A Comparative Analysis of Profit Performance in the three largest Sub-Saharan banking markets of South Africa, Kenya and Nigeria

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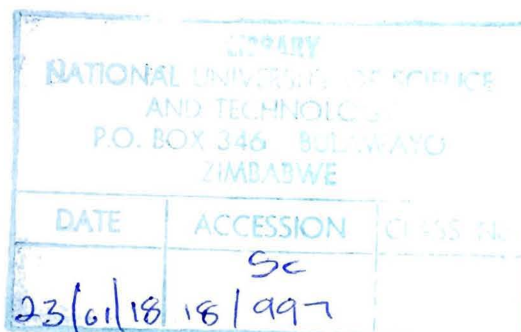

May 2003

A thesis submitted in fulfilment of the requirement for the Degree of Doctor of Philosophy

University of Newcastle upon Tyne Business School

(Accounting and Finance)

University of Newcastle

Abstract

The aim of this thesis is to find out which of the three largest sub-Sahara African banking markets is more profit efficient and therefore more likely to be successful in a deregulated and hence more competitive cross-border environment.

Since the late 1980's there has been a trend towards the extension of Economic Unions in Africa to include cross-border deregulation of capital flows consistent with the global free flow of international capital. This has been accompanied by the possibility of increased competition in the financial markets in these developing countries. With the introduction of structural adjustment programmes and the liberalisation of financial structures at the behest of the International Monetary Fund, banking operators became aware of the need to remain profitable in order to survive the competition. The prospect of cross-border de-regulation in financial services can be expected to lead to increased markets for hitherto local banks accompanied by increased competition from foreign banks. Economic theory would predict that increased competition would lead to the end of surplus financial institutions and reduced costs to the consumer. Profitability will therefore be the performance measure crucial to the survival of banks as financial deregulation deepens. It will reflect the banks ability to manage capital, staff and technology as well as reduce costs and non-performing loans. Efficient banks will be the dominant players in the mergers and acquisition strategies adopted in response to deregulation and the resulting increased competition.

The results of the review of the development of the three banking systems suggest primarily that Kenyan and Nigerian banks were more profitable than their South African counterparts during the period 1995-99 and that the reason could be found in the more favourable political and economic environment for banks in Kenya and, to a lesser extent, Nigeria during most of the period under review while South African banks were facing difficulties brought about by the end of apartheid era.

A financial ratio analysis revealed that Kenyan and Nigerian banks also carried a large proportion of their liabilities in non-interest bearing funds relative to South Africa banks.