



Stricter Basel rules linked to higher bad debts, study warns

• UCT economist Trust Mpfu's paper finds banks have chased yield with lucrative but riskier loans

By **THIBETSO MOTSOENENG** Acting Editor
 Banks may be paying for prudencing with higher bad loan ratios, according to a new study showing that stricter international capital rules increase bad debts and suggesting blanket risk backfiring.

Published by Trust Mpfu, an academic economist in the School of Economics at the University of Cape Town and published on the Reserve Bank website, the working paper found that tougher capital requirements under Basel II and III were linked to higher bad-loan ratios across seven major SA banks.

Only mid-tier banks bucked the trend, recording improvements in asset quality under tighter requirements, Mpfu said in the paper, which breaks new ground as the first to link SA's Basel regime directly to loan quality.

Mpfu, whose paper also showed bad debts had been on the increase since 2017 when capital requirements tightened across the board, said banks, on average, responded by extending lucrative but riskier loans, driving up bad debts.

"This result suggests that banks make more risky loans as capital regulations become stricter," he said, referring to estimates of an econometric technique called Generalised Method of Moments, which lets researchers draw causal inferences from panel data rife with persistence and feedback loops.

Mpfu's findings expose a perverse outcome under Basel rules II and III which emerged in the aftermath of the 2008 global financial crisis as a regulatory antidote to the excesses of casino-style bets, where banks leveraged their capital buffers to chase high-risk, high-return bets.

"In terms of policymaking, these results suggest that capital regulations alone may not be adequate to control problem loans," said Mpfu, whose paper drew on 20 years of granular bank-level data (2000-23) to isolate the effects of Basel II and III on banks' credit books.

The findings come as the Prudential Authority,

the Reserve Bank's banking supervision authority led by deputy governor Fundi Tshazibana, pushes through the final touches of the Basel III endgame package, which was agreed in 2017 as the final iteration that completes the post-2008 overhaul of bank capital and risk weights.

In its latest annual report, the Prudential Authority said the final standards, including revised credit risks, and a standardised approach for day-to-day risk and extra Pillar 3 disclosures, would add about R6bn more capital cushion by the start of next year, driven largely by the new operational risk charge.

Under the overhaul, banks are required to hold larger cash cushions against unexpected losses and to limit the amount of debt they can hold relative to their own capital, and are forced to maintain a stock of assets that can be sold in a pinch. The measures strengthen the financial system.

Still, Africa's lenders and policymakers are

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intensifying calls for tweaks to Basel III, arguing that its uniform application ties up a greater proportion of banks' funds in reserves, making it costlier and harder to finance long-term projects.

Standard bank CEO Sim Tshababala, who chairs the B20 finance and infrastructure task force, and Absa head of sustainable finance Pundik Modise argue that the current risk-weighting rules effectively choke off financing for long-dated projects, from roads and railways to power grids and classrooms.

Backed by institutional firepower, including Patrick Njoroge, the former boss of the Kenyan central bank, and Ndidi Okonkwo Nwumeiri, president of One Campaign, they want infrastructure carved out as its own asset class



Sim Tshababala, Standard Bank's CEO. Most Loved

with lower capital charges, freeing up billions for development.

Mpfu's research stays agnostic about specific asset class carve-outs, simply measuring how blanket Basel rules have affected non-performing loans across banks. Even so, its core finding that one-size-fits-all capital buffers can backfire underpins the case for a more granular treatment of sectors like infrastructure.

Africa faces an annual infrastructure funding shortfall estimated at between \$130bn and \$170bn, according to the African Development Bank. High borrowing costs, inflated by what critics call an "African perception premium," leave many governments paying more interest than on health or education spending.

Still, critics have cautioned that diluting capital rules for one sector could set a dangerous precedent. Reserve Bank governor Lesetja Kganyago has warned that selective relief might invite arbitrage-driven carve-outs for housing, education and other industries, endangering the integrity of the entire capital framework.

In Washington, the Federal Reserve is preparing to roll back key elements of Basel III "endgame" framework, another sign some regulators are questioning whether post-crisis capital surcharges stifle lending more than they shore up stability.

Mpfu's paper is also a timely contribution ahead of the B20 task force due to deliver its policy proposals next month.
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SA's G20 presidency matters for SMEs

By **MANESSAH ALAGBAO**

The world is at a crossroads: the global economy needs to grow but it is also under pressure to decarbonise. For Africa, the stakes are even higher. Climate shocks, low adaptive capacity to climate change, rising energy costs and fragile supply chains are reshaping markets, while small and medium-sized enterprises (SMEs), which make up 90% of businesses and contribute up to 80% of jobs on the continent, risk being left behind.

As SA assumes the G20 presidency and subsequently the presidency of B20 – the official business sector engagement group for the G20 that Standard Bank is a proud lead sponsor of – the country has a unique opportunity to shape the global sustainability agenda through the lens of Africa.

The timing could not be more fitting. Standard Bank today launched its Sustainability Academy, a programme designed to help SMEs translate global climate goals into practical business action. The launch underscores a crucial point: that sustainability is a tangible reality for entrepreneurs who are trying to build resilient businesses in uncertain times.

SMEs are the lifeblood of African economies, but they are also highly exposed to the disruptions of climate change. The African Development Bank estimates that SMEs already face a \$330bn annual financing gap, with many lacking access to the capital needed to invest in greener technologies.



Adaptable SMEs are central to the rapid adoption of renewable energy and climate-smart agriculture.

Without intervention, these businesses risk exclusion from global supply chains that increasingly demand sustainability credentials.

Yet SMEs are also agile. Their ability to adopt innovations quickly makes them central to solutions such as renewable energy, the carbon market and climate-smart agriculture. With the

right support, they can simultaneously reduce emissions, cut costs and drive growth.

International commitments like the Paris Agreement and the UN sustainable development goals often feel far removed from the day-to-day realities of small businesses managing cash flow, wages and rising input costs.

Initiatives such as the Sustainability Academy demonstrate how to close that gap. By equipping SMEs with knowledge of sustainability, tools to measure their environmental footprint, improve

resource efficiency and unlock access to green finance, the academy shows that sustainability can be a driver of competitiveness rather than a compliance burden.

A small manufacturer that installs solar power cuts costs and also contributes to SA's just energy transition. Farmers who adopt climate-smart

agriculture increase yields while building resilience to droughts. Logistics SMEs embracing electric mobility help decarbonise regional trade routes. These are practical steps already available to African businesses.

Financing remains the biggest barrier. The University of Cambridge Institute for Sustainability Leadership estimates that enabling SMEs globally to transition will require \$50-trillion in financing. Meanwhile, the OECD finds that SMEs struggle to access climate finance due to limited collateral, short credit histories and higher perceived risk.

For African SMEs, the challenge is even greater. This is where the G20 and B20 can be catalytic. By unlocking blended finance, climate-linked credit guarantees and concessional lending, this platform can ensure that sustainability is within reach for small businesses and large corporates.

SA's presidency offers a rare chance to position SMEs as central to the global sustainability transition. By showcasing models like the Sustainability Academy, SA can highlight Africa's innovation while pushing for global financing frameworks that reflect the realities of developing economies.

This presidency will influence international policy and set out a blueprint for how African SMEs, the real drivers of growth and jobs, can lead the transition to a greener, more resilient global economy.

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