GLOBAL ECONOMIC GOVERNANCE PROGRAMME

GEG Working Paper 131
August 2017

The Political Economy of Basel Adoption in Kenya

Radha Upadhyaya

BLAVATNIK SCHOOL OF GOVERNMENT
UNIVERSITY OF OXFORD
UNIVERSITY COLLEGE OXFORD

The Political Economy of Basel Adoption in Kenya

A Case of Alignment of Donor, Government and Banking Sector Interests

Radha Upadhyaya[1]

Abstract

Global banking standards have been adopted unevenly by many developing countries even though these standards were not designed with developing countries in mind. This paper assesses the levels of adoption of Basel standards in Kenya. The country has adopted most of Basel I, many components of Basel II and a few of Basel III. I argue that Kenya is a high adopter of these standards as there were unique circumstances that allowed the alignment of donor, government and private sector from 2003 onwards. Kenya's Basel incorporation is embedded in a government strategy that combines the goal of high financial inclusion and the promotion of Nairobi as an international financial hub. The local private banks that were keen to expand into the region viewed adoption of international standards positively. International banks did not drive adoption but they were early adopters as they had the support of their head offices. The paper shows that while Kenya is a high adopter of standards, enforcement of some components of these standards has been weak but there has been an increased effort at enforcement since 2015.

The Global Economic Governance Programme is directed by Emily Jones and has been made possible through the generous support of Old Members of University College. Its research projects have been principally funded by the Ford Foundation (New York), the International Development Research Centre (Ottawa), and the MacArthur Foundation (Chicago). This research was supported by DFID-ESRC Growth Research Programme grant ES/L012375/1.

---

[1] Institute for Development Studies, University of Nairobi, Kenya. Email at: radha@njora.com

Table of Contents

1. Introduction

It has been recognised that banking system in Kenya has made huge strides between 2003 and 2015 both in terms of overall financial depth (as measured using M2/GDP) and financial inclusion (measured in terms of percentage of the population with access to financial services). However, efficiency measured in terms of interest rate spreads remains a big concern (Upadhyaya & Johnson, 2015). In terms of adoption of Basel Capital requirements is has also been recognised that Kenya is one of the developing countries that is an early adopter of these regulations (Tabart, 2016). This paper sets out the level of adoption of Basel standards in Kenya in detail and then attempts to trace the drivers for adoption. It argues that the high level of adoption of Basel standards is due to alignment of donor, government and banking sector standards.

2. Kenya's adoption of global banking standards

This Section attempts to answer the following questions.

- To what extent have regulators in Kenya adopted global banking standards?
- To what extent have global standards been adapted to the specific national context?
- To what extent, how quickly, and why have the Basel Core Principles, Basel I, II, and III been adopted (or not)?

Basel I adoption

Basel I, which was introduced in 1988, focussed on capital adequacy and credit risk. It called for a minimum risk weighted capital adequacy ratio of 8% to be implemented by 1992. Kenya began adopting some of the Basel I requirements from in 1994 via the Section 4 of Banking (Amendment) Act of 1994 which amended Section 7 of the Banking Act 1989 (Cap. 488). The date of assent and commencement of this Act was 27th October 1995.

The key amendments included the harmonisation of banks accounting financial year, the approval of bank auditors by the CBK and reduction of single borrower limit to core capital ratio from 100% to 25% (Central Bank of Kenya, 1995, 1996).[2] In 1997, the responsibilities for appointing of the Governor and management of the CBK was transferred to a board of directors appointed by the President rather than directly by the Minister of Finance to reduce political interference in the CBK (Central Bank of Kenya, 1997). In response to a spate of bank failures of 1998, several changes were brought into force in 1999. Detailed guidelines on provisioning for non-performing loans were set out and there was a requirement for banks to publish their accounts including details on their non-performing loans in the national press (Central Bank of Kenya, 1999).[3] Minimum capital was increased to KShs. 200 million by December 1999. In October 2000, minimum capital requirements were increased to Kshs. 250 million and regulatory ratios based on Basel I were brought into place. Table 1 describes the capital ratios that were defined via the Prudential Guidelines of 2000 (Central Bank of Kenya, 2000b).

Table 1: Regulatory Capital Ratios of Banks in Kenya

Ratio	Minimum Requirement
Core Capital/TRWA	8.00%
Total Capital/TRWA	12.00%
Core Capital/Total Deposits	8.00%

Source: Central Bank of Kenya (Central Bank of Kenya, 2000b)

[2] The single borrower limit is aimed to reduce exposure to one borrower. The previous limit of 100% meant that a single non-performing loan to one borrower could wipe out the entire capital of a bank - No. 8 and No.11 in the Act).

[3] Refer to Chapter 6 for more specific details on the regulation in relation to lending.

Basel II adoption

Basel II was introduced by the Basel Committee in 2004. From 2005, CBK continued to improve regulations. In 2006, new prudential guidelines were issued. While this guideline does not mention Basel regulations explicitly, changes are designed to strengthen Kenyan regulations in line with Basel I in preparation for Basel II. The main changes included highlighting differences between core capital (tier 1) and supplementary capital; defining 4 risk weights for classifying balance sheet assets; and definition of conversion factors for interest rate and exchange rate contracts based on residual maturity periods (Central Bank of Kenya, 2006b).

The next key change came in 2008 when proposed increases in the minimum capital requirements were presented in the Government of Kenya's Budget Speech 2008/2009 (Finance Act 2008) and are recorded in the Banking Act, Schedule 2, version dated January 2009 (Anyanzwa, 2009).

Table 2 below shows the gradual increase in capital from 1956 onwards.

Table 2: Regulatory Minimum Capital Requirements for Banks in Kenya 1956 - 2012

Year	KShs. Million	USD Million
1956-68	2	**0.28-0.28**
1968-80	2	**0.28-0.27**
1980-82	5	**0.67-0.46**
1982-85	10	**0.92-0.61**
1985-92	15	**0.91-0.41**
1992- 1999	75	**2.07-1.37**
31/12/1999	200	**2.74**
31/12/2000	250	**3.20**
31/12/2005	250	**3.45**
31/12/2009	350	**4.61**
31/12/2010	500	**6.2**
31/12/2011	700	**8.7**
31/12/2012	**1000**	**12.4**

Source: Upadhyaya & Johnson 2015

Note:

1. The minimum capital requirements were stipulated in Kenya shillings and remained constant during each of the periods. The dollar value fluctuated depending on the exchange rate and the values quoted are for the beginning and end of the period.
2. The USD figures for 2010, 2011 and 2012 are calculated based on the exchange rate of October 2010.

The Basel Committee noted that implementation of Basel II may not be a priority for non-members like Kenya (Mwega, 2014). However, CBK documents revealed that in 2007 and

2008, CBK was developing a framework and preparing the prerequisite supervisory infrastructure to implement Basel II. From 2007, the CBK led stakeholders in preparation of a comprehensive roadmap for implementation of Basel II.[4]

In 2008, the CBK carried out a Basel II Implementation survey. The survey revealed that while, most of the local affiliates of international banks (72%) were ready to implement Basel II in 2008; the majority of local institutions (76%) said they would not be ready to implement Basel II until 2010 (Central Bank of Kenya, 2008). The survey also highlighted that the key challenges of meeting requirements of Basel II that would impact on all institutions include: an anticipated "talent war'' as banks seek to upscale their human resource and implement Basel II; upgrades and overhauls of existing IT systems to meet the rigorous Basel II information requirements. The CBK noted that as many of the institutions did not have requisite five-year data to use for their internal models (Central Bank of Kenya, 2008). This survey probably led to the decision by the CBK when they issued the next Prudential Guidelines in 2013, not make internal models compulsory but to recommend the standardized approach to credit risk.

The CBK revised Prudential and Risk Management Guidelines, which came into force in January 2013, contained some features of Basel II and Basel III on capital adequacy requirements (Think Business Ltd, 2013). The table below summarises the aspects of Basel II that have been brought in place in Kenya mainly through the Prudential guidelines of 2013. The main addition to credit risk regulations are regulations on operational and market risk.

[4] The prerequisites of implementing of Basel II include: full adoption of Basel I in particular the market risk amendment that requires banks to set aside capital for market risk in addition to credit risk; implementation of Risk Based Supervision; full compliance with the Basel Core Principles for Effective Banking Supervision through the comprehensive review of the Banking Act that is under consideration by the Attorney General; a CBK survey to assess the status of Kenyan banks on the requirements of Basel II and formulation of CBK's policy position based on the findings of the survey (Central Bank of Kenya, 2007).

Table 3: Details of Basel II adoption in Kenya

Basel II Component Details	What was adopted and any adaptation to Kenya specific	Implementation
(1) Pillar 1 - Credit Risk **Basel II allows for standardized approach, internal ratings based approach, advanced-internal ratings based approach, foundation approach**	- standardised approach - Kenya government securities 0% risk weighting even though not AAA	1 January 2013
(2) Pillar 1 - operational risk **Basel II allows for basic indicator, standardized approach & advanced measurement approach**	- basic indicator approach - operational risk weighted assets equivalent is calculated as 15% of average gross income for 3 years multiplied by 12.5 (inverse of 8%)	1 January 2014 (1 year adjustment period built into guidelines). CBK 2013 pg. 124
(3) Pillar 1 - market risk **Basel II allows for standardized measurement method, internal models approach**	- standardized approach - mainly interest rate and forex risk	1 January 2014 (1 year adjustment period built into guidelines)
Pillar 2 – Supervision	- Stress testing by banks and quarterly reporting - ICAAP reporting	- Stress testing done since 2015 - ICAAP reporting was not enforced till 2017. First ICAAP reports submitted in April 2017 (Interview 7)
Pillar 3 – market discipline	- Quarterly disclosure of banks financial positions	2006

Source: Authors' summary from Central Bank reports and Interviews

Interviews revealed that banks still had some leeway in calculating credit risk particularly provisions as they can get valuations to escalate the value of collateral (Interview 8). The only risk calculation that was seen to be inappropriate was the operational risk as it penalised larger banks that had a higher turnover even if they had in place lower levels of operational losses such as fraud (Interview 7, Interview 8).

Some of the changes were also brought through various Finance Acts (linked to the budget speeches). The Finance Act, 2010 amended Section 33A and 34 of the Banking Act by creating measures to be taken by the CBK to counter undercapitalisation of a bank. The Finance Act, 2012 amended Section 18 (1) of the Banking Act by introducing a provision which allows the Central Bank to prescribe minimum ratios. More importantly Section 21 and 22 were amended to ensure that the financial statements prepared by banks followed the IFRS. The Finance Act, 2013 amended Section 55 of the Banking Act, thereby providing for penalties for failure to comply with prudential guidelines. Therefore the powers of the Central Bank to act should they suspect lack of compliance are quite high (Interview 1, Interview 2).

Basel III adoption

The global banking crises beginning with the collapse of Lehman Brothers in 2008, pushed the Basel Committee to issue two new standards in 2010 - Basel III: International framework for liquidity risk measurement, standards and monitoring and Basel III: A global regulatory framework for more resilient banks and banking systems (Bank of International Settlements (BIS), 2015). The CBK and Treasury continued to make changes to ensure that Kenya was moving towards adopting several features of Basel III.

In 2013, Banking Act was amended to strengthen the Central Bank's supervisory framework by empowering it to make regulations under the Act. This amendment was in line with the independence of the Central Bank under Article 231 of the Constitution, which requires the Central Bank to be independent in the discharge of its functions.

The Central Bank of Kenya has not implemented several recommendations of Basel III including contingency capital ratios, net stable funding ratio and guidelines on SIB (systematically important banks) (Interview 6, Interview 11). However they introduced and across the board increase in capital ratios (Interview 11). Therefore the main change in relation to Basel III is the inclusion of a capital conservation buffer of 2.5 % (Central Bank of Kenya, 2013). See **Table 4** below.

Table 4: Capital conservation buffer addition to capital requirements

Ratio	Minimum Requirement	Capital conservation buffer	Total
Core Capital/TRWA	8.00%	2.5%	**10.5%**
Total Capital/TRWA	12.00%	2.5%	**14.5%**
Core Capital/Total Deposits	**8.00%**		

Source: Central Bank of Kenya (2013)

However the Central Bank gave some time for banks of comply with this "Institutions that currently meet the minimum capital ratios of 8% and 12% but remain below the buffer-enhanced ratios of 10.5% and 14.5% (current minimums plus conservation buffer) should maintain prudent earnings retention policies with a view to meeting the conservation buffer within 24 months from the effective date of this guideline" (Central Bank of Kenya, 2013pp., 88).

The Central Bank also issued Risk Management Guidelines in 2013 and developed a Risk Based framework for supervision in 2013. The Central Bank has not brought in any counter cyclical macro prudential regulations. This may be due to difficulties in implementing these particularly as monetary transmission mechanism in Kenya is seen to be weak. Analysts have suggested that Kenya should adopt a tighter liquidity measurement system – the liquidity coverage ratio - based on Basel III where encumbered assets such as government securities should not be considered as liquid assets (Bodo, 2016). However this regulation is unlikely to find support from the banking sector as both large and small banks have a significant proportion of their assets in government securities.[5]

Basel Core Principles adoption

In 1997, the Basel committee published a document called "Core principles for Effective Supervision". This document set out 25 Core principles that the Basel Committee believed should be in place for effective supervision of banks.

From 2000 onwards, Kenya began to gradually implement and self-assess the extent of implementation of the core principles of effective banking supervision of Basle I. In 2000, Kenya had fully complied in 12 of the 25 core principles and partial compliance in 12 core principles. However, one principle that requires the supervisor to be satisfied as to existence of systems in banks to accurately measure, monitor and adequately control market risks was considered not fully applicable in the Kenyan environment (Central Bank of Kenya, 2000a).

Some of the core principles that had been fully complied with in 2000 were:-

- 1 - Authority to share information with other monetary and financial regulatory Authorities
- 4 - Authority to approve transfer of more than five per cent shares to one individual in any bank
- 15 - A prudential guideline on the prevention of money laundering activities was issued and enforcing "know-your-customer" rules
- 22 - A prudential guideline on Supervisory Enforcement Action

In 2002, the self-assessment tests revealed that Kenya had still not fully implemented the 12 core principles(Central Bank of Kenya, 2002). In the FSAP 2009 Update, the BCP Detailed Assessment Report stated that the CBK had "made substantial progress in addressing the deficiencies highlighted in the 2003 FSAP". As a result of these improvements the number of principles that were assessed as Compliant or Largely Compliant increased to 18 (World Bank, 2013).

[5] This is the author's opinion. Not voiced in any of the interviews.

The rest of this section discusses how banking regulation has evolved on the basis of the three themes that consolidate several of the 25 Principles of Effective supervision.[6]

a) Objectives, independence, powers, transparency and cooperation (principle 1);

From 2004, the amendments to the Banking Act and the finance act allowed for the minister of finance to cede supervisory and regulatory powers to the Central Bank with regard to supervision and regulation of financial institutions (Central Bank of Kenya, 2004, 2006a). In 2006, the Central Bank of Kenya earned powers to enhance operational independence of the on licensing, revocation of licenses, opening and closing of places of business and statutory management to the Central Bank of Kenya (Central Bank of Kenya, 2006a, 2007). Further, the minister was to cede powers to publication of a notice of the passing of the resolution confirming amalgamation or any arrangement for the transfer of assets and liabilities between institutions (Central Bank of Kenya, 2007). These regulations have boosted the CBK's operational independence.

b) Licensing and structure (principles 2 to 5);

The Basel principles require that permissible activities must be clearly defined and the word "bank" in names should be controlled as far as possible. The CBK should have the power to set criteria and reject applications for establishments that do not meet the standards set; review and reject any proposals to transfer significant ownership and major acquisitions of a bank to ensure they do not expose the bank to undue risks or hinder effective supervision.

The CBK should assess the ownership structure and governance of the bank, its strategic and operating plan, internal controls and risk management, its projected financial condition, its capital base and (for foreign banks) the prior consent of its home country supervisor should be obtained. Other than directors, the significant shareholders can influence management decision and exercise control on institutions. Unsuitable shareholders may therefore, exert adverse influence, thus exposing depositors and undermine stability of financial institutions. Shareholders with more than 5% shareholding would also be subject limitations that affect insiders (Central Bank of Kenya, 2004).

Consequently, amendments on the 2004 Banking Act expanded the scope of vetting bank officials to significant shareholders and senior officers. The banking act also reinforced the CBKs power to assess of professional and moral suitability of persons managing or controlling institutions and vet sitting directors from time to time (Central Bank of Kenya, 2004, 2007).

---

[6] The Core principles were first issued 1997, revised in 2006 and then revised again in 2012.

c) Prudential regulation and requirements (principles 6 to 18);

Prudential regulations are concerned with minimum capital adequacy requirements, a bank's risk management process and credit risk management among other guidelines.

In 2000, the Central Bank introduced the "Know Your Customer"(KYC) Guidelines to prevent banking institutions from being used as conduit for money laundering, and require banking institutions to determine the true identity of customers opening accounts and develop transactions profile of each customer with the objective of identifying unusual or suspicious transactions (CBKSR, 2000).

d) Consolidated and cross-border banking supervision (principles 24 and 25).

According to the Central Bank, the convergence of financial services is a global phenomenon, with among its key drivers being the customer demands for a "one stop financial services super markets" and competition. This poses regulatory challenges as different financial sector entities are subject to different regulatory regimes. The Central Bank has adopted a consolidated supervision approach, which requires information sharing and coordination amongst the various regulators in the financial sector (Mwega, 2014).

The development of Consolidated Supervision in Kenya owes much of its work to the Basel Committee on Banking Supervision (BCBS). Since 2005, Kenyan banks began scaling their operations in to Uganda, Tanzania, Rwanda and South Sudan. By 31st December 2014, eleven Kenyan banks had subsidiaries across branches within the EAC region and South Sudan. These were mainly: KCB, Equity Bank, Cooperative Bank, Imperial Bank, Diamond Trust Bank, CBA, NIC, I&M (Central Bank of Kenya, 2014; Irungu, 2015). The CBK sought to strengthen cross-border banking supervision to manage the risks posed by Kenyan banks' presence abroad (Republic of Kenya, 2012). As part of the EAC regional integration resolutions, the CBK signed MOUs with all regional central banks and as a result, all regulators should share supervisory concerns of Kenyan banks operating in their countries. The colleges have allowed regulators to share and harmonise supervisory practices by embracing global best practices. The information sharing on the cross-border operations of banking groups will ensure a more stable banking sector (Central Bank of Kenya, 2014; Irungu, 2015).

In 2012, the Banking Act issued a new Prudential Guideline on Consolidated Supervision and entrenched the Central Bank's power to undertake consolidated supervision. Though the Central Bank has continued to inculcate consolidated supervision based on general existing power to supervise banks, the amendments were meant to explicitly empower the Bank to undertake consolidated supervision. In 2012, the CBK was among the eleven (11) countries in Eastern and Southern Africa that designed and begun using the BSA system to support its Bank Supervision function. The Bank Supervision Application (BSA) is a computer software solution developed to support the automation of Bank Supervision functions. The BSA version 3.0 has one platform for electronic data transmission, data processing and reports.

In 2014, the East AFRITAC assisted the CBK to develop a structured assessment for legal, regulatory and supervisory framework of host countries of Kenyan banks[7]. A structured process to assess the quality of host country supervision is one of the elements required under Basel Core Principle 12 on Consolidated Supervision. The CBK aims to use these assessments to develop supervision strategies for the Kenyan banks and to identify agenda items to take up with host supervisors in either bilateral discussions or supervisory college meetings (Central Bank of Kenya, 2014).

The CBK has set up supervisory colleges to ensure that banks operating beyond the country were qualitatively and quantitatively assessed on risk exposure to the parent, subsidiary, affiliate of associate banks (Irungu, 2015). By 2016, CBK intends to have supervisory colleges for all Kenyan banks with cross-border operations (Central Bank of Kenya, 2012, 2014).

In summary it can be argued that Kenya has continued to record compliance with the minimum capital and liquidity prudential requirements. Most banks have met the four minimum capital requirements with respect to the (i) Minimum core capital of KShs 1 billion (which was raised from KShs. 250m over the period 2008-12; (ii) Core Capital/Total Deposit Liabilities ratio (Minimum 8%); (iii) Core Capital / Total Risk Weighted Assets ratio (Minimum 8%) and Total Capital/ Total Risk Weighted Assets (Minimum 12%). In addition, the NPL/Assets ratio has decreased from a high of 22.6% in 2001 to a low of 4.3% in 2007, and of December 2013 it averaged 5%, an indication that the banking systems asset quality has generally improved over time (Think Business Ltd, 2013).

Adoption of other regulations

Kenya has also adopted the other regulations that are linked to international standards. These include Proceeds of Crime and Anti-Money Laundering Act No. 9 of 2009, and Narcotics Drugs and Psychotropic Substances (Control) Act No. 4 of 1994. (criminalised money laundering).

---

[7] The objective International Monetary Fund's (IMF's) East Africa Technical Assistance Centre (East AFRITAC) is to assist in developing a stronger and effective banking sector regulatory and supervisory framework

3. The framework of banking regulation in Kenya

This section aims to answer the following questions.

- Who are the chief regulators?
- Which actors have been primarily responsible for banking regulation?
- How is banking regulation is introduced?
- What legal powers do the regulators have?
- To what extent are regulators independent?

Chief national and regional regulators

In Kenya, banking regulation has been shaped by: national regulators and regional regulators. The main objective of the Central Bank of Kenya (CBK) is to implement monetary policy. However the CBK is also the main national regulator responsible for the implementation of bank regulation laws in particular bank supervision. However, the Treasury / Ministry of Finance (MoF) is strongly involved in developing financial policy.

Regional regulators have given priority to harmonizing of banking regulations and supervisory regulations in the region. The major regional actors are: the Monetary Affairs Committee (MAC) of the Commission for East African Co-operation (Central Bank of Kenya, 2000a; East African Community, 2009); East and Southern Africa Banking Supervisors Group (ESAF) (Central Bank of Kenya, 2002) and the Common Market for East and Central Africa (COMESA) (Central Bank of Kenya, 2003).

Since 2000, banking regulation in Kenya has been mainly been guided by the quest of aligning it to international best practice as set by the Basel Committee on Banking Supervision (Central Bank of Kenya, 2006a). Similarly, the frameworks of harmonization that the regional actors—MAC, ESAF and COMESA have adopted have all been guided by the Basel Accords (Central Bank of Kenya, 2003).

For the rest of this paper we focus on the National regulation.

Process of national regulation

Banking regulation goes through four major stages: drafting stage; debating stage; assenting stage. The Treasury and the CBK have been the main actors in drafting banking regulations/policies. CBK documents recognise that amendments or creation of new banking regulations have been driven by set goals of harmonization by regional bodies and need to fill legal gaps or improve on existing policies (Central Bank of Kenya, 2002, 2003). The Executive then hands in the draft bill to parliament which reviews, debates, makes changes and can reject the bill all together and requests that it be re-drafted and re-presented to Parliament for review (Central Bank of Kenya, 2000a). If passed, the regulations can be passed as Acts of Parliament and Bills, which the President then signs into law.

The powers of the Central Bank of Kenya are sanctioned by the: Constitution Section 231 (1-5), the Central Bank of Kenya Act of 2015, and the Banking Act of 2015. Until 2004, the CBK was responsible for day to day supervision of banks but the MoF also the authority of carry out several important regulatory functions including authorising bank licenses; approving mergers and acquisitions; determining minimum capital requirements; intervening in management of troubled institutions; and approving voluntary liquidations. However, this was not in line with the Basle Core Principles for Effective Banking Supervision, which recommends that supervisory authorities such as the CBK should be fully independent in discharging their duties (CBKSR, 2002; 2004). However through the Banking (Amendment) Bill of 2004 and 2006, various amendments were passed aimed at transferring powers from the Minister to the Central Bank (Central Bank of Kenya, 2004, 2006a) .

Independence of Central Bank of Kenya

The Constitution of Kenya dictates that the CBK is an independent institution that is not be directed or controlled by any person or authority in the exercise of its powers or in the performance of its functions. Parliament is to provide acts that outline the composition, powers, functions and operations of the Central Bank of Kenya (Republic of Kenya, 2010).

Despite these declarations, the executive still exerts significant control on the CBK. The key functions where there is lack of independence are in the appointment of the governor and appointment of the board of CBK board. These positions are still filled by Presidential appointment though there is a process whereby interviews are carried out and three names suggested to the President of which he picks one person. However, the termination of a Governor is subject to a tribunal that makes an inquiry into his performance. This had led to some governance issues as there was a gap of three months in 2015 between the expiry of the previous CBK governor and the appointment of the current one (Njoroge, 2015). Furthermore, there was a two year gap in the appointment of the full board in November 2016 Therefore, even though the Chairman of the CBK board was appointed in June 2015 the board could not meet as there is no quorum (Kisero, 2016).[8]

[8] While the board of the CBK is not responsible for monetary policy is still an important governance body of the CBK.

4. The evolution of banking sector regulation

This Section attempts to answer the following questions.

- How has banking regulation in Kenya has changed over time with reference to global standards of banking supervision?
- What changes have there been in banking regulation in Kenya in the post-1980 period?

The history of the banking sector in Kenya post independence can be divided into four main periods (Upadhyaya & Johnson, 2015) and a fifth one from 2015.

1. Harambee – 1963 – 1980
2. Nyayo – 1981 – 1990
3. Liberalization 1990 – 1999
4. Growth 2000 – 2014
5. Clean up 2015 - present

We now discuss the regulatory changes in each of these periods. The first two eras are discussed very briefly but are important to understand the context of banking regulation in Kenya.

Harambee 1963 – 1980

The post-independence bank developments started with the establishment of the Central Bank of Kenya (CBK) in 1966 after the dissolution of the East African Currency Board (EACB)(Central Bank of Kenya, 1976). Kenya's first national currency - the Kenyan shilling (KShs) – was introduced on 14 September 1966 at the rate of KShs20 to the pound. At independence in 1963, the prevalent understanding was that development entailed massive resource mobilisation and banks were seen as key instruments in this. However, in Kenya, unlike in most other African countries, there was no wholesale nationalisation of the banks (Upadhyaya & Johnson, 2015). Therefore international banks Barclays D.C.&O. and Standard Bank continued to operate in Kenya. Only National & Grindlays Bank was bought out by the Government of Kenya (GoK) and became the Kenya Commercial Bank (KCB) (Central Bank of Kenya, 1986).

There was also the political reality that needed to be addressed – the need for visible ownership in the Kenyan economy by African Kenyans – and the government's stated policy of 'Africanisation' was also pursued through the financial system (Upadhyaya & Johnson, 2015). The government established two new banks – Co-operative Bank of Kenya and National Bank of Kenya – in 1968. Several development finance institutions were also established and there was also the growth of local financial institutions, termed 'indigenous' banks (Upadhyaya & Johnson, 2015). Between 1971 and 1980, one local private bank and nine local NBFIs were established (Kariuki, 1993). The commercial banks and NBFIs were largely free from regulatory controls, except the stipulation of lending and deposit interest rates (Brownbridge & Harvey, 1998).

Nyayo 1981 – 1990

On the death of President Kenyatta in 1978, President Moi succeeded him. The watchword chosen by Moi for this Presidency was *Nyayo,* meaning footsteps; emphasizing continuity with the economic policies of the Kenyatta era by remaining committed to a capitalist economy with a focus on attracting foreign investment and maintaining policies of Africanization of the economy (Maxon & Ndege, 1995).

The 1980s witnessed the growth of a large number of NBFIs which increased from 20 in 1980 to 53 in 1990 (a rise of 165%) and the number of banks grew from 17 to 20 (a growth of 17%). The majority of these new financial institutions were owned by local entrepreneurs (Kariuki, 1993). These local banks fulfilled a very useful function as they catered for mainly small and medium sized enterprises, often from their own communities, that the foreign owned banks and the government owned banks did not serve (Nasibi, 1992).

However the proliferation of local banks and NBFIs was also facilitated by several political and regulatory factors. Firstly, regulatory barriers including the minimum capital requirements and reserve ratios were very low compared to banks (Brownbridge, 1998). In particular, the minimum capital requirements for NBFIs were extremely low even though they were allowed to take deposits. There was a regulatory 'arbitrage' between banks and NBFIs and therefore most banks (including foreign owned and government owned banks) started a NBFI as a subsidiary to take advantage of this regulatory loophole (Upadhyaya & Johnson, 2015). Secondly, political interference subverted prudential criteria in the awarding of licenses as Section 53 of the Banking Act gave the Minister of Finance authority to grant exemptions to the Act (Brownbridge, 1998). Thirdly, many banks had prominent politicians on their boards and were able to use these connections to obtain public sector deposits very cheaply (Brownbridge, 1998; Ndii, 1994). Fourthly, the CBK has very little capacity to supervise the growth of non-bank financial institutions (World Bank, 1989). Therefore, while there were amendments to the Banking Act in 1985, 1987 and 1988 aimed at strengthening the banking sector, the supervisory capacity of the Central Bank to ensure compliance was very low (Upadhyaya, 2011).

The rapid rise of financial institutions, very poor regulation, shifting political economy trends and also declining economic growth resulted in the failure of twelve banks between 1984 and 1989 and the banking sector in Kenya prior to liberalization was very weak. (Upadhyaya & Johnson, 2015).

Liberalization 1990 – 1999

Following the structural adjustment programs of the 1980s, which were focused on debt and budget reform and only contained minor financial sector reforms, Kenya embarked on full-scale financial liberalization in the 1990s.

Liberalization of the financial sector was financed by the World Bank's Financial Sector Adjustment Credit (FSAC), which was approved by the board of the World Bank in June 1989. The theoretical basis of financial liberalization was based on the McKinnon-Shaw hypothesis where government control of interest rates was seen as a key constraint to financial sector development.

The key step of full scale financial liberalization was the complete deregulation of interest rates in 1991 (Brownbridge, 1998). In 1992, commercial banks were authorized to deal in foreign exchange, and in 1993 a market-determined flexible exchange rate system was adopted for the Kenya Shilling (Brownbridge, 1998).

This liberalization of interest rates and exchange rates provided further avenues for local banks to compete with more established banks, and was an added stimulus for local bank entry (Brownbridge, 1998; Ndung'u & Ngugi, 1999). Between 1990 up to 1993, the total number of banks grew by 67% and the total number of NBFIs grew by 13% (Upadhyaya & Johnson, 2015).

After 1994, there has been a decline in the total number of institutions. This was partly due to the failure of fifteen financial institutions in 1993. Furthermore, in 1993 the Central Bank of Kenya adopted a universal banking policy and reduced the regulatory advantages that were available to NBFIs (Upadhyaya & Johnson, 2015).

The banking crisis in 1993 led to an initial attempt to introduce more effective prudential regulation (Brownbridge, 1998). From 1993, financial institutions were required to submit much of the information necessary for effective off site examination, such as the classification of loans according to performance criteria and details of loans which might be in breach of banking regulations (Kariuki, 1993). The CBK Bank Supervision Department was empowered to perform effective offsite surveillance and to conduct regular on-site inspections.

Throughout the late 1990s and up to 2000, the CBK Act and the Banking Act were amended to improve regulation and supervision of the banks. In October 1995, key amendments included the harmonisation of banks accounting financial year, the approval of bank auditors by the CBK and reduction of single borrower limit to core capital ratio from 100% to 25% (Central Bank of Kenya, 1995, 1996).[9] In 1997, the responsibilities for appointing of the Governor and management of the CBK was transferred to a board of directors appointed by the President rather than directly by the Minister of Finance to reduce political interference in the CBK (Central Bank of Kenya, 1997).

However, towards the end of the 1990s, the banking sector still remained fairly fragile and six more banks were put under CBK statutory management towards the end of 1998 (Upadhyaya & Johnson, 2015). In response to this, several changes were brought into force in 1999. Detailed guidelines on provisioning for non-performing loans were set out and there was a requirement for banks to publish their accounts including details on their non-performing loans in the national press (Central Bank of Kenya, 1999). Minimum capital was increased to KShs. 200 million by December 1999. In October 2000, minimum capital requirements were increased to KShs. 250 million.

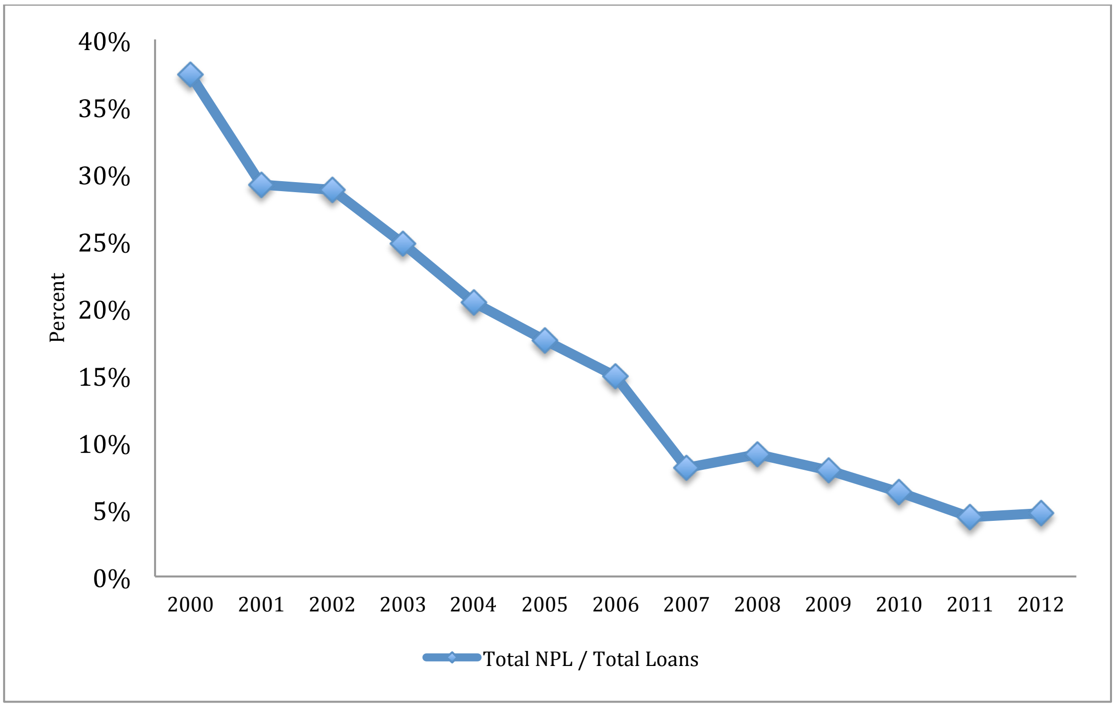
[9] The single borrower limit is aimed to reduce exposure to one borrower. The previous limit of 100% meant that a single non-performing loan to one borrower could wipe out the entire capital of a bank.

Growth and adoption of regulations 2000 – 2014

Before discussing the changes in regulation that took place after 2000, it is worth noting that the banking sector in Kenya in 2000 was extremely fragile with a very high level of NPLs (Upadhyaya & Johnson, 2015).

Figure 1 shows that in 2000, the Kenyan banking sector had a very high level of NPLs at an average of 37%.

Figure 1: Non-performing Loans – 2000-2012



Source: Upadhyaya & Johnson (2015)

This average rate masks the very high levels of NPLs in some government owned banks and private banks. In 2000, the NPL ratio for three government owned banks was very high- KCB was 42%, for NBK 70% and for Consolidated Bank 72%. In an extraordinary move, on 27th November 1998, NBK published the names of their largest borrowers in the national newspapers. It showed that the majority of these non-performing loans were political loans to individual politicians and parastatals (Upadhyaya, 2011).[10] The NPLs in some of large private owned banks were also very high. For example Trust Bank, which closed in 1998 was the sixth largest bank by deposits at time of closure and had a total NPL portfolio of 50% (KPMG, 1999).

Kenya has also experienced several bank failures as per **Table 5**.

[10] Each of the banks has been able to reduce the NPL ratio in 2012 to KCB - 5.43%, NBK - 7.33% and Consolidated Bank 10.81% (Author's calculations from banks' financial statements). *Though NBK figure in 2016 quite high to get.*

Table 5: Failure of Banks and NBFIs in Kenya 1984 – 2016

Period	Institution	
1984-9	• Rural Urban Credit Finance (African) • Continental Bank, Continental Finance (African) • Union Bank, Jimba Credit Corporation (African) • Estate Finance, Estate Building Society (African) • Business Finance (African)	• Nationwide Finance (African) • Kenya Savings and Mortgages (African) • Home Savings and Mortgages (African) • Citizens Building Society (African)
1993-5	• International Finance Company (African) • Trade Bank, Trade Finance, Diners Finance (Asian-African and African) • Pan African Bank, Pan African Credit Finance (Asian-African and African) • Exchange Bank (Asian-African and African) • Post Bank Credit (Government owend) • Thabiti Finance (African) • Export Bank (African) • Allied Credit (African)	• United Trustee Finance (African) • Inter-African Credit Finance (African) • Middle Africa Finance (African) • Nairobi Finance Corporation (African) • Central Finance Kenya (African) • United Bank (African) • Heritage Bank (African) • Meridien BIAO Kenya (Foreign owned)
1998	• Bullion Bank, Fortune Finance (independent Asian-African) • Trust Bank (political Asian-African) • City Finance Bank (political Asian-African)	• Reliance Bank (independent Asian-African) • Prudential Bank (political African)
2000-6	• Glad-Ak Finance (independent Asian-African) • Delphis Bank (political Asian-African) • Euro Bank (political African) • Daima Bank (political African) • Prudential Building Society (political African)	

Period	Institution
2007-2014	• Charterhouse Bank (political Asian-African & African)
2015 – to date	• Dubai Bank (independent Asian-African) • Imperial Bank (independent Asian-African) • Chase Bank (independent Asian-African)

Source: Upadhyaya (2011) and newspaper articles (various) and interviews

Therefore the changes in banking regulation should be seen as a response to this high level of instability (Interview 8).

Since 2000, banking regulations such as the CBK Act, the Banking act and other prudential regulations and guidelines have gradually been amended to strengthen supervision and regulation of the banking sector and keep up with international best practices and especially the Basel Core Principles (Dafe, 2014).

In October 2000 guidelines were issued requiring banks to conform to the Basle Capital Accord in terms of the composition of capital and also new regulatory capital ratios were specified. The October 2000 guidelines also reinforced the single borrower limits to 25% of core capital, restricted lending to insiders to 20% of core capital, defined a large exposure as 10% of core capital and further restricting the lending to all large borrowers to five times the core capital (Central Bank of Kenya, 2000b).

The CBK improved regulation to effectively supervise Kenyan banks expanding into regional countries; incorporate the relevant provisions of the Constitution of the Republic of Kenya 2010, and support realisation of other Government-driven initiatives such as Vision 2030 (Central Bank of Kenya, 2012).

Overall this section has showed that Kenya has adopted parts of International Banking Standards in response to internal banking and financial crises. The section on Basel II adoption above shows that the majority of regulations were brought in during this period 2003-2013. In the Section 5, we will discuss the drivers of the adoption of regulations.

Cleaning up and enforcement 2015 – current

Recently, there have been attempts by the Treasury to increase the minimum capital of banks to Kenya Shillings 5bn, these have been resisted by parliamentarians (Mutai, 2015).

Table 5 shows that between 2007 and 2014 the banking sector in Kenya was relatively calm with only one bank failure. This can be attributed to improved capital holdings of banks as Kenya and the adoption of Basel Capital Standards. It has been noted that in 2012, the total capital to risk weighted ratio of Kenyan banks was 23% which was well above the minimum capital requirement of 12% (Upadhyaya & Johnson, 2015).

However, it now seems that the Kenyan banks were more fragile than these numbers portrayed as three banks – Dubai Bank, Imperial Bank and Chase Bank - have been put under CBK statutory management since 2015. While these banks are not systematically important the effect of these bank failures has shaken reputation of other private banks and the confidence of depositors in the banking sector (Ngugi, 2016).

The case of Imperial Bank highlights weaknesses in supervision as reports indicate that the bank was carrying out unsafe practices for over twelve years. The current Governor of the CBK, Dr. Patrick Njoroge has highlighted that there is a need to improve supervision dramatically and CBK has recently begun to hire more inspection employees but it is not clear how CBK is going to deal with insiders suspected of abetting malpractices in fallen banks (Ngugi, 2017).

The next section discusses the drivers of bank Basel adoption in greater detail.

5. Drivers of adoption of international capital standards

This section attempts to answer the following questions

- Who has initiated the changes in banking regulation?
- What accounts for this pattern of adoption? What were the interests of key actors in this process, and how did actors interact to shape outcomes?
- How have international factors including global standards and regulatory norms/ideas, international public sector actors (IFIs, other governments) and private actors (credit rating agencies and multinational banks) interacted with the domestic factors to shape regulatory decisions and outcomes?

This section will focus on the drivers of adoption of Basel II which began mainly in 2003. There are three main drivers of the high level of banking standards in Kenya. These include the international bodies including the World Bank and IMF, government technocrats at both the Treasury and Central Bank and private banks.

Government policy & reformist technocrats

In 2003, President Mwai Kibai became the third President of Kenya as head of NARC – the Natioanal Rainbow Coalition – a coalition of parties of which the two largest parties were the NAK (National Alliance Party of Kenya) and LDP (Liberal Democratic Party of Kenya). In the early years, the government had a broad mandate and there was a lot of optimism and drive to change structures of government and the relationship between government and private sector. Kenya embarked on an ambitious programme of reform and the financial sector formed a key part of government commitment to growth including Economic Recovery Strategy for Wealth and Employment Creation (Republic of Kenya, 2003) and the Kenya Vision 2030 (Republic of Kenya, 2007).

At the same time the WB / IMF developed the FLSTAP to assist the government in identifying weaknesses in the financial sector that had been identified in the FSAP.[11] It is interesting that the Economic Recovery Strategy explicitly recognises the role of the FSAP recommendations showing alignment between GoK and donor interests.[12]

> "Financial sector reform will be built around a Financial Sector Assessment Programme (FSAP) which will identify the strengths, weaknesses and synergies in the sector. Among the issues to be considered are whether there is adequate justification for an overall financial sector regulator. Financial sector reform will concentrate on reducing the interest rate spread, enhancing investor confidence and consumer protection in the sector, dealing with the problem of Non Performing Loans (NPLs) and creating an independent insurance regulator."
>
> Republic of Kenya (2003 pp.,xi)

[11] FLSTAP discussions below.

[12] It should be noted that the Kenya Government has been very adapt at "playing donors like a fiddle", particularly during the Moi era when WB/ IMF conditionality was often accepted but not adhered to (Interview 10).

Interviews revealed that in 2003, there was a willingness from Government to work with donors in a way that had not been there for a long time (Interview 10).[13] There was an explicit recognition that the high level of NPLs in government owned banks was not sustainable (Republic of Kenya, 2003). There was also a broad based acknowledgement of the importance role of the financial sector in the economy. Treasury and Central Bank officials were had internalised some of the messages coming from donors that the goals of financial stability and inclusion were intertwined (Interview 6).

Interviews have shown that very specific factors including a very hands-off President who respected independent offices including that of the Governor, allowed Treasury and Central Bank officials the space to drive improved regulation (Interview 10). It has been argued that initially the donors tried to push through regulation via consultants but once donors changed tactics and developed the capacity of Kenyans within Treasury and Central Bank, after which the project took off (Interview 10). The role of adopting Basel capital standards was seen only as a cog in the wheel of the broader institutional architecture needed to improve the financial system (Interview 3). Other important tools of the financial architecture such as the building of a credit registry, regulations for microfinance institutions and SACCOs that were also carried out during this period (Interview 3).

While there was pressure from Standard Setting Bodies to adopt the regulations, Government officials had embraced the view that financial regulation was a tool to increase development (Interview 3). In response to a question on reasons for high level of adoption and lack of adoption of certain parts of Basle, an interviewee argued that: "Essentially, is a developmental debate" (Interview 3). There were also reformist technocrats within the Central Bank and Treasury who viewed international standards as an aspiration that should be achieved (Interview 10). Besides 'aspiration' another word that was used to describe government policy was 'ambitious' therefore "Kenya is very Ambitious and thus has to be seen adopting the global changes" (Interview 1). Recent Government documents are explicit on the adoption of Basel standards as a mode to increase stability of the banking sector: "The CBK used the BIS and IMF defined financial soundness indicators to monitor and evaluate the soundness of financial institutions" (Republic of Kenya, 2013pp., 7).

Donor policy

It is clear that World Bank, IMF and other donors like DFID were instrumental to get international standards adopted in Kenya (Interview 10, Interview 5). Many of the changes in the Basel capital standards brought in by the Government of Kenya were funded through the Financial and Legal Sector Technical Assistance Programme agreed between the World Bank and GOK in 2004 (Interview 6, Interview 3, Interview 5). It was based on the FSA

[13] There was a recognition that at a very low level of inclusion, higher inclusion can lead to increased stability as banks have a larger depositors base. But in turn inclusion needs stability as increased stability allows depositors to trust banks (Interview 6).

(financial sector assessment) was conducted by the WB / IMF in 2003 in the context of the FSAP (financial sector assessment programme).

DFID co-funded this programme as it was part of DFID's move towards supporting the private sector and seen as integral to pushing the agenda on financial inclusion and the then Prime Minister of the UK – Gordon Brown was at the forefront of the global move to push for Reporting on Standards and Codes (Interview 10).

The Programme Investment Document for this facility emphasizes the need to privatize government owned banks with the rationale for improving market efficiency:

> "First, divestment of government ownership in the financial system is expected to signal the commitment of the current administration to the pursuit of a market-based model for financial sector development and bolster its credibility in its objective of improving overall governance in the Kenyan economy. Second, the privatization of the state-influenced banks will improve the governance of these banks, thus bringing to closure the historical directed lending".
>
> World Bank (2004 pp., 3)

It is important to note that this policy of privatization of government owned banks has not been undertaken by the GoK to date. While Kenya Commercial Bank (KCB) has been turned around through an internal growth strategy and dilution of government ownership, it is still viewed as government owned bank. However, National Bank of Kenya and Consolidated Bank are still struggling with historical non-performing loans. It was noted that Treasury was not happy with this aspect of the FLSTAP as it was politically impossible to achieve (Interview 10).

However for regulatory aspects of the FLSTAP, there was genuine enthusiasm among government officials (Interview 10). A project implementation report of the World Bank on this project recognized that supervision and regulatory framework had improved but risk based supervision was still not taking place (World Bank, 2011). A project implementation report dated 2013 stated that 15 Kenyan laws had been drafted and passed with support of this project (World Bank, 2013). The most relevant laws with reference to Basel and other international standards adoption are:- Banking Act (Credit Reference Bureau Regulations) 2008, Prevention of Terrorism Act 2012 (CFT Law passed Oct.2012), Proceeds of Crime and Anti Money Laundering Act 2009, The Banking (Amendment) Act 2006.

Market factors

The broad view from the interviews is that while international or private banks did not lobby for Basel regulations to be adopted simply on the grounds that increasing capital is more expensive, they were not averse to it. International banks were already at different stages of adopting Basel II and III due to head office reporting requirements (Interview 2, Interview 8). Local banks were expanding regionally and viewed adopting of international standards as complicit with their interests (Interview 1, Interview 3). Banks expanding across the regional viewed an domestic institutional architecture based on international standards 'defence mechanism' that allowed them to expand into other jurisdictions without suspicion (Interview

3). A jurisdiction that was bringing into place Basel standards also made it easier for banks to develop and retain correspondent relationships with foreign banks (Interview 1, Interview 2).

Some regulations like development of the ICAAP have been regulations since 2013 but have only recently been enforced by the CBK. The first ICAAP was submitted by banks to the Central Bank in April 2017 and there is some evidence that smaller banks found it harder to develop than larger banks (Interview 8, Interview 9). While accounting firms were not involved in lobbying for Basel, the implementation of IFRS in Kenya and IFRS 9 by January 2018 will lead to more conservative reporting of non-performing loans in annual reports by banks (Interview 7).

6. Conclusion and lessons for the analytical framework

The analytical framework had the following hypothesis for international and domestic factors.

International Factors:

> H1: The greater the number of domestic banks with overseas operations, particularly in major financial markets, the greater the extent of implementation of Basel II and III
>
> H2: The greater the presence of foreign banks in a jurisdiction, particularly those regulated under Basel standards at home, the greater the extent of implementation of Basel II and III
>
> H3: The greater the incentive to signal to international investors, particularly investors in the financial services sector, the greater the extent of implementation of Basel II and III
>
> H4: Financial crises and other shocks that undermine the reputation of banking regulation and supervision will increase the extent of implementation of Basel II and III. The reputational shocks will also affect the timing of implementation.
>
> H5: Sustained engagement with the IMF will increase compliance with Basel Core Principles and Basel I, but is unlikely to affect implementation of Basel II and III
>
> H6: Sustained engagement by national regulators in international professional networks that promulgate Basel standards will increase the extent of implementation of Basel II and III

Domestic Factors:

> H7: The greater the level of financial sector development and capacity of regulatory institutions, the greater the extent of implementation of Basel II and III
>
> H8: The greater the operational independence and legal powers of the supervisor, and the greater the share of privately owned banks within a jurisdiction, the greater the extent of implementation of Basel II and III.
>
> H9: The greater the political influence of large internationally active banks, internationally-oriented elite factions, and reformist-technocrats, the greater the extent of implementation of Basel II and III.

The discussion has showed that all these hypotheses are relevant in the Kenyan context. However the most important one in the Kenyan context is H5. The FLSTAP which ran from 2004 – 2013 has pushed through a broad range of changes in regulations including many of the Basel regulations including Basel II and parts of Basel III. H8 is also important – at the beginning of FLSTAP there was strong willingness and capacity on part of government to push through regulations. H3 is also relevant as Kenya's engagement with international standards was part of a broad strategy to increase investment in Kenya under the Vision 2030. H9 is also an important hypothesis, while Kenyan banks are not necessarily internationally active they are very active in the region. They did not lobby for the higher capital standards but appreciated their relevance as a tool to allow them to expand regionally.

Discussions also revealed that Basel may not be able to resolve governance issues that have led to recent banks failures and strengthening of Central Bank of Kenya on site supervision and governance of banks is essential to overcome these challenges.

References

Anyanzwa, J. (2009, 4th June 2009). CBK Predicts Major Mergers in Banking Sector *East African Standard*.

Bank of International Settlements (BIS). (2015). History of Basel Committee. from http://www.bis.org/bcbs/history.pdf

Bodo, G. (2016). CBK Should Embrace a Tighter Liquidity Measurement System*. Business Daily*.

Brownbridge, M. (1998). Government Policies & the Development of Banking in Kenya. In M. Brownbridge & C. Harvey (Eds.), *Banking in Africa* (pp. 79-103): Africa World Press, James Curry.

Brownbridge, M., & Harvey, C. (1998). *Banking in Africa*. Trenton, New Jersey: Africa World Press, Inc.

Central Bank of Kenya. (1976). The First Ten Years. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (1986). Central Bank of Kenya - It's Evolution, Responsibilities and Organization. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (1995). Annual Report and Financial Statements July 1994 - June 1995. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (1996). Annual Report and Financial Statements July 1995 - June 1996. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (1997). Annual Report and Financial Statements July 1996 - June 1997. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (1999). Annual Report and Financial Statements July 1998 - June 1999. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2000a). Bank Supervision Annual Report 2000. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2000b). Prudential Guidelines 2000. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2002). Bank Supervision Annual Report 2002. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2003). Bank Supervision Annual Report 2003. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2004). Bank Supervision Annual Report 2004. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2006a). Bank Supervision Annual Report 2006. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2006b). Prudential Guidelines 2006. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2007). Bank Supervision Annual Report 2007. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2008). Bank Supervision Annual Report 2008. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2012). Bank Supervision Annual Report 2012. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2013). Prudential Guidelines 2013. Nairobi: Central Bank of Kenya.

Central Bank of Kenya. (2014). Bank Supervision Annual Report 2014. Nairobi: Central Bank of Kenya.

Dafe, F. (2014). *Walking a Tightrope - Progress in Balancing Multiple Central Bank Objectives in Kenya, Nigeria and Uganda*. Bonn: Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

East African Community. (2009). East African Community Monetary Affairs Committee: Achievements, Challenges and Way Forward (1998 – 2008). In M. A. Committee (Ed.). Kigali, Rwanda: East African Community,.

Irungu, G. (2015, 21st October 2015). Central Bank and IMF to Step up Cross-border Banks Supervision*. Business Daily Africa*.

Kariuki, P. (1993). *The Impact of Interest Rate Liberalisation on Financial Savings: The Case of Kenya.* University of Sussex, Brighton.

Kisero, J. (2016, 7th January 2016). Appoint CBK Board Directors Immediately*. Business Daily Africa*.

KPMG. (1999). *Trust Bank Limited: Scheme of Arrangement*. Nairobi: KPMG.

Maxon, R., & Ndege, P. (1995). The Economics of Structural Adjustment. In B. Ogot & W. Ochieng' (Eds.), *Decolonization and Independence in Kenya, 1940-93*.

Mutai, E. (2015, 28th August 2015). MPs Shoot Down Rotich Plan to Raise Lenders' Capital to Sh5bn*. Business Daily Africa*.

Mwega, F. (2014). Financial Regulation in Kenya: Balancing Inclusive Growth with Financial Stability. *ODI Working Paper, 407*.

Nasibi, R. (1992). Financial Institutions and Monetary Policy in Post-Independence Kenya. In W. Ochieng & R. Maxon (Eds.), *An Economic History of Kenya*. Nairobi: East African Educational Publishers.

Ndii, D. (1994). *An Assymetric Information Analysis of Financial Sector Policy in Kenya.* University of Oxford, St. Anthony's College, Oxford.

Ndung'u, N., & Ngugi, R. (1999). Adjustment and Liberalisation in Kenya: The Financial and Foreign Exchange Markets. *Journal of International Development, 11*, 465-491.

Ngugi, B. (2016, 15th July 2016). Moody's says CBK Lacks Capacity to Handle New Crisis*. Business Daily*.

Ngugi, B. (2017, 13th April 2017). Central Bank to Recruit More Inspection Employees*. Business Daily*.

Njoroge, K. (2015, 7th January 2016). New CBK Governor Patrick Njoroge Assumes Office*. Business Daily Africa*.

Republic of Kenya. (2003). Economic Recovery Strategy for Wealth and Employment Creation. In M. o. P. a. N. Development (Ed.). Nairobi: Government Printer.

Republic of Kenya. (2007). Vision 2030 (The Popular Version). Nairobi: Government Printer.

Republic of Kenya. (2010). Constitution of Kenya. Nairobi: Government Printer.

Republic of Kenya. (2012). Budget Statement for the Fiscal Year 2012/2013 (1st July – 30th June) By Hon. Robinson Njeru Githae, EGH. MP, Minister For Finance. In M. O. Finance. (Ed.). Nairobi.

Republic of Kenya. (2013). Vision 2030: Sector Plan for Financial Services 2013 - 2017. In T. N. Treasury (Ed.). Nairobi: Government Printer.

Tabart, C. (2016). Background Paper: Basel Implementation in Low and Lower-Middle Income Countries - Early Adopters of Basl III, *GEG Background Papers*. Oxford, UK: Global Economic Governance Programme (GEG).

Think Business Ltd. (2013). Banking Survey 2013. *Think Business (formerly Market Intelligence), Annual Special Edition*.

Upadhyaya, R. (2011). *Analysing the Sources and Impact of Segmentation in the Banking Sector: A Case Study of Kenya.* School of Oriental and African Studies, University of London, London.

Upadhyaya, R., & Johnson, S. (2015). Evolution of Kenya's Banking Sector 2000 - 2012. In A. Heyer & M. King (Eds.), *The Kenyan Financial Transformation* (pp. 15-61). Nairobi: FSD Kenya.

World Bank. (1989). *Kenya: Report and Recommendations of the President of the International Development Association to the Executive Directors on the Proposed Financial Sector Adjustment Credit*. Washington D.C: World Bank.

World Bank. (2004). *Project Information Document - Kenya Financial Sector Adjustment Credit*. Washington DC: World Bank.

World Bank. (2011). *Financial and Legal Sector Technical Assistance Programme - Implementation Status & Results*. Washington DC: World Bank.

World Bank. (2013). *Financial and Legal Sector Technical Assistance Programme - Implementation Status & Results*. Washington DC: World Bank.

Appendix 1: Timeline of Governors of CBK

Name	In office DURATION IN YEARS
Duncan Ndegwa	(1967–1982) 15
Philip Ndegwa	(1982–1988) 6
Eric Kotut	(1988–1993) 5
Micah Cheserem	(1993–2001) 8
Nahashon Nyagah	(2001–2003) 3
Andrew Mullei	(2003–2007) 4
Njuguna Ndung'u	(2007–2015) 8
Patrick Ngugi Njoroge	(2015–present)

Working Papers

GEG Working Papers can be downloaded at: http://www.geg.ox.ac.uk/publications/working-papers

Maria A. Gwynn	WP 2017/132 Investment Disputes, Sovereignty Costs, and the Strategies of States
Radha Upadhyaya	WP 2017/131 Low Income Countries and Adoption of Global Banking Standards – A Case Study of Kenya
Zheng Chen and Yanchuan Liu	WP 2017/130 Granting Reassurance While Posing Challenge: Explaining China's Creation of the Asian Infrastructure Investment Bank
Scott James and Lucia Quaglia	WP 2017/129 Brexit and the Limits of Financial Power in the UK
Emily Jones and Peter Knaack	WP 2017/127 The Future of Global Financial Regulation
Kako Kossivi Nubukpo	WP 2017/126 Misalignment of exchange rates: what lessons for growth and policy mix in the WAEMU?
Peter Knaack	WP 2017/125 An unlikely champion of global finance: Why is China exceeding international banking standards?
Nghia Trong Pham	WP 2017/124 Trade and Labour Rights: The Case of the TPP
Ali Hasanain, Yasir Khan, and Arman Rezaee	WP 2016/123 Crowdsourcing government accountability: Experimental evidence from Pakistan
Emma Aisbett and Lauge Poulsen	WP 2016/122 Relative Treatment of Aliens: Firm-level Evidence from Developing Countries
Katharina Obermeier	WP 2016/121 "Countries Don't Go Bankrupt": Sovereign Debt Crises and Perceptions of Sovereignty in an Era of Globalisation
Adam Ng	WP 2016/120 The Tangibility of the Intangibles: What Drives Banks' Sustainability Disclosure in the Emerging Economies?
Geoffrey Gertz	WP 2016/119 Commercial Diplomacy and American Foreign Policy
Jolyon Ford	WP 2016/118 The risk of regulatory ritualism: proposals for a treaty on business and human rights
Nematullah Bizhan	WP 2016/117 Improving the Fragile States' Budget Transparency: Lessons from Afghanistan
Taylor St John and Noel Johnston	WP 2016/116 Who Needs Rules? Explaining Participation in the Investment Regime
Zainab Usman	WP 2016/115 The Successes and Failures of Economic Reform in Nigeria's Post-Military Political Settlement
Ivaylo Iaydjiev	WP 2016/114 Host's Dilemma in International Political Economy: The Regulation of Cross-Border Banking in Emerging Europe, 2004-2010
Carolyn Deere Birkbeck	WP 2016/113 From 'Trade and Environment' to the Green Economy: The WTO's Environmental Record and Discourse on Sustainable Development at 20
Lauge Poulsen and Emma Aisbett	WP 2015/112 Diplomats Want Treaties: Diplomatic Agendas and Perks in the Investment Regime
Carolyn Deere Birkbeck and Kimberley Botwright	WP 2015/111 Changing Demands on the Global Trade and Investment Architecture: Mapping an Evolving Ecosystem
Pichamon Yeophantong	WP 2015/110 Civil Regulation and Chinese Resource Investment in Myanmar and Vietnam
Nematullah Bizhan	WP 2015/109 Continuity, Aid and Revival: State Building in South Korea, Taiwan, Iraq and Afghanistan
Camila Villard Duran	WP 2015/108 The International Lender of Last Resort for Emerging Countries: A Bilateral Currency Swap?
Tu Anh Vu Thanh	WP 2015/107 The Political Economy of Industrial Development in Vietnam: Impact of State-Business Relationship on Industrial Performance 1986-2012 (forthcoming)
Nilima Gulrajani	WP 2015/106 Bilateral donors in the 'Beyond Aid' Agenda: The Importance of Institutional Autonomy for Donor Effectiveness (forthcoming)
Carolyn Deere Birkbeck	WP 2015/105 WIPO's Development Agenda and the Push for Development-oriented Capacity building on Intellectual Property: How Poor Governance, Weak Management, and Inconsistent Demand Hindered Progress
Alexandra Olivia Zeitz	WP 2015/104 A New Politics of Aid? The Changing International Political Economy of Development Assistance: The Ghanaian Case

Akachi Odoemene	WP 2015/103 Socio-Political Economy and Dynamics of Government-Driven Land Grabbing in Nigeria since 2000
David Ramos, Javier Solana, Ross P. Buckley and Jonathan Greenacre	WP 2015/102 Protecting the Funds of Mobile Money Customers in Civil Law Jurisdictions
Lise Johnson	WP 2015/101 Ripe for Refinement: The State's Role in Interpretation of FET, MFN, and Shareholder Rights
Mthuli Ncube	WP 2015/100 Can dreams come true? Eliminating extreme poverty in Africa by 2030
Jure Jeric	WP 2015/99 Managing risks, preventing crises - a political economy account of Basel III financial regulations
Anar Ahmadov	WP 2014/98 Blocking the Pathway Out of the Resource Curse: What Hinders Diversification in Resource-Rich Developing Countries?
Mohammad Mossallam	WP 2015/97 Process matters: South Africa’s Experience Exiting its BITs
Geoffrey Gertz	WP 2015/96 Understanding the Interplay of Diplomatic, Insurance and Legal Approaches for Protecting FDI
Emily Jones	WP 2014/95 When Do ‘Weak’ States Win? A History of African, Caribbean and Pacific Countries Manoeuvring in Trade Negotiations with Europe
Taylor St John	WP 2014/94 The Origins of Advance Consent
Carolyn Deere Birkbeck	WP 2014/93 The Governance of the World Intellectual Property Organization: A Reference Guide
Tu Anh Vu Thanh	WP 2014/92 WTO Accession and the Political Economy of State-Owned Enterprise Reform in Vietnam
Emily Jones	WP 2014/91 Global Banking Standards and Low Income Countries: Helping or Hindering Effective Regulation?
Ranjit Lall	WP 2014/90 The Distributional Consequences of International Finance: An Analysis of Regulatory Influence
Ngaire Woods	WP 2014/89 Global Economic Governance after the 2008 Crisis
Folashadé Soule-Kohndou	WP 2013/88 The India-Brazil-South Africa Forum - A Decade On: Mismatched Partners or the Rise of the South?
Nilima Gulrajani	WP 2013/87 An Analytical Framework for Improving Aid Effectiveness Policies
Rahul Prabhakar	WP 2013/86 Varieties of Regulation: How States Pursue and Set International Financial Standards
Alexander Kupatadze	WP 2013/85 Moving away from corrupt equilibrium: ‘big bang’ push factors and progress maintenance
George Gray Molina	WP 2013/84 Global Governance Exit: A Bolivian Case Study
Steven L. Schwarcz	WP 2013/83 Shadow Banking, Financial Risk, and Regulation in China and Other Developing Countries
Pichamon Yeophantong	WP 2013/82 China, Corporate Responsibility and the Contentious Politics of Hydropower Development: transnational activism in the Mekong region?
Pichamon Yeophantong	WP 2013/81 China and the Politics of Hydropower Development: governing water and contesting responsibilities in the Mekong River Basin
Rachael Burke and Devi Sridhar	WP 2013/80 Health financing in Ghana, South Africa and Nigeria: Are they meeting the Abuja target?
Dima Noggo Sarbo	WP 2013/79 The Ethiopia-Eritrea Conflict: Domestic and Regional Ramifications and the Role of the International Community
Dima Noggo Sarbo	WP 2013/78 Reconceptualizing Regional Integration in Africa: The European Model and Africa’s Priorities
Abdourahmane Idrissa	WP 2013/77 Divided Commitment: UEMOA, the Franc Zone, and ECOWAS
Abdourahmane Idrissa	WP 2013/76 Out of the Penkelemes: The ECOWAS Project as Transformation
Pooja Sharma	WP 2013/75 Role of Rules and Relations in Global Trade Governance
Le Thanh Forsberg	WP 2013/74 The Political Economy of Health Care Commercialization in Vietnam
Hongsheng Ren	WP 2013/73 Enterprise Hegemony and Embedded Hierarchy Network: The Political Economy and Process of Global Compact Governance in China
Devi Sridhar and Ngaire Woods	WP2013/72 ‘Trojan Multilateralism: Global Cooperation in Health’
Valéria Guimarães de Lima e Silva	WP2012/71 ‘International Regime Complexity and Enhanced Enforcement of Intellectual Property Rights: The Use of Networks at the Multilateral Level’
Ousseni Illy	WP2012/70 ‘Trade Remedies in Africa: Experience, Challenges and Prospects’

Carolyn Deere Birckbeck and Emily Jones	WP2012/69 'Beyond the Eighth Ministerial Conference of the WTO: A Forward Looking Agenda for Development'
Devi Sridhar and Kate Smolina	WP2012/68' Motives behind national and regional approaches to health and foreign policy'
Omobolaji Olarinmoye	WP2011/67 'Accountability in Faith-Based Organizations in Nigeria: Preliminary Explorations'
Ngaire Woods	WP2011/66 'Rethinking Aid Coordination'
Paolo de Renzio	WP2011/65 'Buying Better Governance: The Political Economy of Budget Reforms in Aid-Dependent Countries'
Carolyn Deere Birckbeck	WP2011/64 'Development-oriented Perspectives on Global Trade Governance: A Summary of Proposals for Making Global Trade Governance Work for Development'
Carolyn Deere Birckbeck and Meg Harbourd	WP2011/63 'Developing Country Coalitions in the WTO: Strategies for Improving the Influence of the WTO's Weakest and Poorest Members'
Leany Lemos	WP 2011/62 'Determinants of Oversight in a Reactive Legislature: The Case of Brazil, 1988 – 2005'
Valéria Guimarães de Lima e Silva	WP 2011/61 'Sham Litigation in the Pharmaceutical Sector'.
Michele de Nevers	WP 2011/60 'Climate Finance - Mobilizing Private Investment to Transform Development.'
Ngaire Woods	WP 2010/59 ' The G20 Leaders and Global Governance'
Leany Lemos	WP 2010/58 'Brazilian Congress and Foreign Affairs: Abdication or Delegation?'
Leany Lemos & Rosara Jospeh	WP 2010/57 'Parliamentarians' Expenses Recent Reforms: a briefing on Australia, Canada, United Kingdom and Brazil'
Nilima Gulrajani	WP 2010/56 'Challenging Global Accountability: The Intersection of Contracts and Culture in the World Bank'
Devi Sridhar & Eduardo Gómez	WP 2009/55 'Comparative Assessment of Health Financing in Brazil, Russia and India: Unpacking Budgetary Allocations in Health'
Ngaire Woods	WP 2009/54 'Global Governance after the Financial Crisis: A new multilateralism or the last gasp of the great powers?
Arunabha Ghosh and Kevin Watkins	WP 2009/53 'Avoiding dangerous climate change – why financing for technology transfer matters'
Ranjit Lall	WP 2009/52 'Why Basel II Failed and Why Any Basel III is Doomed'
Arunabha Ghosh and Ngaire Woods	WP 2009/51 'Governing Climate Change: Lessons from other Governance Regimes'
Carolyn Deere - Birkbeck	WP 2009/50 'Reinvigorating Debate on WTO Reform: The Contours of a Functional and Normative Approach to Analyzing the WTO System'
Matthew Stilwell	WP 2009/49 'Improving Institutional Coherence: Managing Interplay Between Trade and Climate Change'
Carolyn Deere	WP 2009/48 'La mise en application de l'Accord sur les ADPIC en Afrique francophone'
Hunter Nottage	WP 2009/47 'Developing Countries in the WTO Dispute Settlement System'
Ngaire Woods	WP 2008/46 'Governing the Global Economy: Strengthening Multilateral Institutions' (Chinese version)
Nilima Gulrajani	WP 2008/45 'Making Global Accountability Street-Smart: Re-conceptualizing Dilemmas and Explaining Dynamics'
Alexander Betts	WP 2008/44 'International Cooperation in the Global Refugee Regime'
Alexander Betts	WP 2008/43 'Global Migration Governance'
Alastair Fraser and Lindsay Whitfield	WP 2008/42 'The Politics of Aid: African Strategies for Dealing with Donors'
Isaline Bergamaschi	WP 2008/41 'Mali: Patterns and Limits of Donor-Driven Ownership'
Arunabha Ghosh	WP 2008/40 'Information Gaps, Information Systems, and the WTO's Trade Policy Review Mechanism'
Devi Sridhar and Rajaie Batniji	WP 2008/39 'Misfinancing Global Health: The Case for Transparency in Disbursements and Decision-Making'
W. Max Corden, Brett House and David Vines	WP 2008/38 'The International Monetary Fund: Retrospect and Prospect in a Time of Reform'
Domenico Lombardi	WP 2008/37 'The Corporate Governance of the World Bank Group'
Ngaire Woods	WP 2007/36 'The Shifting Politics of Foreign Aid'

Devi Sridhar and Rajaie Batniji	WP 2007/35 ‘Misfinancing Global Health: The Case for Transparency in Disbursements and Decision-Making’
Louis W. Pauly	WP 2007/34 ‘Political Authority and Global Finance: Crisis Prevention in Europe and Beyond’
Mayur Patel	WP 2007/33 ‘New Faces in the Green Room: Developing Country Coalitions and Decision Making in the WTO’
Lindsay Whitfield and Emily Jones	WP 2007/32 ‘Ghana: Economic Policymaking and the Politics of Aid Dependence’ (revised October 2007)
Isaline Bergamaschi	WP 2007/31 ‘Mali: Patterns and Limits of Donor-driven Ownership’
Alastair Fraser	WP 2007/30 ‘Zambia: Back to the Future?’
Graham Harrison and Sarah Mulley	WP 2007/29 ‘Tanzania: A Genuine Case of Recipient Leadership in the Aid System?’
Xavier Furtado and W. James Smith	WP 2007/28 ‘Ethiopia: Aid, Ownership, and Sovereignty’
Clare Lockhart	WP 2007/27 ‘The Aid Relationship in Afghanistan: Struggling for Government Leadership’
Rachel Hayman	WP 2007/26 ‘“Milking the Cow”: Negotiating Ownership of Aid and Policy in Rwanda’
Paolo de Renzio and Joseph Hanlon	WP 2007/25 ‘Contested Sovereignty in Mozambique: The Dilemmas of Aid Dependence’
Lindsay Whitfield	WP 2006/24 ‘Aid’s Political Consequences: the Embedded Aid System in Ghana’
Alastair Fraser	WP 2006/23 ‘Aid-Recipient Sovereignty in Global Governance’
David Williams	WP 2006/22 ‘“Ownership,” Sovereignty and Global Governance’
Paolo de Renzio and Sarah Mulley	WP 2006/21 ‘Donor Coordination and Good Governance: Donor-led and Recipient-led Approaches’
Andrew Eggers, Ann Florini, and Ngaire Woods	WP 2005/20 ‘Democratizing the IMF’
Ngaire Woods and Research Team	WP 2005/19 ‘Reconciling Effective Aid and Global Security: Implications for the Emerging International Development Architecture’
Sue Unsworth	WP 2005/18 ‘Focusing Aid on Good Governance’
Ngaire Woods and Domenico Lombardi	WP 2005/17 ‘Effective Representation and the Role of Coalitions Within the IMF’
Dara O’Rourke	WP 2005/16 ‘Locally Accountable Good Governance: Strengthening Non-Governmental Systems of Labour Regulation’.
John Braithwaite	WP 2005/15 ‘Responsive Regulation and Developing Economics’.
David Graham and Ngaire Woods	WP 2005/14 ‘Making Corporate Self-Regulation Effective in Developing Countries’.
Sandra Polaski	WP 2004/13 ‘Combining Global and Local Force: The Case of Labour Rights in Cambodia’
Michael Lenox	WP 2004/12 ‘The Prospects for Industry Self-Regulation of Environmental Externalities’
Robert Repetto	WP 2004/11 ‘Protecting Investors and the Environment through Financial Disclosure’
Bronwen Morgan	WP 2004/10 ‘Global Business, Local Constraints: The Case of Water in South Africa’
Andrew Walker	WP 2004/09 ‘When do Governments Implement Voluntary Codes and Standards? The Experience of Financial Standards and Codes in East Asia’
Jomo K.S.	WP 2004/08 ‘Malaysia’s Pathway through Financial Crisis’
Cyrus Rustomjee	WP 2004/07 ‘South Africa’s Pathway through Financial Crisis’
Arunabha Ghosh	WP 2004/06 ‘India’s Pathway through Financial Crisis’
Calum Miller	WP 2004/05 ‘Turkey’s Pathway through Financial Crisis’
Alexander Zaslavsky and Ngaire Woods	WP 2004/04 ‘Russia’s Pathway through Financial Crisis’
Leonardo Martinez-Diaz	WP 2004/03 ‘Indonesia’s Pathway through Financial Crisis’
Brad Setser and Anna Gelpern	WP 2004/02 ‘Argentina’s Pathway through Financial Crisis’
Ngaire Woods	WP 2004/01 ‘Pathways through Financial Crises: Overview’

The Global Economic Governance Programme was established in 2003 to foster research and debate into how global markets and institutions can better serve the needs of people in developing countries. The program is co-hosted by University College and the Blavatnik School of Government.

The three core objectives of the Programme are:

◊ to conduct and foster research into international organizations and markets as well as new public-private governance regimes

◊ to create and develop a network of scholars and policy-makers working on these issues

◊ to influence debate and policy in both the public and the private sector in developed and developing countries

To find out more:
www.geg.ox.ac.uk
geg@bsg.ox.ac.uk
GlobalEconomicGovernanceProgrammeOxford
@GlobalEconGovce