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Development banks in Sub-Saharan Africa: some historical lessons for a re-foundation?

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At the time of independence in Sub-Saharan Africa, one of the beliefs widely shared by the leaders of the newly independent States and by bilateral and international donors (now called Technical and Financial Partners or TFPs) who were thinking about their economic destiny was the need for state-owned development banks. The aim was to achieve, as soon as possible, the objectives of economic growth and construction of modern national economic systems.

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•••/••• There were several reasons for this approach. The first reason, political, was that the civil service of the new states, whose senior officials came from the local elites, was best placed to design, implement, own, and direct the main levers around which the construction of the new nations were to be organized. This included, to a large extent, the structures in charge of providing the necessary financing for the numerous infrastructure projects or enterprises of all kinds whose capital was held by the States. This situation was the same whether the countries adopted a socialist strategy, like Mali or Tanzania, or a liberal one, like Cote d'Ivoire or Kenya. The second reason, economic, was linked to the fact that the economic structures left by the colonizers included few national enterprises of significant size, which required the public sector to take the lead. This was particularly true in the banking sector where the capacity for domestic private management of such institutions was barely considered conceivable. The only local banks then existing were on the one hand subsidiaries of English, French, or Portuguese groups, essentially oriented towards the granting of short-term commercial loans, and consequently not interested in financing the investments, public or private, required for the country, and on the other hand the state banks focused on these investments. A third reason, is related to the Technical and Financial Partnerships, who wanted to have the States or their administrations as the sole contacts for their loans or equity investments included in their development programs. This condition, which is still valid for Official Development Assistance (ODA), has led the major donors to encourage state financing structures to better centralize government action.

Based on this belief, almost all Sub-Saharan countries had at least one Development Bank (DB) during the decade 1960 to 1970. These institutions were of two types: general or sectoral. The general development banks were notably intended to finance industrial projects, often chosen by the States in liaison with the TFPs, or even to invest in them with their funds, and also to distribute lines of credit aimed at a defined public (small businesses, job creation, regional development for example). The sectoral development banks had similar objectives but for a particular sector: agriculture, industry, and housing were the main targets chosen for these specialized institutions. In both cases, these institutions were little oriented towards collecting deposits from the public and operated primarily on long-term lines of credit obtained from their shareholders or various TFPs. In the Franc Zone, for example, many countries have had one or more development banks in these niches, or even in each of them, as in Côte d'Ivoire. Thanks to the size of the financial flows they received from the States and, through the States from TFPs, the Development Banks have become, in less than 30 years, an important component of the national banking systems in the face of subsidiaries of foreign banks. In the few countries where Marxism had prevailed, these Development Banks held a dominant position: thus, in 1989, on the eve of the National Conference, former Dahomey, now Benin, had only three banks, including two Development Banks, all public.

The gradual establishment of regional unions of states brought the desire to have regional Development Banks capable of continuing in the areas thus defined the same policies of infrastructure financing, business support, or sectoral support, corresponding to the priorities of the region, like those carried out in individual countries. These supranational institutions appeared as soon as the legal entities of these groupings were clear. The two parts of the franc zone, the East African Community (EAC) and the Southern African Development Community (SADC) followed this path with varying degrees of success, and the African Development Bank (ADB) replicated this approach at the continental level as early as 1964 under the impetus of the Organization of African Union (OAU). An essential difference from the national development banks is that these regional institutions have gradually integrated non-African state shareholders and TFPs into their shareholding to play an increasing role.

In a first phase, the increase in financial assistance received from abroad and the good macroeconomic indicators for the Sub-Saharan countries during the 1960s and 1970s favored the national development banks. This favorable situation made it possible to conceal for a while the two weaknesses that turned out to be inherent in the Development Banks. Firstly, the very mixed results of the projects and programs financed weakened, or even compromised, the profitability of these banks and their ability to ensure their growth, and, in some cases, the maintenance of their equity capital. Poor choices of industrial or sectoral targets, poor assessments of investment costs, and poor or fraudulent management by the managers of some of the companies financed were at the root of these disappointments. Then, within the Development Banks themselves, management errors or uncertainties about their strategy, for instance whether or not to extend the activities to those of commercial banks, were a second handicap.

These weaknesses came to light during the systemic crises that hit banks in Sub-Saharan Africa in English-speaking Africa in the 1970s, and from 1980 onwards for the French-speaking Africa. During this deep crisis, development banks, which were less profitable and less well managed, suffered much more than commercial banks. At the same time, the States, which were their main shareholders, were most of the time unable to carry out the necessary recapitalization in the face of threats of insolvency, which many foreign banks did for their Sub-Saharan subsidiaries. This crisis has had three major consequences. Firstly, the pure and simple disappearance of some of these Development Banks: these liquidations were the main cause of the hemorrhage that marked the French-speaking banking systems at the time, which lost nearly a third of its members between 1980 and 1990. Secondly, for the Development Banks that weathered this storm, there was an entry into the capital by new shareholders such as Central Banks, Regional Development Banks, TFPs, and sometimes private banks: these new investors had the double advantage of having significant financial resources and encouraging the adoption of more rigorous management criteria for the future. Thirdly, there was the frequent extension of the corporate purpose of the remaining Development Banks to commercial banking activities, both in terms of the nature of the clientele and the collection of deposits or the distribution of short-term loans, thus losing the specificity of these «Development Banks». This practice was initially justified by the scarcity of investment projects, particularly productive ones, during the «structural adjustment» period of the 1990s. It was also the result of the willingness of the managers of these Development Banks to strengthen their growth and profitability. In Mali, the Banque de Développement du Mali (BDM), which was placed under provisional administration for a while in the early 1980s, then restarted with a new shareholding involving the Central Bank of West African States (BCEAO), the West African Development Bank (BOAD), national private investors and the Moroccan bank BMCE, which was also involved in its management, alongside the State and a few public bodies. It has now become a full-fledged commercial bank and is the biggest on the Bamako market. Similar situations can be found both in Central Africa, such as the Gabonese Development Bank (BGD), and in East Africa, such as the Development Bank of Kenya (DBK).

At the same time as this new configuration of Development Banks was being forged within the Sub-Saharan banking systems, two features of the situation have been highlighted since the late 1990s. First, supranational Development Banks have been much less affected than their national counterparts. Although difficulties have been seen for some of them, such as in French-speaking Central Africa, most of them have continued to grow and develop their interventions, playing a key role in building infrastructure on the continent. Some have even become references, through the quality of their teams and their international credibility, for instance the WADB, the ECOWAS Bank for Investment and Development (EBID), the Development Bank of South Africa (DBSA), and of course the AfDB, the only African financial institution honored with an AAA rating. Moreover, despite previous difficulties and changes in the environment, some countries have continued to create specialized Development Banks to address the investment shortfalls observed in certain sectors. Thus, banks for housing were created in Burkina Faso in 2005, Côte d'Ivoire in 1993, and Mali in 1996. In Burkina Faso the bank recently became a general bank with an essentially private shareholder base. In Côte d'Ivoire and Mali, the banks had to be restructured and placed under provisional administration, thus demonstrating that the shortcomings of these institutions, had not been erased.

Over the last 15 years or so, the specific need for Development Banks has been much reduced in each country. Several facts have contributed to this change. The most important is the progress made over the period by commercial banks to cover new areas of intervention. Enhanced by their regular increases in power, the strengthening of their equity capital and their good results, buffeted by increasingly tough competition, pressed by the monetary and political authorities, and encouraged by the strong growth and stability of their deposits, commercial banks have considerably expanded their medium- and long-term lending. They are therefore increasingly active in the financing of industrial investments and have also penetrated the housing sector, thus replacing, at least partially, the traditional role of Development Banks. A second element is the entry of new stakeholders, often foreign, to take over or facilitate the implementation of productive investments or infrastructures: The specific subsidiaries of certain TFPs such as the International Finance Corporation (IFC) or Proparco, the African regional or continental development banks, the increasing number of equity or debt investment funds, and the «Public Private Partnerships» (PPP) mechanism are all new solutions, sometimes combined, which are playing an increasingly important role in financing the development of African countries. Especially in productive investments, where they now play an essential role, the private sectors are better able to accommodate these new partners in terms of working methods. Finally, governments everywhere are faced with pressing financing constraints from priority national sectors - education, health, security - which take a growing share of their resources.

Despite this trend, and in the face of the slow pace of achievement of sectoral objectives deemed critical, some States have not abandoned the ambition of having public financial structures. They consider public financial structures more efficient than a private commercial bank to intervene forcefully and rapidly in certain sectors that they particularly want to promote, such as agriculture or housing, and have persevered in the creation of specialized development banks. However, the results obtained have not lived up to expectations, as the following two examples show. In Mali, the Banque de l'Habitat du Mali (BHM), which was set up in 1996 and restructured with a view to relaunching its activities in 2007, finally merged with the Banque Malienne de Solidarité (BMS), another state-owned bank, with the new entity operating as a generalist bank. For agriculture, most of the recent attempts have not fared much better. The BNDA of Côte d'Ivoire, which became the Banque de Financement de l'Agriculture (BFA), ceased its activities in Abidjan in 2014 due to illiquidity, and the agricultural bank project announced in Benin in 2013 has still not seen the light of day. In agriculture, the National Agricultural Development Bank (BNDA) of Mali, the country's 5th largest bank, is one of the happy exceptions, perhaps thanks to the majority presence on its board of directors (investment board?) of international institutional shareholders who exercise close control over its management.

Repeated failures have affected a large majority of the National Development Banks. In order for the current financial systems, largely dominated by private commercial banks, to be usefully enriched by new Development Banks so that these two components contribute as well as possible to the objectives expected from the action of African financial institutions, it seems that various conditions must be met, among which the following four points can be underlined:

The first is the acceleration of the creation by each State of an ecosystem more favorable to development and value creation. By intensifying their efforts on the regalian domains that they alone can shape, public authorities can build a legal, judicial, fiscal, human capacity, and anti-fraud environment more favorable to the emergence and growth of a healthy and vigorous economic system. In this healthier and improved environment, all banks, including reconfigured Development Banks, would have a better climate in which to conduct their activities and effectively support an African productive sector which is now more mature, more likely to invest, and better able to succeed thanks to this diversification of its potential partners.

Second, national financial systems are able to continue diversifying their activities and penetrate areas that were previously foreign to them. The establishment of a more favorable environment, a better determination by the Monetary Authorities of the regulatory arsenal capable of both strengthening institutions and encouraging them to reorient their centers of interest, and the continuous pressure of competition are «stimuli» that should foster rapid evolution in this direction, particularly with regard to the financing of industry and housing. In the face of this competition, the new Development Banks will have to choose perfectly identified targets for which they have comparative advantages linked to their shareholders and/or their long-term strategic approach. This will be a condition for their survival.

The third element is the rise of new players whose characteristics are such as to enable them to better finance certain sectors that have so far been difficult to approach. Decentralized financial systems, and above all, Electronic Money Issuers (EMIs), whose growth is impressive, can better capture small operations and customers scattered over all the national territory. They could, in cooperation with all banks, including new-style Development Banks, turn to this new clientele. This approach would help to improve the financing of Very Small Enterprises (VSEs), which will be the foundation of the economic system of the future, and farmers, who still represent a large part of the working population and whose modernization is indispensable. Here again, the indirect support of the States will be essential.

Finally, the good health and continued growth of certain regional or continental development banks in Africa should allow greater recourse to capital-intensive or joint financing partnerships between these institutions and the planned new Sub-Saharan Development Banks. In this «mix», the former would then bring their financial «strike force» and their vision as public actors. The latter would constitute a significant complement in resources and would reinforce the emphasis on pragmatism on the ground, even if they only have a minority position in such partnerships.

Even if this approach does not give the States the same direct control over the actions carried out as for the state-owned Development Banks, the chances of achieving the desired goals more reliably and at a better cost would undoubtedly be higher. The «Schumpeterian detours» have proven their effectiveness for a long time.

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