the Chief Economist & Vice President of the African Development Bank commissioned a research project, led by Murinde, to use modified versions of the empirical models in the core paper to generate country-specific case studies. Murinde led a team of Bank staff and researchers from Africa and the UK to conduct eight empirical case studies of competition and efficiency of the banking sector in Algeria, Egypt, Ghana, Kenya, Nigeria, South Africa, Tanzania and Zambia. These technical studies were published in a Special Issue of the Bank’s journal, *African Development Review*, Vol. 23, No. 1, March 2011, guest edited by Murinde and a staff of the Bank, Kupukile Mlambo. The *African Development Review* is a professional journal devoted to the study and analysis of development policy in Africa which emphasises the policy relevance of research findings, rather than purely theoretical and quantitative issues.

After the completion of the case studies, the African Development Bank asked Murinde to extend the work on Nigeria and undertake a special study that would inform the Board of Directors of the Bank about the viability of Nigeria’s banks, in order to guide the intervention and portfolio interest in these institutions. A special Board paper was completed in October 2010 and presented to the Board in March 2011, to identify the financial viability of the top banks in Nigeria. The African Development Bank subsequently increased its equity stake in the viable banks. It is important to note that Nigeria banks have spread across the African continent, with branches in Ghana, Kenya, Uganda, among other countries. Hence, the impact of this research goes beyond Nigeria and extends to other African countries where the banks operate.

In addition, the case studies provided strategic input into the Senior Policy Programme of the African Economic Research Programme (AERC), the leading think tank in Africa. The AERC asked Murinde and his team to produce a non-technical version of the case studies for the Twelfth Senior Policy Seminar (SPS XII) of the AERC, which was held in Mombasa, Kenya, on 22 – 24 March 2010. Participants included the Governor of the Central Bank of Kenya, the Deputy Governor of the Bank of Uganda, senior bank managers and senior bank regulators from 18 African countries. The output of SPS-XII was published by Palgrave Macmillan, on behalf of the AERC, as *Bank Regulatory Reforms in Africa*, edited by Murinde [source 2].

African voice on banking regulatory reform

Subsequently, some African senior policy makers at the AERC SPS-XII asked that the research findings be used to write a clear articulation of the African voice on the new architecture for banking regulatory reform (transition to Basel III) at the G20 Summit in Seoul, Korea [source 3]. Murinde joined a Brookings seminar on issues surrounding the 2010 Seoul G20 summit. That grew into a further conference in Washington and eventually a major symposium in Seoul. Murinde presented the African voice at the September 2010 G20 Seoul International Symposium, where the headline speaker was Paul Martin, former prime minister of Canada [source 4]. The report was included in the volume for the Summit which contains contributions from three dozen top experts from all over the world [source 5].

The same report was adopted by New Rules for Global Finance Coalition, a Washington-based international network of activists and researchers concerned with reforms of the international financial architecture, and was subsequently presented by Murinde and the Executive Director of New Rules for Global Finance, Dr Jo Marie Griesgraber, to Governor Daniel K. Tarullo, of the US Federal Reserve Board, who is driving US and global reforms of banking regulation [source 6].

Impact case study (REF3b)**Financial Market Reform**

There are two specific examples of how Murinde's work on financial market reforms has been of interest to policy makers in Africa. The first example relates to invitations to share research findings with think tanks and policy makers, in terms of relevance to policy problems and for shaping their own work. Specifically, Murinde presented a key note to the Annual Meeting of African Stock Exchange Regulators, which was held in Accra, Ghana, on September 14, 2009, on "Market microstructure reforms in Africa and implications for corporate financing". The work drew evidence from Murinde's empirical work, especially R5 and R7 above.

The second example of impact is that, following the Accra meeting, the Director General of the Securities and Exchange Commission of Nigeria invited Murinde to draw up a programme of knowledge and training for SEC staff and staff of the Nigeria Stock Exchange Securities for 2010-2013. Consequently, the SEC undertook training programmes for Board members, as reported in Annual Report of the SEC for 2011 (page 14) [source 7].

5. Sources to corroborate the impact (indicative maximum of 10 references)

1. <http://www.afdb.org/en/>
2. Corroboration of all of the impact achieved via the African Development Bank has been provided in a statement to the University by the Bank's Chief Economist & Vice President (6th August 2013).
3. Corroboration can be provided by the Executive Director, Africa Economic Research Consortium.
4. Corroboration about work with the Brookings Institution and G20 Summit in Seoul can be provided by a Non-resident Senior Fellow, Global Economy and Development, Brookings Institute, Washington DC.
5. Murinde, V. (2011), "Bank Regulation in Africa: From Basel I to Basel II and Now at a Crossroads", in Bradford, Colin I. and Lim, Wonhyuk (Editors), Global Leadership in Transition: Making the G20 More Effective and Responsive, Washington DC: Brookings Institution Press with the Korean Development Institute, Chapter 9, page 101-124. ISBN-13: 978-0-8157-2145-1.
6. Corroboration can be provided by the Executive Director, New Rules for Global Finance Coalition, Washington DC.
7. Corroboration can be provided by the Director General & Chief Executive Officer, Securities and Exchange Commission, Nigeria.