Perspectives on Development Banks in Africa

Case Studies and Emerging Practices at the National and Regional Level

Edited by
Joshua Yindenaba Abor · Daniel Ofori-Sasu

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General
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PART I

Overview of Development Banking in Africa

CHAPTER 1

Introduction to Development Banking in Africa

Joshua Yindenaba Abor and Daniel Ofori-Sasu

1.1 Introduction

Development banks are financial institutions that focus mainly on providing long-term capital to industry (de Aghion, 1999). They mostly have the support of the state, which enables them to plan in the long term and generally provide long-term financing for productive investments in capital-intensive industries, often through technical assistance. Development banks intervene in addressing market imperfections by supporting projects that hitherto have difficulty in accessing capital from the financial market. They are also noted to perform important counter-cyclical role, which helps in maintaining a country's overall investment levels and protect its productive structure in times of economic downturn (Abor, 2023; Abor et al., 2020; Attridge et al., 2021; Griffith-Jones et al., 2018).

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Their counter-cyclical role was evidenced in their response to the global financial crisis and the COVID-19 pandemic as they provided major support to the global economy during these periods.

Development banks are critical to the development of both developed and developing countries. They include multilateral development banks, regional development banks, and national development banks, and these various types of development banks play important roles in providing development finance to various economies. Multilateral development banks (MDBs) are established by various countries with the objective of supporting development activities through long-term loans and grants. They provide mostly lending at low or no interest and sometimes grants to finance projects in areas that promote development. Development banks include the Word Bank, regional development banks, and sub-regional development banks. Regional development banks and sub-regional development banks concentrate on financing development projects in specific geographical areas, and they tend to have regional countries and other large donor countries as majority shareholders (Abor, 2023). National development banks (NDBs) are also financial institutions that are wholly or partially owned or controlled by a national government with the mandate of achieving socio-economic goals in the respective country (Ocampo & Ortega, 2022).

The number of development banks increased rapidly since their emergence in 1950s through the 1960s to support social and economic development. However, they started experiencing a decline occasioned by the economic liberalization and reforms that occurred in the 1980s and 1990s. A good number of them were privatized during the period (1987–2003), and a large number of them were also either restructured or liquidated. The privatization drive at the time changed their mandate more towards profit orientation. Subsequently, the global economy has seen many more development banks being established in spite of the privatization (Abor, 2023). They have sought to focus on providing financing for specific national or regional projects and to private or public institutions; they may operate in conjunction with other financial institutions. They have been instrumental over the years in promoting private investment opportunities and directed their efforts towards industrial, agricultural, and infrastructural development. They have also in recent times focused more on issues regarding climate finance and sustainability.

Development banks have been instrumental in financing the development process in the past, and their importance is even more recognized