



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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Editors

Joshua Yindenaba Abor
Business School
University of Ghana
Legon, Ghana

Daniel Ofori-Sasu
Business School
University of Ghana
Accra, Ghana

ISBN 978-3-031-59510-3 ISBN 978-3-031-59511-0 (eBook)
<https://doi.org/10.1007/978-3-031-59511-0>

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ACKNOWLEDGEMENTS

Joshua Yindenaba Abor

To my wonderful wife, Prof. Patience Aseweh Abor and our lovely children, Ivana, Bastien and Venka for their love, support and encouragement. Also, to my parents, Mr. Abor Ndobire and Madam Amina Tobga for their inspiration and commitment throughout my education. I also wish to appreciate my co-editor, Dr. Daniel Ofori-Sasu, and co-authors as well as authors of the various chapters.

Daniel Ofori-Sasu

I am very grateful to Prof. Emmanuel Sarpong-Kumankoma for his useful comments which have contributed to enrich this work. Also, a special note of appreciation to Lady Mrs. Edith Louisa Ofori and the entire Ofori family who contributed in diverse ways to the successful completion of this study.

General

We the editors would like to thank all contributing authors for the high quality of their chapters. We appreciate Dr. Coby Frimpong (Chief Economist, Development Bank Ghana) and staff of Development Bank Ghana, Mr. Frank Abaho Gakwaya (Strategy, Research, M&E Manager, Development Bank of Rwanda), Mr. J. Pandoo (CEO, Development Bank of Mauritius), Mr. D. Grungaram (Assistant Manager, Development Bank of Mauritius) and Mr. D. Hosanee (Company Secretary, Development Bank of Mauritius) for accepting to grant the interviews and

providing useful information on their respective banks. We also thank all other officials of the various development banks for providing useful information to the authors.

We wish to thank Dr. George Frimpong, Department of English, University of Ghana, for the excellent work in proof reading and language editing. We also thank all the reviewers of the various chapters as well as Isaac Kofi Bekoe and Sherif Sulemana for providing editorial assistance.

We wish to specially appreciate the financial support provided by ECOWAS Bank for Investment and Development in completing this book project.

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NOTES ON CONTRIBUTORS

Janet Talata Abor is with the Financial Stability Department of the Bank of Ghana. She previously worked as Associate Consultant, Corporate Support Group Ghana (Management, financial and economic consulting firm). She holds a B.A. in Economics and Information Studies and a M.Sc. in Development Finance from the University of Ghana.

Joshua Yindenaba Abor is a Financial Economist and Professor of Finance with numerous years of expertise, mainly in development finance and economics research, as well as in senior-level practitioner, policy and consulting roles. He is the former Dean of one of the largest Business Schools in Africa—the University of Ghana Business School. He holds a Ph.D. in Finance from Stellenbosch University, after completing the Ph.D. coursework in Financial Economics at the Department of Economics, Harvard University. He is an Afreximbank Research Fellow and has held Visiting Scholar positions at the International Monetary Fund (IMF), USA. He is an External Fellow at the Centre for Global Finance, SOAS University of London, an Adjunct Professor of Development Finance at Stellenbosch University, an Adjunct Professor in Monetary and Financial Economics at the University of Business and Integrated Development Studies, Ghana, and a Researcher with the African Economic Research Consortium. He is a member of the American Economic Association, Canadian Economic Association and Economic Society of South Africa. He is a member of the Monetary Policy Committee of the Bank of Ghana.

Christian A. Aboua is an economist-researcher at the Jean Lorougnon Guedé University of Daloa. He has more than fifteen years of experience in economic research. He has demonstrated expertise in productivity analysis and resource allocation, analysis of the competitiveness of agricultural value chains, analysis of trade and industrial policies and evaluation of development policies, projects and programmes. His research interests include agriculture, fisheries, energy, natural resources, climate change and industrial development. He has conducted several economic studies and research projects to advise public and private decision-makers.

James Atambilla Abugre is an emerging financial economist and a Ph.D. candidate in Finance at the University of Ghana Business School. He is a senior Economic and Development expert in Ghana with vast experience in development finance, development planning and management, public policy administration and local governance. He holds an M.Phil. in Economics, a B.A. in Integrated Development Studies with specialization in economics and entrepreneurship and a Post-chartered Diploma in Advanced Business Analytics. He is a member of the Ghana Institute of Planning and Commonwealth Association of Planners. James has contributed to several book chapters edited by renowned scholars in different fields. His research interests include monetary economics and policy, financial inclusion and technology, financial development, corporate finance and governance, development economics and planning and international economics.

Benjamin Agyeman is a Ph.D. Finance Candidate at the University of Ghana. He holds an M.Phil. in Finance from the University of Ghana, a B.Sc. in Financial Mathematics from the University for Development Studies (UDS) and a Post-Secondary Education Certificate from the University of Cape Coast (UCC). His research interests are in the areas of banking and finance, sustainable and responsible investment, oil and gas, project finance and digital and inclusive finance. He has co-authored a number of book chapters.

Lordina Amoah is a Senior Lecturer at the Department of Finance, University of Ghana Business School. She has a Ph.D. in Development Finance from Stellenbosch University, South Africa. Lordina is a researcher with the African Economic Research Consortium and has published articles in reputable international journals. Her areas of research interest include green finance, small business finance, corporate finance

and financial market development. She has extensive knowledge in green finance. She participated in the Global Academy on Green Economy organized by the International Training Centre of the ILO and the ESRM programme by the International Finance Corporation.

Ebenezer Bugri Anarfo is an Associate Professor of Finance at the Department of Accounting and Finance, Ghana Institute of Management and Public Administration (GIMPA) Business School and a consultant at Corporate Support Group (CSG). Dr. Anarfo's research interests are in the areas of financial inclusion, financial sector development, monetary policy, financial regulation, remittances, food security, FDI, economic growth, capital structure and mental health. His scholarly works on these areas have been published in reputable journals.

Dr. Olagunju M. O. Ashimolowo is the Vice-President, Operations for ECOWAS Bank for Investment and Development (EBID). He is an International Banking and Finance Executive.

A 1990 graduate of Accountancy, he has a wealth of experience spanning Financial Management, Governance Risk Management, Compliance and internal audit, training and banking operations which have helped in strengthening and consolidating EBID's operations and governance framework. Before his appointment, he held the position of Director, Internal Audit and Evaluation of Operations for over four years at the Bank. He had previously held the position of Group Office Auditor at Ecobank Transnational Incorporated (ETI) for nine (9) years. He is a fellow of the Institute of Chartered Accountants of Nigeria (ICAN), a Certified Information Systems Auditor with an M.B.A. (Finance) from the University of Lagos, a Master of Applied Business Research (M.A.B.R.) and a Doctor of Business Administration (D.B.A.) from SBS Swiss Business School, Zurich, Switzerland.

Kanayo Awani (Mrs.) is a seasoned banker having spent almost two decades with Citigroup in Nigeria in various capacities including Vice President and Head of Industrial and Commercial Corporates. She joined the African Export–Import Bank in 2009 overseeing the Bank's Trade Finance and Branches. She rose to become the Managing Director of the Bank's Intra-African Trade Initiative and spearheaded the Bank's support for the African Continental Free Trade Area (AfCFTA) negotiations which culminated in the historic signing of the AfCFTA Agreement in Kigali in March 2018. Currently serving as Executive Vice President,

she provides strategic and operational leadership in implementing the Bank's Intra-African trade and industrialization objectives, in support of the African Continental Free Trade Agreement (AfCFTA). She has been instrumental in growing the Bank's assets from US\$1.4 billion in 2009 to approximately US\$30 billion in 2022. Her leadership and contribution to the continent's banking and trade finance landscape have received global recognition with several awards including, Top 100 Most Influential Person of African Descent by MIPAD, 2020; 100 Leading Nigerian Women in the 2022 edition of Nigeria Women Annual: 100 Leading Women; Africa Financial Industry Summit (AFIS) Woman Leader Award, 2022; Forbes Afrique's list of "The 50 Most Influential African Women," 2023; African Economic Integration Champion Award, 2023; and Africa Inspirational Personality of the Year by the Africa Women Impact Summit (AWIS), 2023. A holder of a Bachelor of Science degree from the University of Nigeria and a Master of Public Administration in International Trade and Finance from Harvard University's Kennedy School of Government, a recipient of the Edward S. Mason Fellowship in Public Policy and Management from Harvard, a Fellow of the Nigerian Institute of Management, she also serves on the executive committee of FCI (the global association body for Factoring Open Account and Trade Receivables).

Habtamu Berhanu Abera Dr. Abera is an assistant professor of Accounting and Finance. Formerly, head of the Department of Accounting and Deputy Dean of Research and Technology Transfer of the College of Business and Economics, Addis Ababa University. Dr. Abera was also a visiting researcher at the University of Stellenbosch Business School. His research focuses on the role of financial markets institutions in driving economic development in the context of developing countries.

Isaac Kofi Bekoe is a Research Assistant at the University of Ghana Business School. He holds an M.Phil. in Finance from the University of Ghana Business School and is currently pursuing an M.A. in Economics at TMU, Canada. His research areas include sustainable finance, financial inclusion, inclusive growth and trade financing.

Sunil Kumar Bundoo is an Associate Professor in the Department of Economics and Statistics at the University of Mauritius. He has published widely in trade and financial liberalization; pro-poor macroeconomics;

capital markets in particular stock markets; and competition policy. He has completed several research and consultancy projects/papers for international organizations such as the World Bank; the African Economic Research Consortium (AERC); the World Institute for Development Economics Research (WIDER); the United Nations Research Institute for Social Development (UNRISD); the Consumer Unity Trust Society (CUTS); the UNU-Institute of Advanced Studies (UNU-IAS) and the Melbourne Centre for Financial Studies.

Bumi Camara is a Principal Economist at the African Development Bank Group. He holds a Ph.D. in Economics from the University of Goettingen, Germany. He has previously worked as a consultant in the Economic Research Department of the African Development Bank.

George N. A. Donkor is currently the President (CEO) and Chairman of the Board of Directors of the ECOWAS Bank for Investment and Development (EBID). Dr. Donkor is a Lawyer and a Banker with over twenty-eight (28) years of experience in senior management positions. He is the author of the book “Customer Relationship Management Practices within the Rural Banking Industry in Ghana”. He also co-authored several publications including “Organizational Learning Capability and Family Businesses Performance: Does Innovativeness Matter?”, “Strategic Planning and Performance of SMEs in Ghana, The moderating effect of market dynamism”, among others. He currently serves on several Boards including the ECOBANK Transnational Incorporated (ETI), WAICA RE-Capital and WAICA RE-Insurance.

Ashenafi Beyene Fanta is an associate professor and head of the development finance programmes at the Stellenbosch Business School. With an academic career spanning over two decades, he has built extensive teaching experience at prominent higher learning institutions both in Ethiopia and South Africa. Prof Fanta’s research focuses on areas such as financial development, SME finance, financial inclusion, and project finance. He is also actively engaged in consulting for both local and international institutions, providing expert advice in the realm of infrastructure finance. Prof. Fanta has published in several scholarly Journals and delivered papers at international conferences. He received the Best Paper award from Taylor & Francis at the International Academy of African Business and Development (IAABD) Conference held in Atlanta for his paper published in the Journal of African Business.

Frank Abaho Gakwaya is an Economist with the Development Bank of Rwanda. He is a development finance practitioner with many years of diverse knowledge in strategy development and implementation; resource mobilization; impact communications; programme development, implementation and evaluation. He holds an M.B.A. in Project Management from the University of Kigali. His research area is Development research.

Paul Terna Gbahabo is a research consultant and post-doctoral researcher at the Centre on Conflict and Collaboration (CCC) at the Stellenbosch Business School. He occasionally contributes opinion pieces to various South African print and digital media outlets, offering insights on various economic issues. His research interests encompass development and welfare economics, resource and environmental economics, and financial and behavioural economics. Dr. Gbahabo holds a doctorate and an M.Phil. in Development Finance from Stellenbosch University—South Africa, a Master’s degree from the University of Ghana-Legon, and a Bachelor’s degree in accounting from Benue State University- Nigeria.

Khadijah Iddrisu holds a B.Sc. in Accounting from the University of Development Studies, an M.Phil. in Finance from the University of Professional Studies Accra, Ghana, and a Ph.D. in Finance from Simon Diedong Dombo University of Business and Integrated Development Studies Wa-Ghana. Her research interests include sustainable finance, economics, modern banking practices and property tax.

Sylvanus Ikhide is a Professor Emeritus of Development Finance at the Stellenbosch University Business School in South Africa. He is currently a visiting Professor of economics at the State University of New York, Oneonta, USA.

Abdul Nashiru Issahaku is an International Development Economist with several years of experience in economic policy management and development. He is a former Governor of the Central Bank of Ghana and has previously worked with other reputable international and local institutions, including the World Bank, the African Development Bank, the United Nations Economic Commission for Africa (UNECA), the Canadian International Development Agency, and the National Development Planning Commission. Before his appointment to the Bank of Ghana, he had also served as the Chief Executive Officer of the Ghana Export Development and Agricultural Investment Fund. He has a Doctorate in International Affairs and Development.

Mondher Khanfir is a distinguished Governance Expert and Sustainability Advisor and leads the influential “For a Shared Prosperity in Africa” Think Tank. His commitment to leveraging innovation for social and economic progress has catalyzed his engagement in policy advocacy across Africa and the MENA region. Renowned for his expertise, he is frequently consulted by major international institutions such as the World Bank, OECD, UN-ILO, UN-ESCWA, AFD, GIZ, and EBRD. Mondher’s focus lies in guiding governments to cultivate innovation ecosystems and oversee infrastructure projects, enhancing their integration into global value chains. His prolific contributions include authoring numerous reports and spearheading initiatives to implement Research and Innovation programmes. He has conducted pivotal research studies on private sector competitiveness and provided insightful analysis on capital market development in emerging economies. Mondher’s extensive body of work and publications can be explored at <http://khanfir.info>.

Jules F. Konan holds a Ph.D. in Finance. He has worked as a financial expert and banking researcher. Several years of organizational and financial auditing in banks have given him solid expertise in banking regulation, governance, control and risk management. His field of research covers these areas, as well as SME development. He has also contributed to the creation and growth of several SMEs through bankable business plans and viable strategies.

Baah Aye Kusi holds a Ph.D. in Finance and M.Phil. in Finance. Baah is a Chartered Financial Economist and a fellow member of the Global Academy of Finance and Management, USA. He is a Senior Lecturer at the Department of Finance, University of Ghana Business School.

Anthony Kyereboah-Coleman is a highly capable development research economist with over two decades of experience straddling academia and industry. He has previously worked with the University of Ghana as a Senior Lecturer and in research and various capacities with Bank of Ghana and GCB Bank (formerly Ghana Commercial Bank). He also served as a Visiting Scholar in the Research Department of the International Monetary Fund (IMF). In his current role as a Senior Manager and Principal Research Economist with the African Export–Import Bank (Afreximbank), Dr. Kyereboah-Coleman focuses on undertaking cutting edge trade and economic research that contributes to shaping the bank’s strategic direction and operational focus, while at the same time

supporting business development with relevant sectoral and product studies. A holder of a Bachelor of Arts and Master of Philosophy, in Economics from the University of Ghana and a Ph.D. in Economics and Development Finance from Stellenbosch University, he has published extensively in peer-reviewed refereed journals where his papers continue to attract global citations, and he serves as an editor and a reviewer for several international journals.

Mercy Marimo is a model development expert. She holds a Master's degree in Development Finance from the University of Cape Town's Graduate School of Business (USB), a Master's degree in Statistics and Actuarial Science and a B.Sc. (Hons.) degree in Mathematical Statistics from the University of the Witwatersrand (Wits), South Africa. Her research interests include credit risk, commodities, trade finance and economics.

Mbako Mbo is a Chartered Accountant by profession and holds a Ph.D. in Business Management and Administration from Stellenbosch University, Cape Town, South Africa. He has a career spanning 20 years in various fields of finance, including being a development finance practitioner on a portfolio spanning several African countries. He has published with internationally recognised journals on the subject of State Owned Enterprises and continues to be a chapter contributor to edited books in the field of development finance.

Roseline N. Misati is a Senior Manager at the Central Bank of Kenya. Her main responsibilities in the Bank involve analytical and technical analysis on monetary policy, modelling as well as economic and policy research. She has previously worked in different government ministries for over ten years, including Ministries of Finance, National Planning and Agriculture and the Kenya Institute for Public Policy Research and Analysis. She has also worked as a guest lecturer at the University of Nairobi and a Senior Researcher in the African Institute for Remittances. Her current research interest includes Climate change, financial stability and Innovation, Digital Financial Services, FinTech, Public Debt and Global and Regional Value Chains. Previous research interests include Economic Growth, Monetary Policy, Private Investment and Financial Market Development.

Jabir Ibrahim Mohammed holds a Ph.D. in Finance, M.Phil. in Finance and a Bachelor of Arts in Economics and Political Science all from the

University of Ghana. He is a Senior Lecturer at the Department of Finance, University of Ghana Business School and a Consultant with Corporate Support Group Limited, a management consultancy firm. His areas of interest are Energy Finance, Financial Markets and Institutions, Fintech, Macroeconomics and Financial Economics.

Victor Murinde is the AXA Professor in Global Finance and the Director of the Research Centre for Global Finance, at SOAS University of London. He is a Fellow of the Econometric Society; he is also a Fellow of the Academy of Social Sciences. He has contributed over 100 research papers, mainly in the area of banking and finance. His other roles include Chair of Group C (Finance) for the African Economic Research Consortium (AERC) and Board of Trustees of the British Institute in Eastern Africa. He was the founding Director of the African Development Institute, at the African Development Bank, 2011–2014.

Peter W. Muriu holds a Ph.D. in Financial Economics from the University of Birmingham, United Kingdom. He is a senior lecturer in monetary and financial economics at the Department of Economics and Development Studies, University of Nairobi. He is a researcher and an external reviewer, finance and resource mobilization thematic research for the African Economic Research Consortium (AERC). He is also an external reviewer for Oxford Development Studies, Financial Regulation and Compliance and Transnational Corporations Review Journals. As an independent consultant, he has spearheaded various research projects with the aim to ignite new policies on microfinance; financial inclusion; financial stability; banking concentration; provisioning behaviour and risk management in the banking industry.

Joseph G. Nellis is Professor of Global Economy specialising in macroeconomic analysis and policy, business environmental analysis and strategic thinking for managers. He is also Deputy Dean and the longest serving member of Cranfield School of Management's Executive Board. He has previously served as Director of the School and Pro-Vice-Chancellor of the University. He has held Visiting Professorial appointments at various universities in Germany, Belgium, Austria, the Netherlands, Hungary, USA, and Ghana. Joe has published 19 research and subject-based books and over 200 academic and practitioner journal articles. He is an experienced contributor to a wide range of national and international conferences and is a consultant to organisations in the areas of

strategy and business environmental analysis, strategy formulation and management development. He has served two years in Ghana as a VSO teacher and was formerly Chairman of Wellingborough Homes Housing Association.

Randolph Nsor-Ambala has extensive experience working at executive levels in several blue-chip companies and is also a senior lecturer in accounting and finance at the Ghana Institute of Management and Public Administration. His research interests are in social and development finance, behavioral issues in accounting and finance and public financial management. He has successfully supervised several Ph.D. students.

Matthew Kofi Ocran is a professor of economics at the department of economics, and deputy dean for academic planning and assessment at the Faculty of Economics and Management Sciences, University of the Western Cape, South Africa. His current research interests lie in macroeconomics, development economics, development finance and economic history.

Charles Odoom is a management consultant and a private sector development specialist with a focus on value chains and SME development in growth economies. He is passionate about capacity building and financing for African SMEs as well as building robust business ecosystems. He has keen interest in the policy research and advocacy. He gathers evidence through operational research to inform policy reviews. In his former capacity as a head of private sector development for a Pan-African policy institute, Charles engaged extensively with a number of development finance actors while supervising various studies and transformation programmes directly involving SMEs.

Charles is currently the managing partner of Carl Moodo Advisory where his firm provides cutting-edge solutions in transformation and strategy, designed to transform and grow SMEs.

Charles has commissioned, led and contributed to a number of economic researches, market studies and policy write-ups on intra-African trade, SME development, development finance and industrial policy.

Daniel Ofori-Sasu is an emerging financial economist and a Lecturer in Finance at the University of Ghana Business School. He holds a Ph.D., M.Phil. in Finance and B.Sc. degree in Agricultural Economics from the University of Ghana. His research interests include banking, regulation, corporate finance and governance issues, capital structure and investment

decisions, dividend policy, financial development, business development, economics, monetary economics and policy, insurance policy, efficiency modelling, sustainability, econometrics and financial analysis. He is an independent business, financial and economic consultant.

Jared Osoro is a leading research economist with a distinguished career that has seen him serve as Bank Economist for the East African Development Bank, Director of Research and Policy at Kenya Bankers Association and Director of Credit Markets at FSD Africa. Attesting to his breadth and rigour, he has published extensively on financial economics, international macroeconomics and development economics as they relate to the nexus between the financial ecosystem and economic development.

Lakshmy Subramanian is a Lecturer in Financial Economics at Cranfield School of Management. Her research interests include financial inclusion, emerging trends in banking, FinTech, health supply chains, sustainability and well-being. Lakshmy has a keen interest in emerging markets and has worked on research projects in Asian and African countries. She has over 15 years of academic and industry experience and has contributed to paper publications, training and workshops and conference presentations.

Sherif Sulemana is a Teaching and Research Assistant at the University of Ghana Business School. He holds an M.Phil. in Finance from the University of Ghana Business School and a B.Sc. Business Administration (Accounting) from the KNUST. His research interest covers Development finance, Green Finance, Islamic Banking and Economics, Financial Technology, Financial Inclusion and Financial Resilience.

Samuel Tiriongo, Ph.D. is the Director of Research and Policy at the Centre for Research on Financial Markets and Policy of the Kenya Bankers Association (KBA); a position he has held since December 2020. Previously an economist at the Central Bank of Kenya for 13 years, involved in conducting research and analysis targeted at informing monetary policy decisions of the Monetary Policy Committee. Research interests, covered in over 25 publications, include in market microstructure, economic responses to economic crises, monetary policy communication and credit market analyses, among other areas. Samuel holds a Ph.D. in Economics of the University of Dar es Salaam—Tanzania, conferred under the Collaborative Ph.D. Programme in Economics for Sub-Saharan Africa of the African Economic Research Consortium (AERC). He has also been a research fellow of the AERC since 2016. Other roles include a

member of the Board of Trustees of the National Research Fund of Kenya and a member of the Project Steering Committee on the Kenya Credit Guarantee Fund.

Sydney O. Vanderpuye is a Chartered Accountant and is currently the Director, Finance and Accounting of the ECOWAS Bank for Investment and Development (EBID). He holds a D.B.A. from the IPAG Business School, Paris, an M.B.A. from the London Southbank University and a B.Sc. in Administration (Accounting Option) from the University of Ghana Business School. He is a Fellow of the Association of Chartered Certified Accountants (ACCA) and a member of the Institute of Chartered Accountants (Ghana). He is also an alumnus of the Advance Strategic Management Programme from the Institute of International Management (IMD)—Switzerland. His research interests include banking, corporate governance and organizational behaviour. He has covered lecture lessons at the University of Ghana Business School. He has many years of banking experience working with ACCESS Bank, Societe Generale and EBID covering finance, strategy, corporate finance, internal control, electronic banking and performance measurement. He has also worked with the London Borough of Barking and Dagenham and Ernst & Young (Ghana). He currently serves on the Boards of Advans Ghana Limited and the West African Emerging Market Growth Fund.

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PART I

Overview of Development Banking in Africa



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).

J. Y. Abor (✉) · D. Ofori-Sasu
University of Ghana Business School, Accra-Legon, Ghana
e-mail: joshabor@ug.edu.gh

D. Ofori-Sasu
e-mail: dosasu@ug.edu.gh

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Switzerland AG 2024

J. Y. Abor and D. Ofori-Sasu (eds.), *Perspectives on Development Banks
in Africa*, https://doi.org/10.1007/978-3-031-59511-0_1

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 World 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