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Article

# International Regulation and African Multinational Banks: A Paradox for International Business Policy and Sustainable Development

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This article examines international business policy (IBP) in Africa, focusing on the paradox of regulatory constraints facing African multinational banks (AMNBs) and their implications for IBP and sustainable development. Although AMNBs contribute to financial inclusion and economic growth, fragmented regulatory frameworks across Africa's diverse institutional environments hinder their operations. Compliance with global standards such as Basel III/IV and extraterritorial laws like the Dodd-Frank Act increases costs and restricts market access in underdeveloped financial systems. This study explores AMNBs' strategic adaptations that support cross-border financial flows under initiatives like the African Continental Free Trade Area (AfCFTA), and underscores the potential of harmonised regulations to promote financial stability, regional integration, and Africa's sustainable development goals.

## INTRODUCTION

The 'paradox of regulatory constraints' reflects how regulations promote financial stability. However, they often increase compliance costs and limit market access for African MNBs. This is evident in the high capital requirements of Basel III/IV. This raises questions about aligning banking with sustainable development (Haines, 2011).[1] The interconnectedness of global financial markets has placed MNBs at the forefront of International Business Policy (IBP), defined as the frameworks, regulations, and strategies governing cross-border business activities, including trade, investment, and financial flows, by their role and transformative power acting as key intermediaries in facilitating financial inclusion, investment, and trade (Léon & Zins, 2020). There is evidence that the financial sector influences economic growth and income distribution through capital allocation, making the industry crucial to achieving the SDGs (Ordonez-Ponce & Weber, 2022). Therefore, any imbalances in the financial system that go awry can have a devastating impact on economies, especially in internationalised operations in developing countries (Beck, Demirgüç-kunt, & Levine, 2010). In this study, MNBs refer to African-based banks, such as Standard Bank (South Africa) and Ecobank (Togo), that we study and that operate across multiple African countries, facilitating cross-border financial services.

In the African context, where financial markets are less developed (Beck, Cull, & Valenzuela, 2020) and regulatory capacity varies widely, partly due to poor institutional quality, the challenges posed by evolving global regulatory frameworks are particularly pronounced. The implementation of Basel III/IV standards (BIS, 2010), extraterritorial provisions of the Dodd-Frank Act, and the European Union's Capital Requirements Directive (CRD)/Capital Requirements Regulation (CRR) have added layers of complexity to MNB operations (European Union, 2013; United States, 2010). These regulations, designed to enhance global financial stability, are expected to lead to operational challenges, compliance costs, and barriers to market entry for MNBs operating in more demanding contexts. The impact of this paradox is amplified in Africa. African countries have recently increased their integration into the global economy and face unique challenges in harmonising international standards with local regulatory frameworks.

1 This idea was also conceptualized by Haines (2011). Haines' paradox of regulation is striking in its simplicity. On one hand, during periods of relative calm—what she describes as "the lull between disasters" - a dominant narrative emerges: society is inundated by an excessive proliferation of regulations, perceived as threats to individual freedoms, dampeners of entrepreneurial spirit, and barriers to competitiveness. This perspective is often punctuated by warnings against the rise of the so-called "nanny state" (p. 1). On the other hand, the paradox flips in the aftermath of a crisis, when governments, responding to public outcry, declare resolutely that "this must never happen again" (p. 2), triggering a swift surge in regulatory measures.

For example, Beck et al. (2020) highlight that African banks often operate under fragmented regulatory frameworks, which inhibit their ability to compete effectively in global markets. Section 3.1 profiles key African MNBs, showcasing their diversity and strategic responses. This paper examines how the strategic responses of MNBs to regulatory constraints impact IBP in Africa, providing policy recommendations to enhance financial integration and promote sustainable growth. By bridging the fields of banking regulation and IBP, this study offers insights into fostering financial stability and economic development in Africa.

## THE EVOLVING LANDSCAPE OF MULTINATIONAL BANKING REGULATION

The evolution of banking regulation reflects the growing emphasis on financial stability in a highly interconnected world. From the Basel I Accords in 1988, which introduced capital adequacy requirements, to the more comprehensive Basel III/IV standards, global banking regulations have sought to address systemic risks and enhance resilience. Basel III/IV, for instance, emphasises stricter capital buffers, liquidity requirements, and stress-testing mechanisms, significantly altering the operational landscape for MNBs. These frameworks profoundly impact the African banking system(s), where compliance with such rigorous standards can be challenging due to limited financial and technical capacity (Asongu, Biekpe, & Cassimon, 2020). In addition to global frameworks, regional regulations like the EU's CRD IV/CRR and the Dodd-Frank Act impose extraterritorial compliance obligations on MNBs, further complicating cross-border operations (European Union, 2013; United States, 2010). The African context amplifies these challenges, given the cultural and regulatory diversity across 54 countries and varying levels of institutional development (Nachum et al., 2023). For example, in East Africa, regulatory inconsistencies among Kenya, Tanzania, and Uganda create barriers to cross-border banking, hindering the objectives of financial integration under initiatives like the AfCFTA (Fofack & Mold, 2021). This fragmented landscape underscores the importance of regulatory harmonisation to reduce inefficiencies and foster financial inclusion across the continent.

## STRATEGIC RESPONSES BY MULTINATIONAL BANKS

### PROFILE OF AFRICAN MNBS

African Multinational Banks (MNBs) are financial institutions headquartered in Africa that operate across multiple countries, facilitating cross-border financial services. Key players include Standard Bank (South Africa), Ecobank (Togo), and United Bank for Africa (UBA) in Nigeria. Standard Bank, Africa's largest bank by assets, operates in 20 countries across the continent, with a focus on corporate and investment banking. Ecobank, with a presence in 33 countries, emphasises pan-African retail and digital banking, leveraging fintech to enhance financial inclusion. UBA operates in 20 African countries, targeting SMEs and cross-border trade. These banks face diverse regulatory environments, leading to varied strategic responses. For instance, Ecobank's AI-driven compliance tools contrast with Standard Bank's risk management approach, which is more focused on South Africa. This diversity underscores the heterogeneity of Africa's banking sector, challenging the notion of a homogeneous continent and shaping the regulatory strategies of MNBs.

### AFRICAN MNBS STRATEGIES

African MNBs have created innovative strategies to address regulatory pressures, providing practical lessons for balancing compliance with sustainable development goals. Responding to these regulatory pressures, MNBs have developed strategies to deal with compliance and sustain operations, for instance, by adopting localised compliance mechanisms that align specific national regulations with global standards. For example, African MNBs, including Standard Bank and Ecobank, have successfully employed this strategy to address regulatory challenges while maintaining their competitive edge in Africa. According to Claessens and Horen (2015), such tailored strategies increase costs but help MNBs mitigate risks and adapt to the unique regulatory environments of developing and emerging markets. African Banks have constantly improved their resilience to economic shocks by implementing advanced stress-testing models and enhancing capital adequacy frameworks. Digital transformation is another response, where fintech solutions play a crucial role in streamlining compliance processes and reducing operational costs. Using blockchain technology, artificial intelligence, and real-time reporting for regulatory analytics demonstrates how MNBs leverage technology to meet compliance demands efficiently (Table 1). These strategies not only ensure compliance but also enhance financial inclusion, as seen in Ecobank's expansion of digital banking services across 33 African countries.

## IMPLICATIONS FOR INTERNATIONAL BUSINESS POLICY IN AFRICA

The regulatory challenges faced by African MNBs have extensive implications for IBP. Table 2 depicts policy recommendations for IBP in Africa. For example, compliance requirements impact MNBs' market entry strategies, mostly prioritising countries with more predictable regulatory environments or established financial hubs, such as in South Africa. Such a selective approach affects the distribution of investment flows and cross-border lending, potentially leaving less-developed African markets underserved. Regulatory frameworks further shape broader IBP, including investment treaties, trade agreements, and monetary policies (See Figure 1). The introduction of the AfCFTA, for example, offers a unique opportunity to harmonise financial regulations across the continent, thereby promoting investment and intra-African trade. Achieving this objective

**Table 1. African MNBs Strategies**

| MNB Strategy | Definition | Examples |
|---|---|---|
| **Localised compliance** | Strategies adopted by African MNBs to navigate the complex regulatory landscape across 54 African countries involve aligning specific national regulations with global standards. | South African and Togolese Standard Bank and Ecobank successfully employed localised compliance to implement international regulations. |
| **Advanced risk management** | Strategies and frameworks employed by MNBs in Africa to identify, assess, and mitigate risks associated with operating in developing and emerging markets, ensuring resilience against economic shocks and compliance with stringent global regulations | Implementing advanced stress-testing models, enhancing capital adequacy frameworks, and investing in AI-driven risk assessment systems |
| **Digital transformation** | Adoption and integration of digital technologies by African MNBs to enhance operations, service delivery, and regulatory compliance, to streamline compliance processes, reduce operational costs, and enable expansion in African markets, ultimately contributing to financial inclusion and economic growth | Using fintech solutions to streamline compliance and reduce operational costs, leveraging blockchain technology, AI, and real-time reporting for regulatory analytics |

**Table 2. Examples of Policy Recommendations for IBP in Africa**

| Recommendation | Description | Expected Impact |
|---|---|---|
| **Promote Regulatory Harmonisation via AfCFTA** | Encourage the African Continental Free Trade Area (AfCFTA) to develop coordinated standards for capital adequacy, anti-money laundering, and cross-border banking regulations, while allowing local flexibility | Reduces compliance costs for MNBs, enhances financial integration, and supports intra-African trade and investment. |
| **Strengthen Regional Cooperation** | Leverage regional bodies like ECOWAS and the East African Community to align banking protocols and share best practices, focusing on reducing regulatory inconsistencies | Facilitates cross-border banking operations, particularly in regions such as East and West Africa, and enhances market access for MNBs |
| **Incentivise Fintech Innovation** | Provide tax incentives and grants for MNBs to adopt fintech solutions, such as AI-driven compliance tools and blockchain-based reporting, to streamline regulatory processes and enhance operational efficiency | Lowers operational costs, enhances compliance efficiency, and promotes financial inclusion through digital banking services |
| **Enhance Public-Private Partnerships** | Foster collaboration among MNBs, governments, and international organisations, such as the Bank for International Settlements, to build regulatory capacity and develop transparent legal frameworks | Strengthens institutional quality, boosts investor confidence, and supports sustainable development goals |
| **Support SME Financing** | Encourage MNBs to align lending practices with local development needs, such as financing small and medium enterprises (SMEs), through regulatory incentives and risk-sharing mechanisms | Increases access to credit in underserved markets, promotes inclusive growth, and reduces regional economic disparities |
| **Implement Anti-Corruption Measures** | Develop robust anti-corruption frameworks and enforce transparent compliance standards to enhance trust in financial systems | Attracts foreign investment, improves MNB competitiveness, and supports long-term economic stability |

requires balancing the need for regulatory rigour with the goal of fostering economic growth and financial inclusion. Policymakers must, therefore, address these challenges to ensure that regulatory frameworks support, rather than hinder, economic aspirations. For instance, harmonised anti-money laundering standards under AfCFTA could reduce compliance costs for MNBs like UBA, enabling increased lending to SMEs in West Africa.

## TOWARDS A HARMONISED REGULATORY FRAMEWORK IN AFRICA

Harmonising regulatory frameworks across Africa's 54 diverse nations does not imply a one-size-fits-all approach but rather coordinated standards that balance global compliance with local flexibility. Fragmented regulations increase compliance costs for MNBs, hindering financial integration and economic growth. For instance, regulatory inconsistencies in East Africa (e.g., Kenya, Tanzania, Uganda) create barriers to cross-border banking (Fofack & Mold, 2021). Harmonisation through platforms like the AfCFTA or regional bodies such as the Economic Community of West African States (ECOWAS) could align key standards, including capital adequacy and anti-money laundering protocols, while preserving local adaptations. Incremental progress, like the East African Community's banking protocols, demonstrates feasibility. However, challenges, including varying institutional capacities and political will, have delayed harmonisation. Decentralisation offers flexibility but risks perpetuating inefficiencies, whereas coordinated frameworks could reduce systemic risks and attract foreign investment. International organisations like the Bank for International Settlements can support capacity-building to facilitate this alignment. Policymakers must weigh these trade-offs to ensure regulations support Africa's sustainable development aspirations without stifling local innovation. This would also facilitate African countries' ability to attract foreign investment and actively participate in global financial markets, further supporting Africa's broader sustainable development objectives. Africa's 54 countries exhibit diverse economic and institutional contexts, necessitating harmonisation that respects local regulatory priorities while fostering regional cooperation.

## CONCLUDING REMARKS

African Multinational Banks demonstrate resilience in dealing with complex regulatory constraints, offering practical lessons for international business policy on the continent. Strategies such as Ecobank's AI-driven compliance tools and Standard Bank's localised risk management illustrate how MNBs balance global standards with regional realities. For instance, Ecobank's real-time regulatory analytics have streamlined compliance across 33 countries, while Standard Bank's stress-testing models enhance resilience in South Africa's volatile markets. These responses highlight actionable pathways for banking in Africa that reduce reliance on top-down regulatory solutions. This regulation-related paradox manifests in practice, where stringent regulations, such as the Dodd-Frank Act's extraterritorial rules, constrain MNBs' ability to serve underbanked African markets.

Policymakers can draw on the strategies adopted by these banks to foster financial integration and sustainable growth. Harmonised frameworks, such as those proposed through the AfCFTA, could simplify compliance, as seen in the East African Community's partial successes. In parallel, incentivising fintech innovations, such as mobile banking, can ensure alignment with local needs. Transparent legal frameworks, robust institutions, and public-private partnerships are crucial for supporting MNBs and, alongside anti-corruption measures, fostering investor confidence. MNBs should continue to invest in advanced compliance tools and align their products with local development goals, such as SME financing, to deepen market penetration and promote inclusive growth.

Enhancing public-private partnerships – collaboration with governments and regional bodies – is also crucial for laying the groundwork for financial solutions that address regulatory constraints while strengthening African countries' inclusive economic growth. Finally, international business and management scholars should direct their research toward banking regulatory frameworks and cross-border financial flows, and their implications for IBP, particularly in developing and emerging economies. Investigating whether innovation and financial technology could mitigate regulatory constraints is crucial. This could further help managers of MNBs improve their competitiveness and service delivery in developing markets. Such research could build on MNBs' demonstrated innovations, like blockchain-based compliance, to inform IBP.

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