November 2014

Report

A financial sector to support development in low income countries

Stephany Griffith-Jones with Ewa Karwowski and Florence Dafe

Key messages

- Deepening financial sector in LICs is desirable, but it should be done at moderate pace
- Macro prudential regulation is important to avoid boom and bust cycles
- There are virtues in diversified financial sector, with large and small banks, private, cooperative and public banks to serve different segments of the economy
- Funding SMEs is key, including both sufficient credit and appropriate cost

Acknowledgements

This paper is an output of the Grant "Financial regulation in low-income countries: Balancing inclusive growth with financial stability" funded by the DFID-ESRC Growth Research Programme (DEGRP). ODI gratefully acknowledges the support of DFID/ESRC in the production of this study. The authors are grateful to Joseph Stiglitz for valuable comments on an earlier draft. We are also very grateful for very good comments received at the two ESRC/DFID workshops,in Ghana and Senegal, and at the IPD Africa Task force meetings in New York, and Yokohama. Charles Harvey also gave detailed comments. We thank ESRC/DFID for their support for the research leading to this paper. We are grateful to Nshalati Hlungwane for excellent research assistance. The views presented are those of the author and do not necessarily represent the views of ODI or DFID/ESRC.

Table of contents

Acknowledgements **i**

List of figures and tables **iii**

1 Introduction **1**

2 Financial Sector Development and Growth **2**

3 The key issues **4**
3.1 Size and structure of the financial sector 4
3.2 The challenges of financial regulation 15

4 Conclusion **20**

Bibliography **22**

List of figures and tables

Figures

Figure 1: Systemic banking crises in Africa, 1980-2010 2
Figure 2: Private credit extension in African middle-income countries compared to high-income countries, 1990-2010 6
Figure 3: South African private sector credit extension by purpose, 2000-2010 7
Figure 4: Regional per cent of firms by firm size with a bank loan/line of credit 8
Figure 5: Access to bank loans and/or lines of credit by some SSA countries firms 9
Figure 6: Financial deepening in Sub-Saharan Africa, 1990-2010 11

Tables

Table 1: Credit extension in Sub-Saharan Africa by country, 1990, 2000, 2010 12

1 Introduction

Designing a financial sector and its' regulation, in a way that promotes development, provides a particularly challenging area for policy design and research. The policy challenges and research needs are very large, due partly to a major rethinking of the role, scale and structure of a desirable financial sector, as well as its regulation, in light of the major North Atlantic financial crisis. This crisis challenged the view that developed countries' financial systems, and their regulation should be emulated by developing countries, given that developed countries' financial systems have been so problematic and so poorly regulated. Furthermore, it is important to understand the implications of the major international policy and analytical rethinking, including on regulation, for low income countries (LICs) in Sub-Saharan Africa (SSA).

The financial sectors of African LICs are still at an early stage of development so that lessons from the crisis could inform their financial sector development strategies. They have the advantage of latecomers. Moreover, their financial sectors, while generally still shallow, are experiencing fairly rapid growth. Combined with African countries' existing vulnerabilities, such as limited regulatory capacity, and vulnerability to external shocks, this might pose risks to financial system stability. Despite the infrequent appearance of systemic banking crisis on the African continent over the past decade (see below), fast credit growth in many economies—even if at comparatively low levels—calls for caution, signalling the need for strong, as well as countercyclical, regulation of African financial systems. For policy-makers and researchers this poses the challenge of applying the lessons from the crisis in developed and previously in emerging countries to African LICs, while paying careful attention to the specific features of African financial systems.

There are also more traditional policy challenges and research gaps on financial sectors in LICs and their links to inclusive growth. To support growth, there are a range of functions that the financial sector must meet in African LICs, such as helping to mobilize sufficient savings; intermediating savings at low cost and long as well as short-term maturities to investors and consumers; ensuring that savings are channelled to the most efficient investment opportunities; and helping companies and individuals manage risk. There are also large deficiencies in these areas originating from specific market failures and/or gaps. For example, there is a lack of sustainable lending at relatively low spreads, including with long maturities to small and medium enterprises (SMEs), which is particularly constraining for growth in LICs.

This chapter presents two key areas for a policy, as well as a corresponding research agenda for the four case studies on finance and growth in Sub-Saharan Africa 1) the desirable size and structure of the financial sector and 2) new challenges for financial regulation. Discussions in these two areas are important to advance understanding on the links between the financial sector and inclusive as well as sustainable growth, as well as any possible trade-offs.

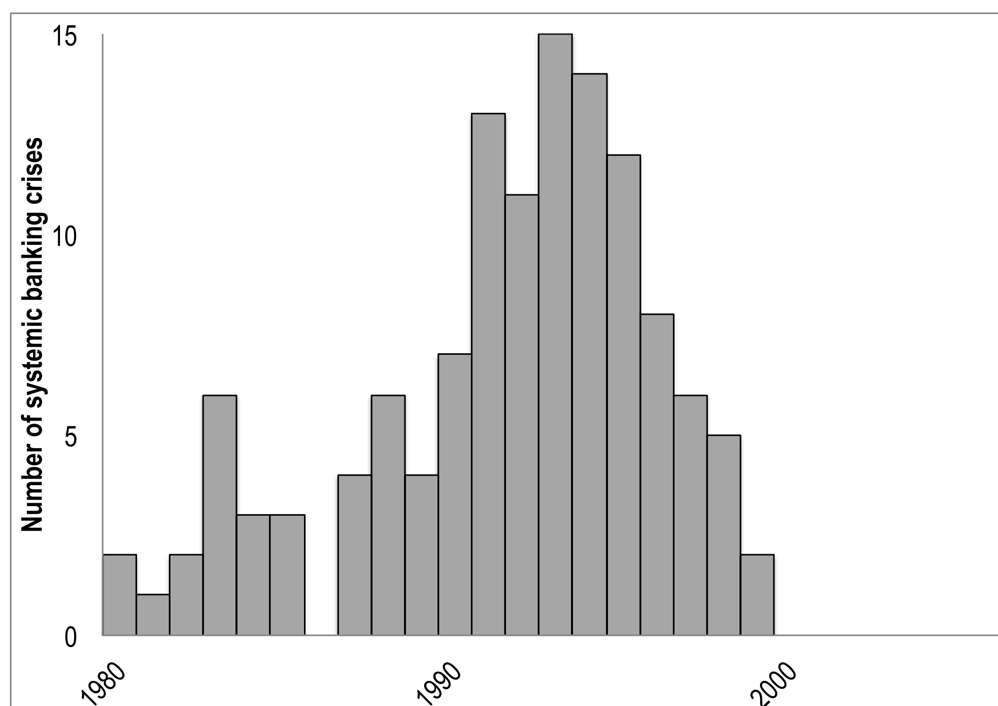
2 Financial Sector Development and Growth

Central bankers and financial regulators in African LICs have always faced major conceptual and institutional challenges in striking the right balance in their policy design to achieve the triple aims of financial stability, growth and equity.

These challenges acquired a new dimension in the light of numerous financial crises, initially in the developing world, but recently in developed countries. The latter led to a major re-evaluation of the role of the financial sector, its interactions with the real economy and the need for major reform of its regulation, especially in developed and emerging economies (see for example, Griffith-Jones, Ocampo and Stiglitz, 2010, as well as IMF, 2012; also Haldane and Madouros, 2012 on the need to simplify regulation); the latter resonates very well with LICs.

It is important that the number of banking crises on the African continent has overall been remarkably low over the past decade (2000-2009), potentially indicating increased resilience of African financial systems particularly in comparison to the 1990s (see figure 1).

Figure 1: Systemic banking crises in Africa, 1980-2010



Source: Laeven and Valencia 2008 and 2012.

In this context the Nigerian banking crisis, the only fairly large crisis in that period—discussed below—is seen by some as a 'sporadic outlier' (Beck et al. 2011b:3). There is nevertheless the danger that lack of recent crises can lead to policy-makers' and regulators' complacency (as well as that by the financial actors), which precisely could increase the risk of future crises. This phenomenon, known in the literature as "disaster myopia", has in the past contributed to increased risk of crises in all other regions.

There has been relatively little research and policy analysis on the implications of the Global Financial Crisis for African countries and LICs more generally, with some valuable exceptions (see for example, Kasekende et al. 2011, and Murinde et al., 2012 for good analysis of regulatory issues in LICs). As African financial sectors are growing quite quickly, they may be more vulnerable to threats to their financial stability. This book, and the research that gave rise to this, attempts to contribute to help answer the question how the need to ensure financial stability interacts with the need of a financial system in LICs that assures enough access to sustainable finance for the different sectors of the economy, including long-term finance to fund structural change, as well as different segments, such as small and medium-sized enterprises (SMEs) and infrastructure.

3 The key issues

There are two areas of issues for understanding the links between the financial sector and inclusive, as well as sustainable, growth: 1) what is the desirable size and structure of the financial sector in LICs? And 2) what are the regulatory challenges to maximise the likelihood of achieving financial stability, whilst safeguarding inclusive and more sustainable growth?

3.1 Size and structure of the financial sector

At a broad level, what is the desirable size and structure of the financial sector in African countries, to maximise its ability to support the real economy? What are the desirable paths of development of the financial sector in Africa to help it maximise its contribution to growth, considering features of African countries and lessons from recent crises?

The traditional positive link between deeper as well as larger financial sector and long-term growth, that started in the literature with Bagehot and Schumpeter, but then was reflected in quite a large part of the empirical literature, such as Levine (2005), is being increasingly challenged. Authors like Easterly et al. (2000) had already early on suggested that financial depth (measured by private credit to GDP ratio) reduces volatility of output up to a point, but beyond that, actually increases output volatility. More recently, a number of papers are showing an inverse relation between size of financial sector and growth, especially beyond a certain level of financial development, which is estimated at around 80-100% of private credit to GDP. Thus, Bank for International Settlements (BIS) economists (Cecchetti and E. Kharroubi 2012) based on empirical work reach the following conclusions, which challenges much of earlier writing:

“First, with finance you can have too much of a good thing. That is, at low levels, a larger financial system goes hand in hand with higher productivity growth. But there comes a point, where more banking and more credit lower growth. Secondly, looking at the impact of growth in the financial system – measured in employment or value added – on real growth, they find clear evidence that faster growth in finance is bad for aggregate real growth. This implies financial booms are bad for trend growth. Hence, macro prudential or counter-cyclical regulation, discussed below, is important.” Finally, in their examination of industry-level data, they find that industries competing for resources with finance are particularly damaged by financial booms. Specifically, manufacturing sectors that are R&D-intensive suffer disproportionate reductions in productivity growth when finance increases.

Similarly, an IMF Discussion Paper (IMF 2012a) suggests empirical explanations for the fact that large financial sectors may have negative effects on economic growth. It gives two possible reasons. The first has to do with increased probability of large economic crashes (Minsky 1974; Kindleberger 1978 and Rajan 2005) and the second relates to potential misallocation of resources, even in good times (Tobin 1984). De la Torre et al. (2011) point out that "Too much finance" may be consistent with positive but decreasing returns of financial depth, which, at some point, become smaller than the cost of instability. It is interesting

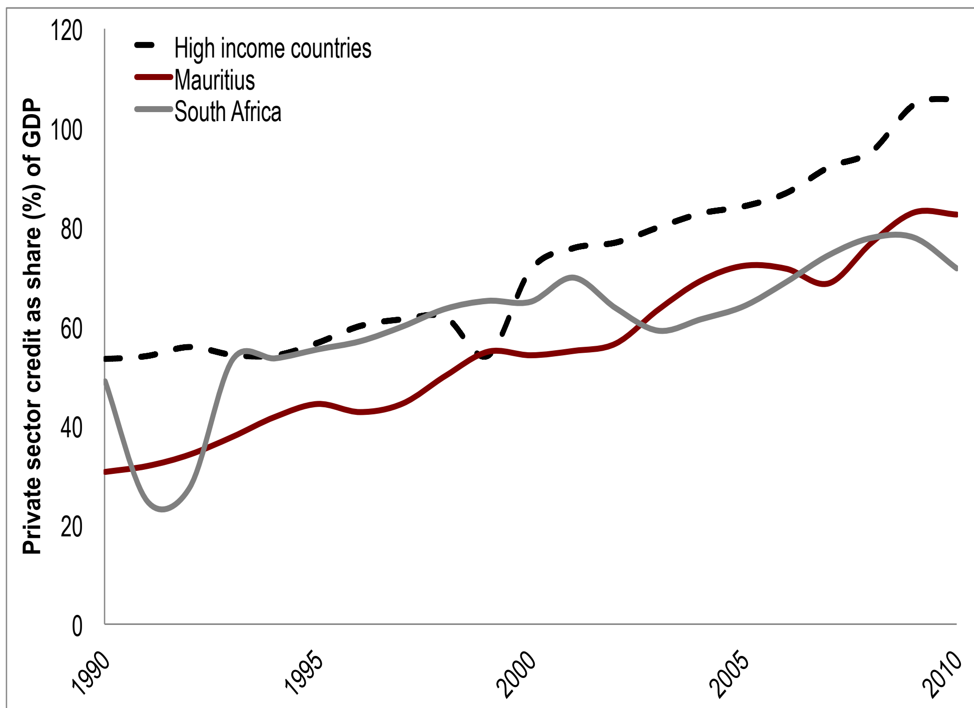
that the IMF Discussion paper (IMF 2012a) results are robust to restricting the analysis to tranquil periods. This suggests that volatility and banking crises are only part of the story. The explanation for the "Too Much Finance" result is not only due to financial crises and volatility, but also misallocation of resources.

It is also plausible that the relationship between financial depth and economic growth depends, at least in part, on whether lending is used to finance investment in productive assets or to feed speculative bubbles. Not only where credit serves to feed speculative bubbles—where excessive increases can actually be negative for growth— but also where it is used for consumption purposes as opposed to productive investment, the effect of financial depth on economic growth seems limited. Using data for 45 countries for the period 1994-2005, Beck et al. (2012) and Beck et al. (2011b) show that enterprise credit is positively associated with economic growth but that there is no correlation between growth and household credit. Given that the share of bank lending to households increases with economic and financial development and household credit is often used for consumption purposes whereas enterprise credit is used for productive investment, the allocation of resources goes some way towards explaining the non-linear finance-growth relationship. In African countries, only a small share of bank lending goes to households. However, as financial sectors and economies grow, this will change, as has been the case in South Africa.

Rapidly growing credit to households—even though desirable and potentially welfare enhancing when strengthening reasonable levels of domestic demand and financial inclusion, in a sustainable way—might however, cause financial instability, as well as harm poorer people, if not regulated prudently. This is especially the case if lending is excessively channelled into the construction sector, creating a housing bubble. The two most advanced African economies South Africa and Mauritius—both upper middle income countries—have recently experienced or are currently experiencing a construction boom. Both economies possess relatively deep financial markets with strong private domestic lending including significant consumption credit extension. Figure 2 shows that private credit in high income economies was around 100% of GDP on average in 2010 while it accounted for 70-80% of GDP in Mauritius and South Africa.

In international comparison, South Africa was the country in Africa which experiences the strongest house real price gains between 2004 and 2007, by far exceeding even the price growth in the booming residential property markets of the US and the UK. In South Africa the ratio of household to business credit is approximately 1:1. The large majority of household borrowing takes on the form of mortgage finance. During the early 2000s this led to an unprecedented housing boom in South Africa fed by growth in housing loans of over 150% in real terms between 2000 and 2010 (see figure 3). This was largely absorbed by upper income South African households accounting for three quarters of total household credit created (DTI, 2010). In an attempt to reduce inflation, asset price increases and potential macro-economic over-heating the South African Reserve Bank gradually initiated monetary tightening in June 2006, accelerating the rise in interest rates the following year.

Figure 2: Private credit extension in African middle-income countries compared to high-income countries, 1990-2010



Source: World Bank 2013b.

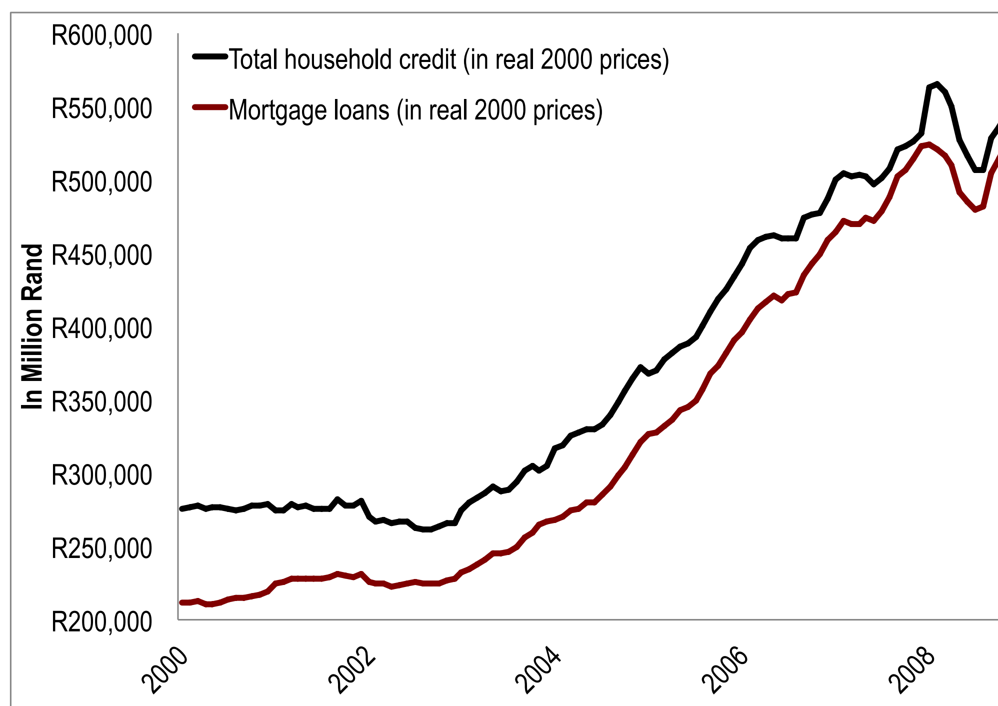
The subsequent economic slowdown in South Africa was to a large extent based on domestically accumulating economic and financial imbalances while the Global Financial Crisis merely intensified the recession of 2008/09. The fact that credit and consumption-led growth was unsustainable in South Africa was illustrated in almost 1 million jobs shed in 2008/09, largely in low-skilled consumption-driven sectors. A positive aspect was that there was no financial crisis, perhaps because of the positive policy response from the economic authorities; however, as mortgage credit picks up, and especially if it does at a very fast pace, care has to be taken to regulate this. The South African experience reiterates that private sector credit expansion at very high levels might lead to output volatility and adverse growth effects. In order to prevent future crisis and foster economic development a re-orientation towards more business credit, particularly for productive investment, might be needed.

Limited data availability makes it difficult to measure to what extent consumption credit is on the rise in most African economies. This would seem to make the case for more disaggregated credit data, as well as monitoring by regulators and policy-makers, more urgent.

One of the few low income SSA countries providing disaggregated domestic lending data is Mozambique (Banco de Moçambique 2013). Private sector credit has increased significantly between 2000 and 2010 in the Southern African country from 15% to 23% of GDP (see table 1 below). During this period consumer borrowing almost tripled as share of total credit while it grew almost eightfold between 2001 and 2012 in real terms. Mozambique has had a strong growth performance implying a robust medium-term economic outlook (IMF 2012). Nevertheless, falling consumer price inflation has been accompanied by potential price pressures present in urban housing markets. Central areas in

Mozambican towns and cities have been observed to experience property price growth of 100% annually (CAHF 2012).

Figure 3: South African private sector credit extension by purpose, 2000-2010



Source: SARB 2013.

More broadly, as we began to discuss above, of relevance for growth is thus the link between the structure of the financial sector and growth. The IMF in its Global Financial Stability Report (IMF, 2012b) has interesting further empirical analysis of the relationship between the structure of the financial sector and economic growth, as well as the volatility of this growth and financial stress. This is a fairly under-studied area, and one which has hardly been applied to LICs. The preliminary empirical results of the IMF report suggest that cross border connections through foreign banks may during crises be associated with instability, though their role may be more beneficial in normal times.

Crucial in the context of policy-making and research on finance in Africa is the extent to which the findings on the relationship between the structure and size of the financial sector and growth in more developed economies are relevant for and apply to African LICs because their financial systems are markedly different. In particular, these countries' banking systems are small in absolute and relative size, many of them reaching the size of mid-sized banks in high-income countries. Beck et al. (2011b) report for instance, that if measured in relative size based on the claims on the private domestic nonfinancial sector to GDP (private credit), the median for African countries as a whole (i.e. including North African countries) was 19% in 2009, while it was 49% for non-African developing countries. African financial sectors also show levels of financial intermediation and access to financial services has remained limited for large segments like SMEs, the agricultural sector or poor households. (as illustrated in detail in our country case studies, in this book). Many of those use informal financial services.

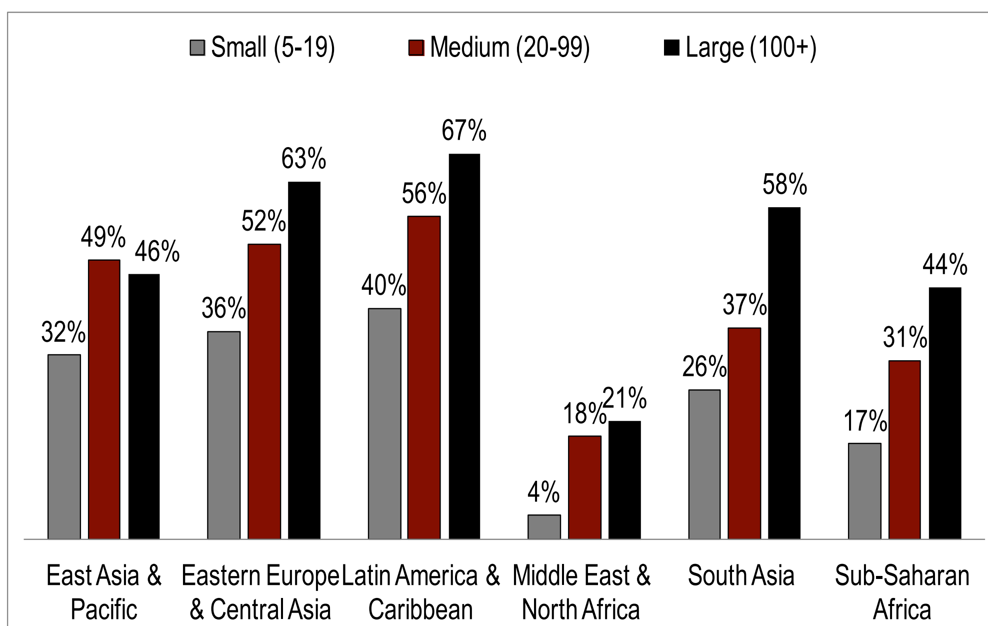
Given the importance of SMEs in creating employment, the lack of credit supporting their activity in African financial systems is a major drawback for development. International financial indicators show that African businesses in general are disadvantaged through less access to finance than competitors in other regions. Concurrently, SMEs enjoy a particularly poor access to sources of finance, leaving them with internal cash flow as main source for investment finance. As consequence, enabling African SMEs to better access financing sources has the potential to strengthen and accelerate growth if done on sustainable grounds and reasonable cost, under adequate regulation.

The obstacles African SMEs experience in their domestic financial systems are mainly concentrated around the insufficient support by banking institutions, as well as lacking alternative sources of finance. Therefore, recent developments of deepening African financial markets might help SME growth if successfully and sustainably channelled into this segment. International indicators such as domestic analysis via enterprise surveys, by company size, support the view that African SMEs have limited access to finance, as argued below.

The graphs below illustrate the difficulties that African businesses and entrepreneurs have in accessing finance, in comparison to the average for all countries (see figures 4 and 5).

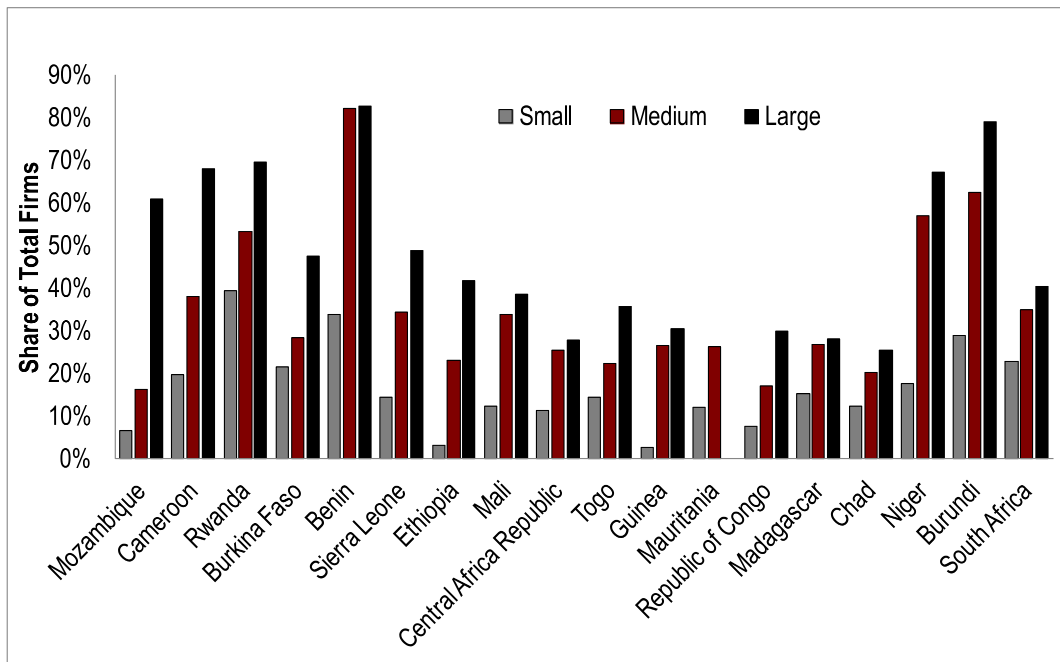
Assessing the ability of firms to access finance more deeply, the percentage of small, medium and large firms that have a bank loan or a credit line can serve as a measure. Sub-Saharan African small and medium sized firms have poor access to finance (only 17% of them, as opposed to 40% in Latin America, and 32% in East Asia) when compared to other developing regions, performing only better than Middle East and North Africa region (see figure 4). This analysis of access to credit by firm size is taken further below for some Sub-Saharan African countries by looking at firms of different sizes and the implications on the ability of the firm to have a bank loan or a credit line (figure 5).

Figure 4: Regional per cent of firms by firm size with a bank loan/line of credit



Source: World Bank 2013a.

Figure 5: Access to bank loans and/or lines of credit by some SSA countries firms



Source: World Bank 2013a.

In general, between 60% and 70% of SMEs in Sub-Saharan Africa need loans, however only 17% of small and 31% of medium-sized firms actually have access to finance. As a consequence, firms in Sub-Saharan Africa have to finance a high proportion of investment through internally generated cash flows (82% among small Sub-Saharan African firms, 78% amongst medium firms and 72% amongst large firms, according to World Bank data). This reflects other findings, for example by CAI, which found that African countries lack developed equity and bond markets, alternative sources of capital and that there are low levels of lending by banking institutions (with the latter two probably most appropriate forms of funding SMEs).

Not surprisingly, according to the World Bank, 48% of small enterprises and 42% of medium enterprises in Sub-Saharan Africa have identified access to finance as a major obstacle to their business activities. This is an extremely high proportion, though some caution should be expressed, in that only creditworthy—and not all—SMEs should be granted credit.

In an effort to increase the level of participation of financial institutions to finance small medium enterprises public banks, such as the African Development Bank (AfDB), are driving a number of initiatives designed to encourage the participation of financial institutions. One notable initiative is the African Guarantee Fund (AGF), which is a for-profit social investment fund. The AGF is owned by AfDB, AECID and DANIDA with contributions of US$10 million, US$20 million and US$20 million, respectively (African Development Bank, 2012). Over the next 3 to 5 years, this share capital is expected to increase to US$ 500 million, giving the institution capacity to guarantee up to US$2 billion worth of SME loans. The additional capital will be coming from bilateral donors, private investors as well as from DFIs (African Development Bank, 2012). The AGF is selecting certain financial institutions to be partner institutions by assessing their commitment to

grow their SME portfolio and improving financial product offerings to SMEs. For these partner institutions AGF will have two lines of activity:

Partial credit guarantees: the provision of partial guarantees for financial institutions on the African continent to incentivise them to increase debt and equity investments into SMEs.
Capacity development: supporting AGFs partner institutions enhance their SME financing capabilities through assisting to improve the capacity to appraise and manage SME portfolios (African Development Bank, 2013).

Operationally, the AGF will work on a risk sharing basis with financial institutions and the maximum risk coverage ratio will be 50%. The balance of risk will be borne by the financial institutions (African Development Bank, 2013). AGF is designed to achieve a triple-A rating in order to attract a zero per cent risk-weight on SME loans provided by partner institutions. This will allow these institutions to lend money with limited need to set aside regulatory capital because of the guarantee from the highly-rated AGF.

It is worth noting that over and above the general consensus that SMEs lack long-term finance at reasonable lending rates, working capital facilities are also starting to be emphasised. The AfDB notes that (African Development Bank 2012:3): "SMEs … complain … how banks are hesitant to provide long term lending and working capital facilities, both of which they need for growth". Currently, according to World Bank (2013a), 15% of small enterprises in Sub-Saharan Africa use banks to finance working capital, however, only a small proportion (6%) of their working capital needs are covered by this type of finance

The need for working capital finance from financial institutions is echoed by Standard Bank, which found that there is a need for working capital facilities for SMEs in Sub-Saharan Africa (Botha 2011). To this end, Standard Bank has launched a product called Quick Loans, which provides unsecured loans of between US$300 to US$30,000 for 3 to 12 months, as well as other forms of finance to traders (Standard Bank 2013). Standard Bank (2013) has established SME banking in 13 African Countries (excluding South Africa) and during 2011 provided financial services to more than 150 000 SMEs across these countries.

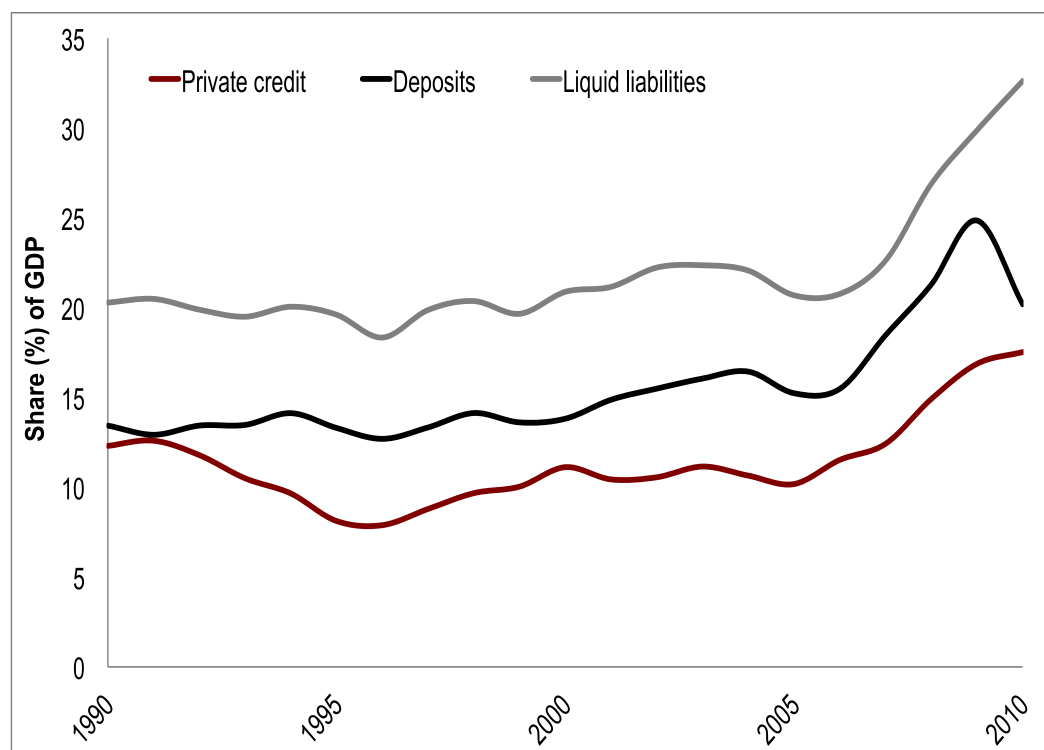
In general data on the asset composition of banks across different regions shows that unlike banks in other regions of the world, African banks hold a much smaller share of their assets in private sector loans and a much larger share in government securities, foreign assets, and liquid assets (Beck et al. 2011b). Household credit constitutes only a small share in bank credit, except in countries where financial sectors are more developed like South Africa.

Banking sectors in most African countries are highly concentrated. In many countries, banks are predominantly foreign-owned, many of them being regional banks from other African countries. Banks also operate very profitably, with subsidiaries of foreign banks in Sub-Saharan Africa having higher returns on assets than subsidiaries of the same banks in other regions (Honohan and Beck 2007).

It is not clear the extent to which the findings on the reverse link between financial depth and growth found in the context of developed and emerging economies is as relevant for low income countries, with a much lower level of financial development, and with large parts of the population and companies, lacking any access to financial services, as to countries with far deeper financial sectors. However, these findings will certainly be relevant for designing policies that will influence their future evolution. Furthermore, it may well be that in the near-term,

the issue is more related to avoiding excessive speed of growth of finance, that we have started to illustrate above, which may be more the threat to financial stability in the case of Sub-Saharan Africa (SSA). Indeed, as shown in figure 6, financial deepening in SSA has accelerated in recent years. The amount of private credit as share of GDP almost doubled from an average of 10% during the 1990s to 18% by 2010. Bank deposits as share of GDP grew from 13% (in 1990-1999) to more than 20% (in 2010), while liquid liabilities (also known as broad money or M3)[i] to GDP rose by more than 10 percentage points over the same period from 20% to exceed 30%.

Figure 6: Financial deepening in Sub-Saharan Africa, 1990-2010



Source: World Bank 2013b.

The above aggregate figures do not do justice to the fast pace of credit expansion in certain SSA economies. Table 1 provides country data about credit extension as share of GDP for all SSA economies individually. It highlights countries which have experienced a doubling of private credit to GDP within the past decade (2000-2010) in yellow. Economies where private credit tripled or increased up to tenfold over the same period are given in orange whereas SSA states that saw a rise in lending to the private sector of ten times or more are highlighted in red.

Table 1: Credit extension in Sub-Saharan Africa by country, 1990, 2000, 2010

Country	1990	20000	2010	Credit growth 2000-2010 (%)
Sub-Saharan Africa (developing)	9.2%	11.0%	17.5%	59.1%
Benin	n/a	11.1%	22.1%	99.1%
Botswana	7.8%	13.9%	22.3%	60.4%
Burkina Faso	16.2%	10.8%	16.5%	52.8%
Burundi	7.4%	17.3%	20.0%	15.6%
Cameroon	27.1%	7.7%	11.1%	44.2%
Cape Verde	4.0%	37.5%	59.2%	57.9%
Central African Republic	7.4%	4.4%	7.4%	68.2%
Chad*	6.5%	3.4%	5.0%	47.1%
Comoros*	n/a	8.3%	12.2%	47.0%
Congo, Dem. Rep.	n/a	n/a	n/a	n/a
Congo, Rep.	n/a	5.7%	4.1%	-28.1%
Côte d'Ivoire	36.4%	15.2%	17.3%	13.8%
Eritrea	n/a	n/a	n/a	n/a
Ethiopia*	1.6%	18.2%	17.2%	-5.5%
Gabon	n/a	8.3%	8.1%	-2.4%
Gambia, The	10.0%	11.6%	17.7%	52.6%
Ghana	5.0%	11.7%	13.7%	17.1%
Guinea	n/a	n/a	n/a	n/a
Guinea-Bissau*	13.0%	7.6%	5.8%	-23.7%
Kenya	17.7%	25.6%	30.6%	19.5%
Lesotho	13.8%	14.0%	12.6%	-10.0%
Liberia*	n/a	n/a	13.8%	n/a

Madagascar	14.5%	8.0%	11.1%	38.8%
Malawi	9.2%	4.5%	14.2%	215.6%
Mali	9.2%	4.5%	17.4%	286.7%
Mauritania	31.1%	n/a	n/a	n/a
Mauritius	30.1%	54.2%	82.3%	51.8%
Mozambique	n/a	15.4%	23.2%	50.6%
Namibia	n/a	39.1%	43.7%	11.8%
Niger	12.8%	4.3%	11.8%	174.4%
Nigeria	8.8%	11.1%	30.3%	173.0%
Rwanda	7.4%	9.5%	n/a	n/a
Sao Tome and Principe*	n/a	4.1%	33.2%	709.8%
Senegal	27.5%	16.5%	24.5%	48.5%
Seychelles	7.0%	15.2%	22.9%	50.7%
Sierra Leone	3.3%	1.9%	9.2%	384.2%
Somalia	n/a	n/a	n/a	n/a
South Africa	49.1%	65.0%	71.7%	10.3%
South Sudan	n/a	n/a	n/a	n/a
Sudan	4.3%	1.8%	10.9%	505.6%
Swaziland	14.2%	12.6%	23.1%	83.3%
Tanzania	12.4%	3.9%	14.6%	274.4%
Togo	22.7%	15.7%	20.7%	31.8%
Uganda	2.5%	5.3%	13.4%	152.8%
Zambia	6.8%	6.7%	10.7%	59.7%
Zimbabwe	0.0%	0.8%	n/a	n/a

Source: World Bank 2013b.
* Where 1990 or 2010 data were unavailable 1991 or 2009 data were used if possible.
Countries where private credit extension has (almost) doubled between 2000 and 2010 are highlighted in yellow.
Countries where private credit extension has increased threefold or more (but less than tenfold) are highlighted in orange.

This analysis shows that in the recent decade there was a considerable number of SSA countries with very rapid credit growth, namely:

1) Benin and Swaziland where credit to GDP (almost) doubled;
2) Malawi, Mali, Niger, Nigeria, São Tomé and Príncipe, Sierra Leone, Sudan, Tanzania and Uganda where credit to GDP increased threefold and more (but less than tenfold);
3) Angola with private credit growing by a factor of more than 15fold, or 1500%.

Though this is a rough indicator, countries in the last two categories would seem more vulnerable to potential crises, so they may need to examine whether they need to introduce tighter regulations, in general, or in particular sectors.

Financial systems in many African countries share features which seem to increase their vulnerability to shocks in the economic and financial system, including limited financial regulatory capacity, macroeconomic volatility linked to the economic structure of the countries (e.g. natural resource dependence, and concentration of exports, which implies volatility of their terms of trade) and political pressure for financial deepening with a view to develop the real economy.

Fast credit growth might exacerbate vulnerabilities and enhance the risk of financial crises, as it has done in all other regions of the world. In the African context, the case of Nigeria provides a recent illustration that banking crises might cause a negative link between financial deepening and growth, even at relatively low levels of financial development. In 2004/2005 the Central Bank of Nigeria (CBN) mandated a steep increase of minimum bank capitalisation with a view to create large internationally competitive banks and increase financial depth (Soludo 2004). Banks achieved this capitalisation, which was high even by international standards, by means of equity investment, mergers and acquisitions, resulting in the consolidation of the banking sector from 89 to 25 banks. The consolidation in the domestic banking sector, along with abundant capital in the wake of rising oil prices increased the speed of credit creation with significant flows to sectors with little growth impact. Between 2006 and 2009 private credit tripled from 12% to 36% of GDP. In real terms (2002 prices) this meant that domestic borrowing by the private sector grew almost fivefold.

This growth of credit included loans used to finance share purchases, an undesirable practice clearly, setting the stage for a financial asset bubble particularly in bank stocks (Sanusi 2010). The financial sector boom ended in a bust with a systemic banking crisis, accentuated by the impact of the North Atlantic crisis in 2009, as financial sector growth was excessive, partly because it had not been accompanied by the corresponding regulatory and supervisory upgrade. Consequently, non-performing loans as percentage of gross loans rose sharply from 9.5% in 2007 to almost 30% in 2009. Finally, nine financial institutions that were close to collapse had to be rescued at the cost of US$4 billion. (for a more detailed analysis, see Nigerian case study in this volume, Ajakaije O and Tella S, forthcoming.). The cost of cleaning up the balance sheets and recapitalising the banks concerned is estimated at about 2.4 trillion Naira, equivalent to almost 8% of GDP (IMF 2011). The Nigerian crisis shows there is no reason for complacency about the need for rigorous financial regulation in African economies especially in the face of rapid credit expansion.

With respect to the effect of foreign bank presence on financial stability and growth in Africa, the existing evidence is somewhat ambiguous and requires further research (for an interesting recent book, see Beck et al. 2014). There are indications

that foreign banks can bring in experience from other regional economies and can help exploit scale economies in small host countries. Yet the benefits for financial access remain ambiguous, partly because of the greater reliance of foreign banks on so-called "hard" information about borrowers as opposed to soft information which often implies a focus on prime borrowers (Detragiache et al. 2008, Sengupta 2007). Furthermore, it seems that foreign banks are fundamentally different from domestic banks. As argued by Rashid (2011) foreign banks seem less inclined to lending and their loans are likely to be more volatile than those offered by domestic banks. Despite strong foreign bank presence, the effects of the global financial crisis on African banks have been limited. In part, this is due to the relatively limited presence of banks from developed economies in Africa (with a high proportion of foreign banks currently being regional ones, which is different from previous decades when foreign banks were predominantly developed country ones, see Brownbridge et al. 2011) and the fact that existing subsidiaries mostly fund themselves locally and not via their parents; this, however, limits the contribution these foreign banks make to national savings (Fuchs et al. 2012a). In addition, reportedly large capital buffers–often above levels required by Basel III–have served to increase the resilience of African banks during the global financial crisis although this may have involved some costs for intermediation (Fuchs et al. 2012b).

The fact that financial sectors in LICs tend to be relatively smaller and simpler provides an advantage in that governments have more policy space to influence the future nature and scale of their financial system. Furthermore, the fact the financial sector is smaller, may imply it is less powerful politically; thus, potentially this gives more autonomy to regulators and—more broadly governments—to shape the financial sector.

LICs thus have the advantage of being latecomers to financial development and can benefit from positive and negative lessons from experiences and research on other countries. On the other hand, the incompleteness of LIC financial systems means that important challenges remain on extending access (to all types of financial services) to those excluded, such as a high proportion of poor households, microenterprises and SMEs. More generally, it is difficult to fund working capital and investment, especially for SMEs (and particularly at low spreads and longer maturities) crucial for growth and employment generation. The financing of infrastructure is a well-known problem in LICs, and the mobilisation of sufficient long-term finance, as well as the most effective way to channel it to investment in that sector, is a key area of policy.

3.2 The challenges of financial regulation

A key lesson from recent crises has been the need for regulation to be both counter-cyclical and comprehensive to avoid the build-up of systemic risk (Griffith-Jones and Ocampo 2009; Saurina and Repullo 2011). Though there is agreement on these principles, there is far less consensus on how these should be implemented. A great deal of research and policy analysis is being carried out in the BIS, the IMF, the Basle Committee for Bank Regulation and the Financial Stability Board on these issues.

One of the key problems is that LICs are not represented at all or are heavily underrepresented in these bodies. Therefore, there is insufficient focus in their work on how relevant these issues are for LICs and how they should be implemented in them.

Macro-prudential or countercyclical regulation

As discussed above, over the past decade, there has been rapid credit growth in a number of African countries. Rapid credit growth can give rise to systemic financial and macroeconomic risks, making the design and implementation of appropriate macro-prudential regulation and supervision a policy priority in Africa. For example, the final report of *Making Finance Work for Africa*, in collaboration with AACB and Bank of Uganda (2011) defined as most relevant and urgent for African LICs—within Basle III—the incorporation of macro-prudential supervision.

In the case of macro-prudential regulation, an important research issue is how can it be complementary to monetary policy in LICs? Macroeconomic volatility, for instance, remains a problem, partly because many African countries' exports are concentrated in a few commodities, which makes their economies vulnerable to the large price shocks characteristic of commodities.

Comprehensive regulation in LICs

The international analyses of comprehensive regulation should be modified for the LIC context. This requires taking into account the different nature of the financial system in LICs, where for example very complex derivative products are not an issue, but where many financial transactions go through informal channels, or financial services are provided by non-banking institutions like retail shops or mobile service providers. The mobile payment service M-Pesa, developed in Kenya, is a case in point. M-Pesa was launched to target mobile subscribers who were un-banked and now has over 7 million customers, both banked and un-banked. Light regulation in the testing phase of the financial product, on the principle of proportionate supervision, contributed to M-Pesa's rapid growth. However, at a later stage of product development and at a higher level of outreach, regulation may need to become significantly more stringent for M-Pesa's success to be sustainable.(For an in-depth discussion, see Kenya chapter in this book, Mwega, F., forthcoming) Therefore, the challenge of comprehensive regulation has a very different institutional character in LICs.

Also of high priority are regional/cross border issues. This refers not only to regulation of traditional international banks, but also to the rapidly emerging pan-African banks. As Fuchs et al. (2012b) point out, recent reforms of the international supervisory architecture concentrated on creating colleges of supervisors for all internationally operating banks. Representation of African supervisors (especially LICs) is very limited; this is a source of concern as an international bank may have a small part of its portfolio in an African country, but implies a very large share of their market for a particular LIC country. The role of the LIC supervisor in these colleges becomes too small, if any at all, with potentially serious consequences for financial stability and growth impact in the LIC country. Key are the political economy of how practically to enhance the "voice" of LIC supervisors in cross-border supervisory processes that have strong impacts on their economy, to overcome asymmetries of power that can lead to economically inefficient outcomes for LICs.

A key source of macro-economic volatility, as well as of financial systemic risk, is generated by certain types of capital flows. As a result, there has been growing recognition, in IMF and BIS, as well as in the academic literature (for example Stiglitz and Ocampo 2008; Korinek 2011; Gallagher, Griffith-Jones and Ocampo 2012) on the need for management of the capital account. One of the newest research and policy challenges is how to most effectively combine regulation of capital flows and national counter-cyclical regulation? Again discussion in LICs

has been more limited. (See, paper by Massa, forthcoming, in this volume for a review of the literature and policy issues for LICs) Are capital account management measures needed also in LICs and under what circumstances? In best practice, when are capital account regulations more effective, and when are domestic prudential regulations, which focus on currency mismatches? How best can they complement each other? The large volume of bond issues by Sub-Saharan African sovereigns recently implies access to new sources of capital, but poses new risks; especially as monetary policy becomes less loose in the United States. Past international experience tells us that there are surges and reversals of capital flows, often linked to developments in the advanced economies.

Our analysis above has focussed more on discouraging excessive short-term capital flows when they threaten to cause macro-economic over-heating, overvalued exchange rates and increase financial sector systemic risk. However, there is also the important issue of attracting long-term capital flows, especially where it can provide technology transfer and access to new markets.

The research questions

In this project and resulting book, we are focussing on the following research and policy themes and questions, which are analysed in depth in the country case studies

i. identifying key national risks to financial stability as well as gaps in financial sector for funding inclusive growth,
ii. regulatory measures to support financial stability, as well as measures to promote access to credit, where gaps exist
iii. where relevant, management of capital account
iv. advantages and problems of different mechanisms due to specific country characteristics (e.g. weak institutions, governance and information problems).

As regards the domestic financial sector, the focus of the country studies is mainly on the banking sector, as this sector is so central in SSA's low income countries, and to allow greater depth of analysis.

The following questions are addressed in the country case studies:

1) What are the main features and what vision of development for the country in the next 10 years? Main opportunities, (such as in some cases new natural resources) and main challenges (such as continued lack of access and high cost of credit , especially for SMEs)
2) What sort of financial system is needed to support that vision and seize existing and new opportunities for sustained growth, as well as manage key challenges of potential risks to financial stability?
3) What scale of financial (and especially banking) sector is desirable? Above all, what pace of growth of the financial sector is desirable? Is the key challenge one of expanding access for certain sectors and social groups, given too little credit growth or are there also challenges to maintain financial stability? (for a discussion of how best to attempt to combine inclusive growth and financial stability, see Spratt forthcoming in this volume)
4) As regards access to credit, there are two issues. Is there enough access to credit, especially for SMEs; is it of enough maturity? Reliance on existing survey material, amongst users of credit are used, as in some cases are interviews, both of banks and of users. The second issue, which has been identified in this project, as of special importance as regards access to credit

is that of the excessive cost of credit, linked to the high spread that banks in the four case study countries charge, which also seems to be a major problem in other SSA countries. Here careful analysis of the cost of intermediation and its evolution in the different countries studied is carried out. This is followed by an analysis of the causes of the particular evolution of cost of lending. Where it has remained high, as it is in several countries, the puzzle is why- even in the face of changes within the banking industry, that should have increased competition, such as increase in number of banks,- has the cost not come down or why fallen so little? If it is high costs in banks, what are the main factors explaining them? Last, but perhaps most importantly, we discuss what are policy solutions to deal with this issue?

5) As regards the structure of the banking sector, the case studies examine the role of foreign and public development banks, as well as of national private banks. How well have these particular categories of banks performed, for example in terms not just of financial indicators, such as NPLs, ROAs, but also in terms of economic indicators, such as providing access to credit to SMEs, as well as other parts of the private sector? Is there a need for a greater role for good public development banks, to cover gaps in financing in key sectors, essential for inclusive growth? What are experiences of public development banking? How can good development banks be expanded /created? (See for example Spratt, forthcoming in this book as well as Hosono, 2013).

It is noteworthy that since the 2007/2008 crisis, increased interest has emerged internationally in expanding the role of national and regional development banks to provide counter-cyclical lending when private credit falls. Also, public banks can be valuable for incorporating environmental externalities, to give LICs the opportunity to "leap frog" by adopting low-carbon technologies. More broadly, public development banks can be a valuable mechanism for financing particular strategies of development. What are the incentives and institutional arrangements that are required to make such development banks effective and efficient in LICs? What lessons can be learned from successful banks in developed countries (e.g. the European Investment Bank, German KfW) and emerging economies (e.g. BNDES in Brazil, as well as Asian development banks)? Studies on the experiences with development banks in Africa mostly date from the 1980s and 1990s and evaluations report fairly negative experiences (see Brownbridge et al. 1998). However, many development banks have been reformed or new ones created over the past decade in SSA so that research implying re-evaluations of their effectiveness are important (see especially chapter on Ethiopia, in this book Alemu, forthcoming).

1) As regards foreign banks, what are the key challenges for regulating such banks, both foreign ones in host and home countries?
2) More broadly, on domestic financial regulation, how important is implementing Basle 2/3 for ensuring financial stability with inclusive growth? What aspects of Basle 2/3are particularly essential of Basel 2/3? What are liquidity/capital requirements/others? Are levels of capital adequacy sufficient to ensure financial stability? If they are increased, could this increase the cost of credit further?
3) Is the regulatory toolkit in more reliant on other variables such as structure of banking assets, which may be more relevant for LICs? Should thus regulation be more tailored to LICs needs? What are capacity and other constraints for implementing different regulation and supervision aspects, such as lack of information, insufficient staff, and how could they be overcome? (see Gottschalk, forthcoming in this book). Should counter-cyclical regulation be

introduced? How should it be done? At the aggregate level of total credit expansion, or focussed on specific sectors, eg those to whom credit grows the most, or specific sectors like lending to real estate?

4) What institutions/mechanisms are available in the banking system for financial inclusion? How successful are they, in providing access to the poorer segments of society? Do they pose sustainability risks for the individual users and/or financial stability risks in the macro sense?

5) What is the structure and level of capital flows? Has there been a recent expansion of foreign capital flows, eg via bonds? What can be done to encourage long term capital flows that enhance development potential? What are desirable levels of sustainable foreign debt? How can the capital account best be regulated to avoid future currency or banking crises? Should it be done through regulating currency mismatches in lending to banks and companies? Or should market friendly counter-cyclical capital controls on inflows of short term capital also play a role?

4 Conclusion

While the 2007/8 crisis originated in, and strongly hit, developed economies, African LICs financial systems did not suffer crises, except for Nigeria. However, there is no reason for complacency in regulating African financial sectors. Fairly rapid credit growth in the context of limited regulatory and supervisory capacity, especially in some countries, suggests that the time is now to draw appropriate lessons from the North Atlantic crises for African countries. There is also no reason to believe that if major private financial crises have hit all other continents, Africa would be an exception, unless it proceeds very cautiously with financial liberalization and financial development, as well as accompanies it with strong and effective regulation.

Regulation of the financial sector should be counter-cyclical to prevent boom-bust cycles which can lead to developmentally costly crises, and comprehensive, to include all institutions that provide credit. Capital flows should also be prudently managed, and where appropriate, capital account regulations should complement domestic financial regulation, as is increasingly recognized by institutions such as the IMF and the BIS. Furthermore, the rapidly growing borrowing on the international bond markets by SSA sovereigns could lead to future problems, so needs careful monitoring.

The fact that African LICs' financial systems are still relatively small in relation to the size of their economies allows more space for African policy-makers and regulators to try to shape their financial systems so they serve well the needs of development, by helping support inclusive and sustainable growth, (for example by supporting much needed lending to SMEs), as well as desirable structural change.

Furthermore, the fact that the financial sector is smaller in SSA countries, as proportion of GDP, may imply it is less powerful politically; thus, potentially this gives more autonomy to regulators and—more broadly governments—to shape the financial sector to serve the real economy.

A key issue is not just the size, but also the structure of the financial sector. Because financial sectors are riddled with market imperfections and market gaps, it is important to have government interventions to correct these market imperfections (for example the pro-cyclical nature of private lending) and institutional arrangements to fill market gaps, (for example sufficient long-term finance for helping finance private sector investment). Furthermore, to implement a particular vision and strategy of development, it is valuable for governments to have institutions and mechanisms to help finance development of particular sectors. In this context, it is important to design instruments and institutions that can perform such functions. Public development banks have worked well and often played a very important role in the development of many successful countries, such as Germany, Japan, South Korea, Brazil and others.

There is growing consensus also that smaller, more decentralized banks, may be more appropriate in low-income countries, especially to lend to small and medium enterprises, partly because they can know their customers better, reducing

asymmetries of information. Overall, a more diversified banking system, with large and small banks, as well as private and public development banks seems to offer benefits of diversification—and thus less systemic risk—, complementarities in serving different sectors and functions, as well as providing competition for providing cheaper and appropriate financial services to the real economy.

Bibliography

Association of African Central banks (AACB) and the Bank of Uganda Financial Action Task Force. *Final Report of the Making Finance Work for Africa Conference*. 2011.

African Development Bank. *African Guarantee Fund for Small and Medium-Sized Enterprises Information Memorandum.* Tunis, 2012.

African Development Bank. *Our Operations: African Guarantee Fund.* Tunis, Tunisia, 2013. (Available online under: http://www.africanguaranteefund.com)

Banco de Moçambique. *Statistics, Overall Credit Statistics by Purpose*. Maputo, 2013. (Available online under: http://www.bancomoc.mz/Default_en.aspx)

Bank of Mauritius. *Financial Stability Report*. Port Louis, 2013.

Bank of Uganda. *Financial Stability Report*, June. Kampala, 2012.

Barth, J., Li, T., Lu, W., and G. Yago. *Capital Access Index 2009.* Santa Monica: Milken Institute, 2010.

Basel Committee on Banking Supervision. *Microfinance activities and the Core Principles for Effective Banking Supervision.* Basel: Bank for International Settlements, 2010.

Beck, T., Fuchs, M., Singer D, and M. Witte. *Making Cross-Border Banking Work for Africa*. Bonn and Washington, D.C.: GIZ and World Bank, 2014.

Beck, T., Buyukkarabacak, B., Rioja, F. and N. Valev. “Who Gets the Credit? And Does it Matter? Household vs. Firm Lending across Countries.” *BE Journal of Macroeconomics,* 12 (2012).

Beck, T., Demirgüç-Kunt, A. and D. Singer. “Is Small Beautiful? Financial Structure, Size and Access to Finance”. *World Bank Policy Research Working Paper,* no. 5806 (2011a).

Beck, T., Munzele Maimbo, S., Faye, I. and T. Triki. *Financing Africa. Through the Crisis and Beyond.* Washington, D.C.: The World Bank, 2011b.

Beck, T., Demirgüç-Kunt, A., and R. Levine. “Financial Institutions and Markets: Across Countries and Over Time.” *World Bank Economic Review*, vol. 24, 1, (2010): 77-92.

Botha, A. *Interview Titled: Finance Strategies for SME Development*. CNBC Africa, 2011, May 5.

Brownbridge, M., Harvey, C. and F. Gockel. *Banking in Africa: The Impact of Financial Sector Reform since Independence.* Oxford and Trenton, NJ: James Currey and Africa World Press, 1998.

CAHF. *Housing Finance in Africa, 2012 Year Book*. Johannesburg: Centre for Affordable Housing Finance in Africa, 2012.

Central Bank of Nigeria. *Data and Statistics*, Lagos, 2013. (Available online under: http://www.cenbank.org/Rates).

DTI. *The New Growth Path*. Pretoria: Department of Trade and Industry, 2010.

Emerging Markets Consultants. *Blog Mozambique (Maputo)*. Maputo, 2012. (Available online under: http://www.emergemarkets.com/blog).

Cecchetti, S. G. and E. Kharroubi. "Reassessing the Impact of Finance and Growth." *BIS Working Papers*, no. 381, Basel: Bank for International Settlement, Monetary and Economic Department, 2012, July.

de la Torre, A. and A. Ize. "Containing Systemic Risk: Paradigm-based Perspectives on Regulatory Reform." *World Bank Policy Research Working Paper,* no. 5523 (2011).

Dermirg**üç**-Kunt, A. and L. Klapper. "Measuring Financial Inclusion: The Global Findex Database." *World Bank Policy Research Paper*, no. 6025 (2012).

Demirgüç-Kunt, A. and H. Huizinga. "Are Banks Too Big to Fail or Too Big to Save? International Evidence from Equity Prices and CDS Spreads." *World Bank Policy Research Working Paper*, no. 5360 (2010).

Detragiache, E., Tressel, T. and P. Gupta. "Foreign Banks in Poor Countries: Theory and Evidence." *The Journal of Finance,* 63**,** (2008):2123-60.

Easterly, W., Islam, R., and J. Stiglitz. "Shaken and Stirred, Explaining Growth Volatility." *Annual Bank Conference on Development Economics*. Washington, D.C.: World Bank, 2000.

EIU *Private Consumption*. London: Economist Intelligence Unit, 2011.

FATF. *Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion*. Paris: FATF, 2013.

Financial Services Authority. *The Turner Review: A Regulatory Response to the Global Banking Crisis*. London, 2009.

Fuchs, M., Losse-Mueller, T. Strobbe, F. and M. Witte. *African Financial Sectors and the European Debt Crisis: Will Trouble Blow across the Sahara?* Washington, D.C.: World Bank, 2012a.

Fuchs, M., Losse-Mueller, T. and M. Witte. "The Reform Agenda for Financial Regulation and Supervision in Africa." In *Financial Sector Development in Africa: Opportunities and Challenges,* edited by Beck, T. and S. M. Maimbo. Washington, D.C.: World Bank, 2012b.

Gallagher, K.P., Griffith-Jones, S. and J. A. Ocampo. "Capital Account Regulations for Stability and Development: A New Approach" *Issues in Brief,* no. 22 (2012), Boston: The Frederick S. Pardee Center for the Study of the Long-Range Future.

Global Partnership for Financial Inclusion. *Global Standard-Setting Bodies and Financial Inclusion for the Poor Toward Proportionate Standards and Guidance, A White Paper*. Prepared by CGAP on behalf of the G-20, 2011.

Griffith-Jones, S., Ocampo, J.A., and A. Ortis *Building on the counter-cyclical consensus: A policy Agenda*. Paper prepared for the High-level Roundtable in Brussels "Towards Basel 3? Regulating the Banking Sector after the Crisis". October 12, 2009.

Griffith-Jones, S., Ocampo, J.A. and J. Stiglitz. *Time for a Visible Hand: Lessons from the 2008 World Financial Crisis*. New York: Oxford University Press, 2010.

Haldane, A.G. and V. Madouros. *The Dog and the Frisbee*. Bank of England Speech given at the Federal Reserve Bank of Kansas City's 36th Economic Policy Symposium, "The Changing Policy Landscape". Wyoming: Jackson Hole, August 31, 2012

HM Treasury. *Vickers Report.* Independent Commission on Banking: Draft Banking Reform Bill, 2012.

Honohan, P. and T. Beck. *Making finance work for Africa,* Washington, D.C.: The World Bank, 2007.

International Monetary Fund. "Walking Hand in Hand: Fiscal Policy and Growth in Advanced Economies." *Discussion Paper.* Washington, D.C.: International Monetary Fund, 2012a.

International Monetary Fund. *Global Financial Stability Report: Restoring Confidence and Progressing on Reforms.* Washington, D.C.: International Monetary Fund, 2012b.

International Monetary Fund. "Fourth Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria." *IMF Country Report,* Washington, D.C.: International Monetary Fund, 2012c.

Iossifov, P. and M. Khamis. "Credit Growth in Sub-Saharan Africa – Sources, Risks, and Policy Responses." *IMF Working Papers,* no. 09/180, 2009.

Kasekende, L.A., Bagyenda, J. and M. Brownbridge. *Basel III and the Global Reform of Financial Regulation: How Should Africa Respond? A Bank Regulator's Perspective*. Washington, D.C.: New Rules for Global Finance, 2011. (Available online under: http://www.new-rules.org/storage/documents/g20-fsb-imf/kasakende.docx)

Kindleberger, C. P. *Manias, Panics, and Crashes: A History of Financial Crises*, New York: Basic Books, 1978.

Korinek, A. "Systemic Risk-taking: Amplification Effects, Externalities, and Regulatory Responses." *Working Paper Series,* no. 1345, Frankfurt: European Central Bank, 2011.

Laeven, L. and F. Valencia. "Systemic Banking Crises: A New Database." *IMF Working Paper,* no. 08/224, Washington, D.C.: International Monetary Fund, 2008.

Laeven, L. and F. Valencia. "Systemic Banking Crises: An Update." *IMF Working Paper,* no. 12/163, Washington, D.C.: International Monetary Fund, 2012.

Levine, R. "Finance and Growth: Theory and Evidence." In *Handbook of Economic Growth* edited by Aghion, P. and S. Durlauf, vol. 1, chapter 12, 865–34. Elsevier, 2005.

Minsky, H. P. "The Modeling of Financial Instability: An Introduction." In *Modelling and Simulation*, vol. 5, Proceedings of the Fifth Annual Pittsburgh Conference, Instruments Society of America, (1974):267–72.

Murinde, V. 2012. *Development-Orientated Financial Regulation. New Rules for Global Finance*, 2012. (Available online under:

http://www.new-rules.org/storage/documents/g20-fsb-imf/murinde-kups.pdf)

Rajan, R. G. *Has Financial Development Made the World Riskier?* Proceedings of the 2005 Jackson Hole Conference organized by the Kansas City Fed, 2005.

Rashid H. "Credit to Private Sector, Interest Rate Spread and Volatility in Credit Flows: Do Bank Ownership and Deposits Matter?" *UN DESA Working Paper*, no. 105. May 2011.

Reddy, Y. V. *Society, Economic Policies and the Financial Sector.* Per Jacobsson Lecture delivered at the Bank for International Settlements, Basel, June 24, 2012.

Ren, H. "Countercyclical Financial Regulation." *World Bank Policy Research Working Paper,* no. 5823, 2011.

Sanusi, L. S. *The Nigerian Banking Industry: What Went Wrong and the Way Forward*. Convocation Lecture delivered at the Convocation Square, Bayero University, Kano, February 26, 2010.

Saurina, J.S. and R. Repullo. "The Countercyclical Capital Buffer of Basel III: A Critical Assessment." *Centre for Economic Policy Research Discussion Paper*, no. DP 8304, 2011.

Sengupta, R. "Foreign Entry and Bank Competition." *Journal of Financial Economics,* 84**,** (2007):502-528.

Soludo, C. *Consolidating the Nigerian Banking Industry to Meet the Development Challenges of the 21 Century*. Address delivered to the Special Meeting of the Bankers' Committee, held on July 6, 2004. Abuja: Central Bank of Nigeria.

SARB. *Annual Report*. Pretoria: South African Reserve Bank, 2013.

Sriram, M.S., Chaturvedi, V. and A. Neti. "Too Big to Fail Versus too Small to be Counted." *BIS Papers*, no. 62, Basel: Bank of International Settlement, 2012.

Standard Bank. *Supporting SMEs*. 2013. (Available online under: http://sustainability.standardbank.com/socioeconomic-development/enterprise-development/supporting-smes/)

Stiglitz, J. and J.A. Ocampo. *Capital Market Liberalization and Development.* New York : Oxford University Press, 2008.

Stiglitz, J. *Monetary Policy in a Multipolar World*. Paper presented in IEA Conference in Turkey, November 2012.

Tobin, J. "On the Efficiency of the Financial Dystem." *Lloyds Bank Review*, 153, (1984):1-15.

The World Bank. *Enterprise Surveys, What Businesses Experience*. Washington, D.C.: The World Bank, 2013a. (Available online under: http://www.enterprisesurveys.org).

The World Bank. *World DataBank*. Washington, D.C.: The World Bank, accessed 2013b.

ODI is the UK's leading independent think tank on international development and humanitarian issues.

Our mission is to inspire and inform policy and practice which lead to the reduction of poverty, the alleviation of suffering and the achievement of sustainable livelihoods.

We do this by locking together high-quality applied research, practical policy advice and policy-focused dissemination and debate.

We work with partners in the public and private sectors, in both developing and developed countries.

Readers are encouraged to reproduce material from ODI Reports for their own publications, as long as they are not being sold commercially. As copyright holder, ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI.

© Overseas Development Institute 2014. This work is licensed under a Creative Commons Attribution-NonCommercial Licence (CC BY-NC 3.0).

ISSN: 2052-7209

Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ
Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399

Research jointly supported by the ESRC and DFID