Review of the performance of national development banks in Africa
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Executive summary

National development banks are financial institutions that are fully or partially owned or controlled by a national Government and have been given an explicit legal mandate to achieve social and economic goals in a State, sector or market segment. National development banks are important entities, most of them having been incorporated by a State legislative instrument with the aim of channelling long-term finance in less developed financial markets and economic sectors that are perceived as being risky. These institutions have great potential to support the development goals of their respective countries, because they have unique advantages that allow them to be well connected to both the public sector and the private sector.

The core business of national development banks is to provide long-term financing for development projects and programmes. The functions of development banks include project appraisal, technical assistance and the financing, implementation and development of investment projects and programmes. Strategic requirements are established for development projects to be approved and financed. Development bank funds should not be provided for projects where funds are available from other sources. This requirement allows development banks to address market failures in financing or, more generally, to contribute to social and economic objectives, such as equity and poverty alleviation. Thorough project appraisal allows a development bank to identify which aspects of a project can be improved through technical assistance, with a view to enhancing the quality of the project, reducing its risk, and improving its social and private returns.

Over the years, some national development banks have diversified their financial services, offering, for example, working capital financing; venture capital financing; advisory and consulting services; leasing; insurance; brokerage and investment banking services; programmes for entrepreneurial development; privatization and restructuring services; capital market development; and the provision of technical assistance. In implementing their mandate, development banks require skills and knowledge in such areas as financial markets, capital markets, financial intermediation and resource mobilization.

The role of national development banks in providing credit at subsidized interest rates has changed significantly. It is therefore important to better understand the changing roles of these banks. Promoting successful national development banks requires a paradigm shift. The financial viability of national development banks and their lending programmes must be ensured, and an environment must be created that both fosters financial intermediation in traditionally marginalized sectors and provides non-financial support to various sectors of the economy.

National development banks have been part of the financial systems of African countries since the early twentieth century, with the oldest such bank in Africa – the Agricultural Bank of Namibia – having been established in 1907 (as the Deutsch-Südwestafrikanischer Farmerbund). The institutions have played a crucial role in rapid industrialization since the 1950s. Many theoretical perspectives have been used to justify the creation of national development banks. Such perspectives draw heavily on the existence of financial market failures due to asymmetric information, moral hazard, missing or insufficient collateral, high transaction costs and term structure mismatch between the funds available in the system and the needs of investors and consumers. It is also argued that national development banks are needed to complement multilateral development banks in speeding up development in poorer countries. In some
countries, national development banks have become critical market makers.

Globally, there were estimated to be 522 national development banks in 2022, down from 550 in 2009, according to data from Peking University and the French Development Agency (2021). The decline has occurred at different rates in different regions, but is mostly attributed to the liberalization policies of the structural adjustment period. In Africa, East Africa is the subregion (as defined by the World Bank) with the largest share of national development banks, followed by West Africa; Central Africa has the fewest. Most of these banks were created just after the turn of the twenty-first century, following the rise in the adoption of the developmental State, as several African countries tried to replicate the economic success of the so-called Asian tigers. The financial crisis of 2008 also fuelled the growth of national development banks in African countries.

Following the crisis, it became clear that Africa needed to rapidly invest in its development priorities and the art of national development through effective service delivery. The economic and moral cases for the international provision of large-scale concessional funding to Africa have become increasingly relevant, given the series of crises in recent years and their damaging effects on public finances and the achievement of the Sustainable Development Goals. The continent is now projected to be the region that will be most affected by climate change and has an estimated annual Sustainable Development Goals financing gap of $200 billion (United Nations, Inter-Agency Task Force on Financing for Development, 2020).

National development banks in Africa have to deal with both old and changing mandates. A scan of the literature reveals a number of tasks that African countries need to undertake: achieving industrialization; delivering on global and continental commitments such as the 2030 Agenda for Sustainable Development and Agenda 2063: The Africa We Want, of the African Union; dealing with unemployment by creating jobs; leading efforts on redistribution, equity and inclusion; and tackling the negative effects of climate change.

Anecdotal evidence suggests that the lending strategies of national development banks are influenced by, and tend to shift in response to, emerging national challenges. This is logical, as such challenges, opportunities and priorities will require new tools and approaches. National development banks should employ the appropriate instruments to go beyond the pursuit of returns on investment and integrate social development and emergent priorities, as determined by national development strategies. In recent times, national development banks have been called upon to address key national development challenges, including unemployment, equity, redistribution and inclusion, diseases and pandemics (including HIV/AIDS, malaria and coronavirus disease (COVID-19)) and climate change.

It is important to discuss the experiences of selected national development banks and draw lessons for the future, referring, in particular, to the measures that work and the operational challenges of such banks. The present report contains three case studies: two from Africa and one from Brazil. The Brazilian case study is an analysis of how Brazil operationalized its developmentalist agenda through the Brazilian National Development Bank, with elements of both change from and continuity with Brazil’s developmentalist past. Large loans went to many historically large firms and industrial sectors – as was reported widely – but the data also show significant numbers of smaller loans to firms in all sectors, as well as renewed support for internationalization and innovation. The Land and Agricultural Development Bank of South Africa, by contrast, has been dogged by operational

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1 A developmental State strives to balance economic growth with social development. It focuses on reducing poverty and expanding economic opportunities through the use of State resources and influence.
difficulties, while Tamwil El Fellah of Morocco had a comparatively positive experience.

A number of lessons can be drawn from the three case studies, and these can be used to provide recommendations to national development banks in Africa. Governments must consider issues such as governance, risk management, funding priorities, sustainability, the quality of pipelines and emerging opportunities such as the African Continental Free Trade Area (AfCFTA) as key factors when managing or setting up a national development bank. Governments need to be equipped with the necessary tools to identify, measure, monitor and control risks and require national development banks to hold adequate capital against those risks, which is an essential component of the overall corporate governance framework and a key driver of performance. Creating the proper regulatory and business environments is also critical to the success of national development banks. Moreover, State regulatory and supervisory regimes could usefully be supplemented by market-based measures such as credit ratings.

In summary, national development banks hold important keys to most of Africa’s economic and social development agendas, including sustainable economic growth, inclusive growth, employment, productivity and industrialization. By delivering on their mandate to support economic development through medium- and long-term lending, national development banks can contribute to financial development in various ways. Provided that they have efficient balance sheet management and synergies with other financial institutions, national development banks can contribute to domestic bond markets and financial sector development by leveraging their comparative advantage in long-term lending. They can also enhance financial inclusion, notably by directly and indirectly channelling resources to credit-rationed sectors, especially those where small and medium-sized enterprises and youth- and women-owned enterprises are prevalent. National development banks also have a critical role in complementing the activities of multilateral development banks. In this regard, in-depth bank and country case studies would shed light on the full potential of national development banks to contribute to economic growth, industrialization, financial inclusion and development of the financial sector in Africa.
I. Introduction

National development banks are financial institutions that are fully or partially owned or controlled by a national Government and have been given an explicit legal mandate to achieve social and economic goals in a region, sector or market segment (World Bank, 2018). National development banks have the capacity to contribute greatly to national development goals, notably by financing industry, supporting job creation and mitigating financing constraints faced by small and medium-sized enterprises and other traditionally credit-rationed sectors (Ndikumana, Naidoo and Perez, 2021). National development banks can also play a vital role in offsetting the procyclical nature of the financial system, promoting innovation and structural transformation, improving financial inclusion, increasing the financing of infrastructure investment, supporting the provision of public goods and encouraging environmental sustainability.

In developing economies, private sector financing often does not provide sufficient long-term finance for investment, owing to the limited maturity transformation required for long-term finance. Private financial institutions deem such long-term investments to be risky, favouring short-term returns instead. This is especially true since the outbreak of the COVID-19 pandemic, which led many Governments in Europe, Asia and Africa to establish new national development banks, and Governments elsewhere to expand the scope of their national development banks (Griffith-Jones and Ocampo, 2018). These developments followed renewed interest in recent years in national development banks as key players in economic transformation, especially in response to the 2007–2008 financial crisis, increasing concern over climate change, continuing environmental degradation (including the loss of natural capital), and growing unemployment and social inequality.

National development banks and multilateral development banks can play an active role in mobilizing long-term resources from the public and private sectors to support new investments. The success of national development banks will be crucial for developing countries to achieve further sustainable economic growth.

These institutions are significant because global shocks and climate change have slowed progress towards achieving the Sustainable Development Goals and widened the funding gap that must be filled for countries to achieve the Goals. Crises – especially those linked to climate change – are becoming the new normal, and Africa has not been spared their adverse effects. National development banks have a key role to play in supporting countries’ development agendas, including in sectors that are perceived as risky or emerging, which means that they lack the maturity required by private investors. The aim of the present report is therefore to assess the role and actions of national development banks in Africa as a tool to mobilize additional private finance and support long-term economic development.

The promotion of successful national development banks requires a paradigm shift in approach. This entails a completely new focus that ensures the financial viability of the banks and their lending programmes and creates an environment in which financial intermediation reaches traditionally marginalized sectors more effectively and non-financial support is provided to various sectors of the economy.

In the study conducted for the present report, a triangulation approach was taken, in which multiple methods or data sources were used as part of operational research to develop a comprehensive understanding of certain phenomena (Patton, 1999). Triangulation has been viewed as a research strategy to test validity.
through the convergence of information from various sources.

The study was anchored in three of the four types of triangulation identified by Denzin (1978) and Patton (1999): method triangulation, theory triangulation and data source triangulation. For data source triangulation, the methods used were a literature review, the examination of secondary documents (such as annual reports, board documents and articles of association) and comparative case studies. In addition, the activities and actions of national development banks were evaluated in the light of the new challenges that African countries face. Three case studies are presented in which a comparative analysis is made between the mandate of the national development banks and the respective national development strategies to determine institutional effectiveness (in relation to sectors and instruments). The conclusion of the present report provides various recommendations to enhance the effectiveness of national development banks.
II. Literature review

Development banking has its roots in early growth theories. Several theorists, including Arthur Lewis, Roy Harrod and Evsey Domar, highlighted the idea that the growth of income is directly and positively related to savings. The latter two theorists illustrated this with the Harrod-Domar model. Under this model, the more an economy can save and invest, the greater the growth of its domestic product should be. The model therefore posits that capital investment is the means to achieve accelerated economic growth. Where private savings and investment is low, however, Governments have sometimes directed funds to the market through vehicles such as national development banks, with the banks seen as a solution to alleviate the shortage of development financing. Similarly, the above rationale ultimately led to the creation of the World Bank under the Marshall Plan.

Many theoretical perspectives have been used to justify the creation of national development banks. These perspectives draw heavily on the existence of financial market failures due to asymmetric information, moral hazard, missing or insufficient collateral, high transaction costs and term structure mismatch between funds available in the system and the needs of investors and consumers (Stiglitz, 1983; Stiglitz and Weiss, 1981). Market failures affect both the demand side and the supply side of credit markets, mostly due to mismatches in the market (Eslava and Freixas, 2018; Smallridge and de Olloqui, 2011). Maturity mismatch of funds is usually cited as a perennial challenge. On the supply side, credit markets are dominated by a shortage of long-term investment capital. On the demand side, the financial markets face moral hazard because of the behaviour of borrowers and the lack of private collateral to operationalize (Holmstrom and Tirole, 1997). Private collateral is critical for the functioning of credit markets, since it acts as a signalling device and allows for the screening of potential borrowers. It also enhances credit risk mitigation. The lack of collateral therefore leads to underprovision of credit as a result of credit rationing.

From the 1950s to the 1970s, most countries created national development banks to be used as catalysts for industrialization. During the same period, they adopted a developmental State strategy, in which the State played a key role in propelling economic growth. Successful implementation of such strategies was predominant among the “Asian tiger” economies, as they implemented economic policies such as the “flying geese” model (see Kojima, 2000). During the period, national development banks were considered to generate a multiplier effect to drive sustainable economic growth. The role of national development banks has also evolved over time, some of the main reasons for this being economic liberalization, the privatization of public enterprises and the progressive globalization of world trade finance. Such policies took centre stage during the 1980s and 1990s (see Griffith-Jones and Ocampo, 2018), a period in which there were few national development banks, since most had been privatized to become commercial banks, while some were closed. Following the global financial crisis of 2008, the resurgence of the developmental State, the global COVID-19 crisis and the Sustainable Development Goals have led to national development banks taking centre stage once again.

The review of the theoretical literature on national development banks contained in the present report can be classified using five interlinked categories: the development view, the social view, the macroeconomic view, the political view and the life-cycle view (Ndikumana, Naidoo and Perez, 2021).
According to the development view (see Gerschenkron, 1962), national development banks are needed to fund sectors and industries that are not likely to be funded by private commercial banks. Two reasons are put forward for this: a preference not to invest in such sectors due to their perceived risk, and a lack of capacity because long-term capital is not enough to meet industry requirements. National development banks therefore have a transformative role in supporting the growth process (Mazzucato, 2013).

In the social view, national development banks finance investments that have positive externalities but do not have attractive financial returns, and therefore are not of interest to commercial banks, especially for investments that are directed at the provision of social services such as education, health care and low-income housing (Atkinson and Stiglitz, 1980; Stiglitz, 1983). In this regard, national development banks are policy instruments for poverty reduction and social development.

In the macroeconomic view, national development banks provide countercyclical lending (Bonomo, Brito and Martins, 2015; Smallridge and de Olloqui, 2011). Financial markets are subject to booms and busts and can destabilize the real economy. The countercyclical role of national development banks also derives from the banks’ social welfare mandate, whereby they are expected to increase lending during challenging times or economic downturns, irrespective of the profitability of the funded activities.

According to the political view, national development banks reduce efficiency and may even be counterproductive. This view posits that, when governance is weak, national development banks usually suffer from mission creep, mismanagement and inefficiency, leading to the misallocation of financial resources. National development banks are often used as tools of State intervention that can undermine financial development, thereby delaying economic growth (La Porta, Lopez-De-Silanes and Shleifer, 2002; World Bank, 2012).

Finally, in the life-cycle view, national development banks have been found to develop mostly in countries seeking to pursue industrialization and in countries with better-developed institutions. However, it has been observed that development banks have become fewer in number as these countries fully develop (Torres and Zeidan 2016, pp. 98–99). National development banks are therefore expected to develop in three critical stages. The first is the establishment stage, in which the banks put together the infrastructure to facilitate project identification and provide direct credit to execute the projects. This is followed by the developmental stage, in which the banks roll out the direct credit provision programme. Finally, in the engine-of-growth stage, national development banks evolve gradually from offering direct provision of credit to indirect mechanisms of allocating financial resources to support industry. In this final stage, the banks provide little direct lending, focusing instead on indirect mechanisms. The contributions of the banks are eventually eclipsed, according to the life-cycle view, thanks to the increased capacity and efficiency of a mature, market-based financial system. In reality, however, national development banks have remained an integral part of financial markets, regardless of the degree of financial sophistication and economic development.

According to the Financing for Sustainable Development Report 2020 (United Nations, 2020), achieving the Sustainable Development Goals will require additional global investment of $5–$7 trillion a year for key sectors, ranging from energy, infrastructure and agriculture to health and education, with $1 trillion required for Africa alone. National development banks will therefore need to be assisted to facilitate the attainment of the Goals in developing countries, and therefore in Africa. As a result, some countries are implementing policies to improve the effectiveness and efficiency of national development banks. The big question
is what this means for national development banks in Africa. In answering the question, the initiators of the present study sought to identify the nature and state of the banks in Africa and to proffer ways to refine their roles and mandates, such that they could be used as a tool to mobilize additional private finance and support economic development.
III. State of play and existing national development banks – an analysis of the evolving African landscape

Africa hosts an estimated 93 national development banks.² Such banks have been part of the financial systems of African countries since the early twentieth century. Before 1918, Africa had just three national development banks. Since the 1950s, the institutions have played a crucial role in rapid industrialization. More generally, national development banks became a part of the institution-building and development-planning tools of African States following their independence, with 14 new national development banks being created in the 1960s. Most national development banks were created post-2000, following the increasing adoption of the developmental State, as several countries tried to replicate the development model of the Asian tigers (see figure I).

External financial flows to Africa often fall following crises and economic contraction in Western markets. COVID-19 has significantly affected foreign direct investment in Africa, with flows to the continent falling by 16 per cent, from $47 billion in 2019 to $40 billion in 2020 (United Nations Conference on Trade and Development, 2021). The COVID-19 pandemic and related public health interventions have had a severe impact on micro, small and medium-sized enterprises in sub-Saharan Africa. According to a report by the International Finance Corporation (2021), more than a quarter of such businesses were unable to continue operations during the pandemic, more than half had to adapt their business models to continue operating, and nearly 90 per cent suffered revenue losses, with

Figure I: Creation of national development banks in Africa

Note: Development banks that were created and then liquidated, for a variety of reasons, are not included in the chart above.
Source: Author’s compilation based on Peking University and French Development Agency (2021).

² Excluding subnational and multilateral banks, such as the African Development Bank, the African Export-Import Bank, the Africa Finance Corporation, the Trade and Development Bank, the West African Development Bank, the Development Bank of the Central African States, the ECOWAS Bank for Investment and Development, the East African Development Bank, Shelter Afrique, the African Solidarity Fund, the Fonds Africain de Garantie et de Coopération Economique, the Development Bank of the Great Lakes States and the Maghreb Bank for Investment and Foreign Trade.
40 per cent having lost more than half of their revenue.

Globally, there were estimated to be 522 public development banks and development finance institutions in 2022, of which 467 had national and subnational levels of ownership (Peking University and French Development Agency, 2021). Figure II shows that, in 2019, 33 per cent of national development banks were located in Asia and the Pacific, and only 21 per cent in Africa – the smallest percentage of all the areas shown. Asia and the Pacific recorded little increase in the share of national development banks located there, while Africa and the Latin America and the Caribbean recorded decreases in their shares of national development banks between 2009 and 2019. The huge State-driven development projects and the successes of the earlier national development banks are the main cause of the large share of national development banks in Asia and the Pacific and the increase in the share of national development banks in Europe. The Industrial Finance Corporation of India, the Development Bank of Japan and the China Development Bank are among the more successful national development banks in Asia and the Pacific.

Europe has the oldest national development banks, which include Caisse des dépôts et consignations in France (now Groupe Caisse des Dépôts), Cassa Depositi e Prestiti in Italy, and KommuneKredit in Denmark, which were formed between 1816 and 1819. Some national development banks in the Latin America and the Caribbean also date back to the nineteenth century, such as Banco de la Provincia de Córdoba, in Argentina, and Banco Hipotecario del Uruguay, which were founded in 1873 and 1892, respectively. The first national development bank in Africa was Agricultural Bank of Namibia, founded as Deutsch-Südwestafrikanischer Farmerbund in 1907, followed by the Development Bank of Ethiopia in 1909, and the Land and Agricultural Development Bank of South Africa, in 1912. Most national development banks in Africa are challenged by low capitalization, poor risk management, weak financial instruments, shallow financial markets, weak execution, poor governance standards and questionable lending practices, which have created a long-lasting negative perception of the continent’s national development banks.

The 2008 financial crisis accelerated the growth of national development banks in Africa, as Governments sought to adopt countercyclical measures. Table 1 shows that East Africa and

**Figure II: Share of national development banks in the world, 2009 and 2019**

![Graph showing share of national development banks in the world, 2009 and 2019](image)

West Africa have the most national development banks, followed by Southern Africa and North Africa. Central Africa is the subregion with the smallest number.

In Africa, 42 countries have at least one national development bank, and 22 have only one (Peking University and French Development Agency, 2021). The remaining 12 countries\(^3\) have no national development bank (see table 2). Although there may be facilities in place in those 12 countries to finance government projects, promote financial inclusion, reduce unemployment and mobilize funding to support the attainment of the Sustainable Development Goals, national development banks are still needed. Nigeria (with six banks) and South Africa (with seven) have the highest number of national development banks, and they are also the largest economies, which suggests that there may be a relationship between national development banks and economic activity.

Table 2 shows the number of countries with no national development bank in each subregion. Southern Africa is the only subregion in which every country has at least one such bank. Although some countries have many national development banks, this is significant only if the banks are sufficiently capitalized, profitable and able to fulfil their mandate.

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\(^3\) Cabo Verde, Central African Republic, Chad, Comoros, Gambia, Guinea-Bissau, Libya, Madagascar, Sao Tome and Principe, Sierra Leone, South Sudan and Togo.
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IV. Assessing the actions and performance of national development banks

National development banks were part of the growth models of the 1960s and 1970s in Africa. In the 1980s and 1990s, during the era of liberalization, many failed or were privatized. Others have survived and continue to enjoy varying degrees of success. New national development banks have emerged since the beginning of the twenty-first century (Ndikumana, 2009).

There are various reasons why some of the banks failed and others were launched. In this section, indicators are used to assess the activities of the banks and their overall effectiveness. The banks’ actions and achievements are assessed based on five criteria:

- Their mandate
- Their governance and institutions
- Their solutions and programmes
- Their ability to address emerging challenges
- Their financial performance

Special attention is given to their positioning in the financial architecture and their ability to mobilize private finance.

A. Mandate of national development banks

A national development bank’s mandate determines its mission, its scope of intervention and the types of solutions it may provide. A bank with a broad mandate for economic development may have greater resources and greater flexibility in determining its operations. A bank with a sector-specific mandate, by contrast, may have a more diversified investment portfolio (Attridge, Chen and Mbate, 2021). A narrower mandate, however, can help to prevent mission drift, enabling Governments to maintain tighter control over a bank and to hold it accountable (World Bank, 2016). The mandate of national development banks is typically to fund industries in specific sectors. Those sectors may be selected based on natural endowments and comparative advantages (such as natural resource exploitation). Alternatively, they may be selected based on strategic goals at a certain time, such as the promotion of local production to reduce dependence on imported goods, or the promotion of agriculture and rural development.

The main mandates of national development banks in Africa are shown in Figure III. Around 4 in 10 African national development banks have a broad, general development mandate, and almost a quarter focus on micro, small and medium-sized enterprises. Some of the banks that were launched with a narrow sectoral focus have been able to expand their activities over time.

The oldest mandate of national development banks in Africa, and the most important mandate ever since they were launched, is to be an instrument of public policy. Specifically, the banks are mandated to be a tool for building a domestic industrial base to drive economic growth and accelerate structural transformation. For most of these institutions, this mandate is enshrined in the legislation under which they were founded. For example, the relevant law of South Africa, the Industrial Development Amendment Act, 1942, formulated the mission of the Industrial Development Corporation as follows:
“3. The objects of the corporation shall be:

a) with the approval of the Governor-General to establish and conduct any industrial undertaking; and

b) to facilitate, promote, guide and assist in the financing of:

i. new industries and industrial undertakings; and

ii. schemes for the expansion, better organization and modernization of and the more efficient carrying out of operations in existing industries and industrial undertakings, to the end that the economic requirements of the Union [of South Africa] may be met and industrial development within the Union may be planned, expedited and conducted on sound business principles”.

National and regional development banks in Africa need to be better equipped to mobilize public and private investment for structural transformation, as is done by such banks elsewhere in the world. In general, national development banks are financed primarily from the following six sources: (i) debt issuance in domestic or international capital markets; (ii) equity capital, loans, grants and subsidies from the central Government (including the central banks); (iii) borrowing from other financial institutions; (iv) savings and deposits from households and businesses; (v) loans and official development assistance from international financial institutions; and (vi) retained earnings from national development banks' own revenues (Xu, Wang and Ru, 2020). Development banks have played a pivotal role in mobilizing long-term finance for industrialization, developing new industries and project de-risking by developing their capabilities to undertake project development, implementation and monitoring. The financial needs and challenges of the real economy differ structurally across countries at different stages of development, and the mandate and role of a national development bank should be adapted accordingly. Effective development banks can serve as important voices in shaping economic policies that facilitate productive investment. They are able to mobilize

**Figure III: National development banks in Africa, by category of official mandate**

**Official mandate of African NDBs**

| Abbreviations: AGRI, rural and agricultural development; EXIM, promotion of exports and foreign trade; FLEX, general development; HOUS, social housing; INFRA, infrastructure; LOCAL, local government; MSME, micro, small and medium-sized enterprises. 

**Source:** Author’s compilation based on Peking University and French Development Agency (2021).
private finance directly and can unlock private investment, both upstream and downstream from catalytic projects.

A review of national development banks shows that their mandates evolve over time in response to a range of phenomena and innovations in the domestic economy and the global environment. The Development Bank of Southern Africa (2017, p. 61) described how its mandate evolved, noting that it had been “established in 1983 to perform a broad economic development function within the homeland constitutional dispensation” and adding that the 1994 Constitution had transformed the Bank’s role and function. Its original purpose therefore changed radically, and its current mandate, statutes and regulatory controls are derived from the Development Bank of Southern Africa Act (No. 13 of 1997), the Public Finance Management Act (No. 1 of 1999), and the King IV Report on Corporate Governance for South Africa 2016. The Bank now focuses on the development of basic economic and social infrastructure at the subnational level. To a lesser extent, it also operates in the 16-member Southern African Development Community and in the rest of Africa.

B. Governance and institutions

The quality of governance plays an essential role in the success and longevity of a national development bank. The perception that national development banks in Africa have problematic governance and perform poorly means that they are often overlooked in terms of their potential role as development support agents and as partners of international development finance institutions, international climate funds, donors and private entities (Attridge, Chen and Mbate, 2021). Governance refers to the overall processes and oversight structure that are put in place to ensure that an organization’s mandate and objectives are met. According to the Organisation for Economic Co-operation and Development, good corporate governance contributes to creating an environment of trust, transparency and accountability, which is needed to foster long-term investment, financial stability and corporate integrity, which in turn lead to greater growth and more inclusive societies. Although national development banks have a certain degree of independence in decision-making, they remain embedded in a political and economic environment owing to their mandate and public ownership (Thorne and du Toit, 2009). Some of the banks suffer from unduly hands-on and politically motivated meddling by their owners, resulting in unclear lines of duty, a lack of accountability and a decline in operational efficiency. On the other hand, a lack of oversight due to passive or distant State ownership can weaken the incentive of national development banks and their staff to perform in the best interest of the organization and the general public.

Good governance implies having in place internal mechanisms and controls, a board structure and a code of ethics. Many national development banks in Africa, such as Development Bank Ghana, the Development Bank of Rwanda and the Bank of Industry in Nigeria, have introduced such elements of good governance. Development Bank Ghana is governed by the Development Finance Institutions Act, 2020 (Act 1032). The Act empowers the country’s central bank, the Bank of Ghana, to exercise strong regulatory and supervisory oversight over its business. Its capital and funding come from the Government of Ghana, the World Bank, the European Investment Bank, the African Development Bank and KfW of Germany. Development Bank Ghana pursues a wholesale banking business model, which means that it provides funding to eligible financial institutions to on-lend to Ghanaian businesses in targeted sectors of industry. Its governance framework includes a board, the membership of which is at least 60 per cent independent, with five board committees (the Board Finance and Audit Committee; the Board Credit and Risk Committee; the Board Governance, Nominations and Remunerations Committee; the Board Technology Committee; and the Board Cyber and Information Security Committee).
The Development Bank of Rwanda was created on 5 August 1967 by act of parliament and became a public limited company on 7 July 2011. The National Bank of Rwanda issued the Development Bank its banking licence on 11 August 2009. The Development Bank of Rwanda is more than 98 per cent owned by the Government, through its sovereign wealth fund, the Agaciro Development Fund (72 per cent), and through the Rwanda Social Security Board (26.4 per cent). The Bank is supervised by a board, at least 60 per cent of whose members are independent. Five committees (the Board Audit Committee, the Board Credit Committee, the Board Risk Committee, the Board Assets and Liabilities Committee, and the Board Human Resources Governance Committee) assist the board in executing its mandate. The Development Bank of Rwanda has a similar credit rating to the country itself: B+, issued by Fitch Ratings. The Bank’s rating is sensitive to the willingness of the Government to provide support. Its annual reports are published and audited by an independent third party.

The Bank of Industry is the oldest and largest development finance institution in Nigeria. It emerged in 2001 from the re-organization of the Nigerian Industrial Development Bank Limited, which was incorporated in 1964. The Bank is owned by the Federal Ministry of Finance (which holds a 94.2 per cent stake), the Central Bank of Nigeria (5.2 per cent) and 42 private shareholders. The Bank’s board is responsible for providing general direction to management regarding the operations of the Bank and the stewardship of its assets. It delegates power and authority to four committees (the Board Credit, Investment and Governance Committee; the Board Audit and Risk Committee; the Board Strategy and Compliance Committee; and the Board Adhoc Committee on the Bank of Industry and Group Properties). Given the strong support provided by the Government, the Bank has a rating equal to sovereign credit rating B (from Fitch Ratings). In 2015, the Bank successfully issued a eurobond in the amount of 750 million euros to enhance its capital base and thus support its customers and the real sector of the Nigerian economy.

Although many national development banks still need to take steps to comply with international standards, good governance can help to improve risk perception and outcomes. In line with best practices, development banks should be regulated and supervised in a similar way to the private sector, with the possible exception of capital adequacy. In addition, market-based measures such as credit ratings could complement government regulation and supervision. Even though credit ratings are not a formal element of external governance, they are a useful tool that Governments and banks can use to assess the quality of a bank’s financial management.

C. Addressing the pressing challenges of the continent

It is widely known that African countries face a considerable financial challenge in attaining the Sustainable Development Goals. Even before the COVID-19 pandemic, the prospects for mobilizing the annual $2.5 trillion required were rapidly diminishing. National development banks should play a role in project management and addressing funding problems. This would allow local authorities and international institutions such as multilateral banks to channel finance to local projects through national development banks. The greatest amount of funding to achieve the Sustainable Development Goals is required to improve electricity, transport and water infrastructure, which should help the continent in its progress towards net-zero emissions. Substantial funding is also required for agricultural modernization and greener industrialization (Zalk, 2021).

The financing gap for attaining the Sustainable Development Goals is huge: it exceeds Africa’s annual collective domestic revenue. The COVID-19 pandemic posed unprecedented challenges in mobilizing adequate financial
resources for sustainable development, further undermining the prospects for achieving the Goals in Africa. There may be a case for rethinking the considerable emphasis that has been placed on using "blended finance" to plug the funding gap (by leveraging low-cost funding through multilateral development banks and overseas development assistance). Billions of dollars of concessional funding could be used to mobilize trillions of dollars in private investment, according to the World Bank, by reducing the risk associated with projects that are aligned with the Sustainable Development Goals so as to make them more attractive to private investors. Nevertheless, blended finance projects have failed to take off at scale, and have been valued at only $20 billion per annum for all developing countries combined (Zalk, 2021).

A. Supporting the growth of small and medium-sized enterprises

In lending to borrowers who have traditionally been credit-rationed, banks should take account of their specific conditions and constraints (Ndikumana, Naidoo and Perez, 2021). This is the case for micro, small and medium-sized enterprises. Lending to such businesses requires adapted and innovative financial instruments, with appropriate institutional arrangements, such as dedicated subsidiaries of development banks.

Under this approach, the Industrial Development Corporation of South Africa created the Small Enterprise Finance Agency in 2012. The Agency was given a mandate to "foster the establishment, survival and growth of SMMEs and Co-operatives, and thereby contributing towards poverty alleviation and job creation.” (Small Enterprise Finance Agency, 2017, p. 6). The Agency supports economic transformation and inclusive growth by funding black entrepreneurs, businesses operating in rural areas and those run by young people, women and people with disabilities. This approach to providing access to finance helps to alleviate credit market failures and facilitates economic inclusion. (Ndikumana, Naidoo and Perez, 2021, p. 18).

B. Financing the transition to a low carbon, climate-resilient and green economy

The challenges of climate change and environmental degradation have emerged prominently in national, regional and global policy debates and calls for action. Most national development plans and strategies include commitments to a gradual transition to green growth pathways. Key elements of this strategy include promoting investment in renewable and green energy, increasing energy efficiency in existing and new power-generation facilities, reducing emissions and mitigating pollution, recycling and reducing waste, and increasing the portion from environment-friendly sources in the energy mix.

It is projected that African countries will be affected the most by climate change, despite their having produced only a tiny share of cumulative global carbon dioxide emissions. Although multilateral development banks have provided increasing amounts of climate financing, this does not come close to bridging the estimated annual African Sustainable Development Goals financing gap of $2.5 trillion. The $7.4 billion of commitments to African countries excluding North Africa by multilateral development banks in 2019 is reflective of the scale of the problem and the funding gap. As proposed as part of previous recommendations, notably in a report commissioned by the United Nations Environment Programme and written by Edward Barbier of the University of Wyoming (Barbier, 2009), long-term financial instruments such as 40-year or 50-year bonds should be set up to fund a global green New Deal. These gained little traction (Zalk, 2021), however, leaving the gaping financing hole unfilled. National development banks will remain an important tool of national strategies for promoting a green economy and
climate-smart agriculture. They can contribute through direct lending and by playing a catalytic role in attracting participation by the private sector, private banks and non-bank institutions. In South Africa, the Industrial Development Corporation has financed critical projects under the Government’s Renewable Independent Power Producer Programme, based on the Integrated Resource Plan for electricity generation known as IRP 2010, which was promulgated in May 2011. In 2015, the Corporation reportedly provided funding of up to R6.6 billion ($386 million at the time of writing), representing 9 per cent of the country’s total investment in renewable energy (Industrial Development Corporation, 2005, p. 37). The Corporation’s interventions in the renewable energy sector focus on investment in the installation of equipment to increase energy efficiency, including through solar energy, as well as in environmental protection by financing recycling and waste-management activities. Renewable energy’s share of the loan portfolio of national development banks is likely to increase. It will therefore play a critical role in a just transition and the clean energy agenda for the continent.

Anecdotal evidence suggests that the lending strategies of national development banks are influenced by, and tend to shift in response to, emerging national challenges. This is logical, as such challenges, opportunities and priorities will require new tools and approaches. National development banks should employ the appropriate instruments to go beyond the pursuit of returns on investment and integrate existing and emerging priorities for social development, in line with national development strategies. In recent times, national development banks have been called upon to address key national development challenges, including unemployment, equity, redistribution and inclusion, diseases and pandemics (including HIV/AIDS, malaria and COVID-19) and climate change.

C. Delivering a single market

It has been observed that more institutions have been using digital transformation to encourage financial integration and boost trade. Other regional initiatives could reduce the costs of trading across the continent while increasing liquidity. This could boost investor confidence through improved payment systems and reduced liquidity constraints and exchange risks, while drawing on digital transformation and more integrated capital markets and derivative exchanges. (Fofack, 2020, p.16)

A number of national development banks are raising trade finance and building institutional capacity to facilitate regional trade. The African Export-Import Bank, for example, is using its Pan-African Payment and Settlement System to alleviate difficulties with the fragmented and costly cross-border payment and settlement infrastructure, tying in with the recommendation of the International Monetary Fund (IMF) to use local currencies in cross-border trade to reduce transaction costs and liquidity constraints. This could increase the efficiency of intra-African payment flows, while integrating formal and informal trade (IMF, 2019). It could also encourage collaboration among intra-African asset allocators and reduce currency risks. Government officials may need to be more active in policymaking, however, if trade is to be transformed at both the national and continental levels, if both short- and long-term financing needs are to be addressed and if the risks of maturity mismatch and procyclicality are to be reduced in a financial system that is highly correlated with commodity price cycles, especially in resource-rich and commodity-dependent economies (Fofack, 2020, p.16).

D. Addressing the problem of unemployment and inequality

In the early post-independence era, national development strategies in African States emphasized high growth and raised living
standards as a result. It became clear in the 1990s, however, that growth was not sufficient, and meaningful employment had not been adequately generated. In South Africa, the post-apartheid era was marked by structural unemployment and what has been widely termed “jobless growth”. The unemployment numbers have been particularly severe among young people and women. In response, the Industrial Development Corporation developed a leadership-in-development strategy, focusing on job creation (Industrial Development Corporation, 2005, p. 5). The Corporation sought to allocate its lending to maximize the number of jobs created for every rand invested. (Ndikumana, Naidoo and Perez, 2021, p. 16).

The failure to sustain a high rate of growth has resulted in high growth-employment elasticity, and hence inequality has increased. Governments have sought to use targeted lending by their national development banks to support those in marginalized (and credit-rationed) segments of the economy and those left behind by the mainstream economy. The Industrial Development Corporation sought to promote inclusion by funding small and medium-sized enterprises, thus helping to widen access to finance and boost job creation through private investment and economic growth. In its 2005 report, the Corporation noted that small and medium-sized enterprises accounted for more than 70 per cent of funding approvals and 18 per cent of the value of approvals over the previous 20 years (Ndikumana, Naidoo and Perez, 2021, p. 17). It was also noted that “while transactions involving larger corporations were appealing from a funding perspective, it was recognized that the real job creation impact lies somewhere in between – that is, in an all-inclusive approach such as funding smaller and medium-sized enterprises” (Industrial Development Corporation, 2005, p. 45).

E. Prevention, response and recovery from pandemics and other shocks

The COVID-19 pandemic contributed to a tightening of international financial conditions, a slump in domestic revenue and increased spending to mitigate the effects of the pandemic on health and the economy. Increasing debt vulnerability has been exacerbated by the pandemic (Sustainable Development Goals Center for Africa, 2021). The financial environment on the continent remains difficult. African States cannot afford to wait for the global multilateral and private financing systems to become more equitable and responsive. Nevertheless, they need to fight for these goals in the medium to long term.

In the face of such shocks, the challenge for African States lies in how to increase the capitalization of their development banks to boost lending, which is especially challenging given that public debt in Africa sits at a two-decade high, and is considered unsustainable by ratings agencies and other international institutions. Potential solutions include consolidating fragmented and undercapitalized national banks and transforming them into larger subregional development banks; encouraging shareholding by other development banks in Africa with proven scale and expertise; directing proceeds from commodity booms and clamping down on illicit financial flows to development banks; selectively extending sovereign guarantees; allowing fiscal transfers at appropriate points in the sovereign debt cycle; and supporting financial instruments to address long-term social and climate risks in order to ensure long-term financial stability (Zalk, 2021).

The role of national development banks has been to provide finance for long-term investment, public infrastructure, small and medium-sized enterprises and the development of new industries in strategic sectors. As well as fostering innovation and the growth of start-ups, the financing provided by national development banks

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4 The youth unemployment rate in South Africa was 66 per cent in the first quarter of 2022.
must also sustain countries on a long-term path to growth. The countercyclical support provided by these institutions has enabled countries to mitigate adverse shocks during downturns – averting or reducing the length of recessions – and to boost prosperity during upturns.

D. Financial performance

Weak capitalization, limited financing options and shallow financial markets in Africa all contribute to the weak asset base of national development banks. The continent’s national development banks hold only 1 per cent of the global financial sector’s assets (see figure IV). In Africa, this problem is exacerbated by the limited ability of national development banks to leverage their balance sheets with debt funding, which reflects a limited appetite on the part of domestic and international lenders when it comes to development banks. Funding constraints severely restrict the ability of national development banks to play a meaningful development role in Africa.

The high share of national development banks in Asia and the Pacific supports a high share of industrial assets in that region. Latin America and the Caribbean has more national development banks than Europe, but the European national development banks hold greater assets. Among the top national development banks working in Latin America and the Caribbean are BancoEstado of Chile, which has an assets-to-gross domestic product (GDP) ratio of 19 per cent; Banco Nacional de Costa Rica, with an assets-to-GDP ratio of 19 per cent. The China Development Bank, is also among other banks at the top as it has an assets-to-GDP ratio of 17 per cent. The top three national development banks in Africa in terms of assets-to-GDP ratio are the National Industrial Development Corporation and the Development Bank of Namibia, which have asset-to-GDP ratios of 6 per cent, 6 per cent and 5 per cent, respectively. This huge gap in asset-to-GDP ratios hints at the significant number of reforms that African national development banks need to implement to achieve ratios that are on par with those of their peers in other parts of the world.

The amount of assets that a national development bank has in the market determines the funding resources that are at their disposal and has a bearing on project capacity. Of the top 20 national development banks in terms of size of assets base, 10 are based in Asia and the Pacific, with total assets of at least $203.9 billion. With respect to assets base, the China Development Bank is third on the list, following the Federal Home Loan Mortgage Corporation (commonly known as Freddie Mac) and the Federal National Mortgage Association (commonly known as Fannie Mae) of the United States of America. The China Development Bank has total assets of $2.62 trillion. This massive asset base has allowed the Bank to implement large projects such as the recent 480.4 billion yuan ($71.2 billion at time of writing) loan to boost the integrated high-quality development of the Yangtze River delta in 2021, the 594.8 billion yuan ($88.3 billion) grant to support rural revitalization, the 149.6 billion yuan ($22.2 billion) allocated to support ecological protection and high-quality development in the Yellow River basin in 2021, and the 123 billion yuan ($18.3 billion) in special loans to support energy and power supply.

Agricultural Credit of Morocco tops the list of African national development banks, with total assets of $33.8 billion.

Focusing on Africa, figure V below shows the average asset types of 37 national development

5 The analysis of financial performance is based on available data.
6 For more information, see the China Development Bank website, at www.cdb.com.cn/English/
banks in 23 African countries over the period from 2011 to 2021. The assets that are held generally fall into six categories: loans, derivatives, other securities, earning assets, fixed assets and total assets. The first observation that can be drawn is that the African national development banks that are represented hold a larger share of their assets in the form of earning assets and other securities. Second, fewer assets are held as derivatives assets, which may indicate the shallowness of the financial markets of most African countries. Third, there appears to be a decreasing trend regarding the total assets, which is worrying as this is associated with a reduction in financial projects and a declining capacity among national development banks in Africa. Fourth, it may be observed that, although the volume of gross loans is low, such loans have persistently remained above $200,000, apart from in 2011.

Regional analysis has shown that that North Africa leads in terms of total national development bank assets, with $64.38 billion of assets accumulated. The two national development banks of Morocco, Groupe Crédit Agricole du Maroc, and the Caisse de Dépôt et de Gestion, are in the lead, with total assets of $33.8 billion and $29.3 billion, respectively. The former provides medium- and long-term credit to private farmers and investors in the agricultural sector to finance a wide range of investments, including for irrigation, farm equipment, livestock development and storage facilities. It also leads projects relating to training, agriculture management, planning and consulting services.

Southern Africa comes second in terms of national development bank assets, which total $22.4 billion. The top three national development banks in Southern Africa are the Industrial Development Corporation, the Development Bank of

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Southern Africa and the Land and Agricultural Development Bank of South Africa, which have total assets of $7.4 billion, $6.8 billion and $3.1 billion, respectively. The Industrial Development Corporation has implemented several projects. As of 2021 the Corporation distributed 6.3 billion rand ($366 million) and committed a value of 5.6 billion rand ($325.5 million) towards projects, including 2 billion rand ($116 million) towards businesses owned by women. Furthermore, the Corporation has approved 3.0 billion rand ($174 million) of finance towards black industrialist projects in South Africa.

Although there is potential, the current asset base of African national development banks is small relative to the global banks. A number of drivers are cited for this poor performance: low levels of bank assets, low diversity in those assets – along with some challenges with internal capital generation, a high level of non-performing loans, and poor efficiency, which is reflected in high cost-to-income ratios. The quality of assets is weak, as demonstrated by high concentrations in certain industries, with more loans being given to primary industries, agribusiness and manufacturing, with almost no credit going to financial institutions, commercial banks or microfinance institutions. Providing loans to financial institutions is a form of arbitrage against risk, given that financial institutions tend to be relatively prudent in their conduct. While giving loans to financial institutions might go against the mandate of some national development banks, it is good for the sustainability of those banks.

Figure VI shows the varying levels of liabilities among African national development banks. First, it may be observed that national development banks have low levels of deposits and short-
Figure VI: Analysis of liabilities and equity of national development banks in Africa

Source: Moody’s Analytics, BankFocus database (April 2022).
term funding, yet they have high totals of customer deposits. Effort need to be directed towards shifting customer deposits into long-term deposits that can be used to create more loans, thus furthering the banks’ profitability and sustainability. Second, derivatives and trading liabilities are on the decline, which may be the leading cause of the shallow financial market in most African countries. Third, there is a declining level of long-term funding, and equity is declining rapidly. These are not favourable signs, as they are associated with dwindling capacity and an inability to run major development projects. Efforts are required to attract and secure equity and long-term funding ahead of national development banks taking centre stage in attaining the Sustainable Development Goals. Most national development banks rely heavily on sovereign funding, which mainly comes from the State, central bank funding and guarantees. Emphasis should be placed on the diversification of funding through increased use of instruments such as green bonds, the deepening of the domestic capital market through financial regulation, and finding way to reduce funding costs. Fourth, while reserves are declining, loan loss reserves are rising. This signals a rising level of non-performing loans, which warrants an increase in reserves to cover the losses. However, a declining level of reserves could become problematic, in particular during a financial crisis. Fifth, there is growing subordinated debt, the effects of which are mitigated by such debt usually being held at low interest rates and involving low levels of

Source: Moody’s Analytics, BankFocus database (April 2022).
risk since it is usually secured with collateral. Nevertheless, failure to service this type of debt may be detrimental to the survival of the national development banks. Finally, the national development banks can be commended for rising levels of liquidity assets. Such assets can quickly be used to lower risk, as they can quickly be turned into cash without losing much value.

Figure VII shows the profitability indicators for national development banks in Africa. First, interest income is higher than interest expenses, which is a favourable profitability indicator. It is worrying, however, that the trends are all declining, and the gap between income and expenses is shrinking, indicating decreasing profits. A similar downward trend is also shown for profit before tax and other operating income. Such a pattern is connected to liabilities, given the ability of national development banks to attract a high level of customer deposits and their inability to convert them into substantial loans to expand on their interest income. National development banks should perhaps adopt sophisticated financial products to raise additional income. Second, overhead items, loan loss provision and tax payments are all declining. However, overhead remains higher than tax and loan loss provision, fast-declining overhead trends are greatly anticipated, and the banks should aim for higher loss-absorption capacity. Improved earnings provide a high loss-absorption capacity, and this allows national development banks to absorb the high credit losses inherent to their higher risk. Figure VII suggests that national development banks should take on risky projects when making investment decisions.

Table 3 shows the capital ratios of national development banks in Africa. The ratios show good capital levels on average, but they could be improved. The tier 1 capital ratio is significantly higher than the minimum level of 8 per cent set by Basel III in 2019.

The ratios show the ability of a national development bank to absorb certain losses before becoming insolvent. In 2010, in accordance with the International Convergence of Capital Measurement and Capital Standards: a Revised Framework, banks were required to meet a minimum tier 1 capital level of 4 per cent. Table 3 shows that the national development banks have an adequate capital level, with the average tier 1 ratio never having fallen below 24.45 per cent. The table also shows a significantly high total capital ratio, which measures the total amount of a bank’s outstanding debt as a percentage of its

<table>
<thead>
<tr>
<th>Year</th>
<th>Tier 1 ratio</th>
<th>Total capital ratio</th>
<th>Capital funds / total assets</th>
<th>Capital funds / net loans</th>
<th>Capital funds / deposits and short-term funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>34.18</td>
<td>51.41</td>
<td>25.31</td>
<td>169.49</td>
<td>6669.04</td>
</tr>
<tr>
<td>2013</td>
<td>77.71</td>
<td>58.27</td>
<td>22.16</td>
<td>139.07</td>
<td>4556.23</td>
</tr>
<tr>
<td>2014</td>
<td>45.53</td>
<td>51.02</td>
<td>11.94</td>
<td>117.94</td>
<td>132659.50</td>
</tr>
<tr>
<td>2015</td>
<td>33.31</td>
<td>44.85</td>
<td>11.10</td>
<td>83.78</td>
<td>9048.86</td>
</tr>
<tr>
<td>2016</td>
<td>24.45</td>
<td>34.28</td>
<td>10.72</td>
<td>78.42</td>
<td>7329.17</td>
</tr>
<tr>
<td>2017</td>
<td>39.17</td>
<td>43.05</td>
<td>39.60</td>
<td>152.39</td>
<td>6592.41</td>
</tr>
<tr>
<td>2018</td>
<td>36.71</td>
<td>42.75</td>
<td>38.95</td>
<td>116.77</td>
<td>717.93</td>
</tr>
<tr>
<td>2019</td>
<td>37.34</td>
<td>42.33</td>
<td>38.13</td>
<td>96.19</td>
<td>354.82</td>
</tr>
<tr>
<td>2020</td>
<td>35.20</td>
<td>35.67</td>
<td>34.69</td>
<td>85.06</td>
<td>2367.11</td>
</tr>
<tr>
<td>2021</td>
<td>31.32</td>
<td>73.72</td>
<td>28.84</td>
<td>90.29</td>
<td>6491.20</td>
</tr>
</tbody>
</table>

Source: Moody’s Analytics, BankFocus database (April 2022).
total capital. National development banks with a high capital ratio are considered safe and likely to meet their financial obligations. The lowest total capital ratio since 2012 has been 35.67 per cent, and that ratio has remained significantly higher than the minimum required levels. The overall capital pattern of the national development banks, as shown in table 3, is such that the banks tend to be strongly capitalized, which is perhaps not surprising given that Governments tend to have 100 per cent ownership.

The kernel density and histogram in figure VIII show the heterogeneity of the total capital ratio...
Review of the performance of national development banks in Africa

Figure X: Total capital ratio and net interest margin

Source: Moody’s Analytics, BankFocus database (April 2022).
Abbreviation: Total_Cap_Ratio, total capital ratio.

across the individual banks. The shapes of the graphs show that the majority of the banks have a low total capital ratio, with some being as low as 0.6 per cent, while others exceeded 200 per cent. The banks with a low total capital ratio are at high risk of becoming insolvent, so effort should therefore be directed towards capitalizing those banks.

Figure IX shows the equity-to-asset ratio of the national development banks. An equity-to-asset ratio\(^9\) measures the amount of equity the bank has compared to the total assets owned by the bank. Figure IX shows that most of the banks have healthy equity-to-assets ratios that are below 20 per cent. There are also a few banks that are at risk, with equity-to-assets ratios that are greater than 70 per cent.

Figure X displays the operating ratio and the net interest margin.\(^{10}\) It shows that some banks are more efficient, as they have low operating ratios, while others have high operating ratios, hence their inefficiency. The heterogeneity is also shown in the net interest margin.\(^{11}\) A positive net interest margin suggests that an entity operates profitably, while a negative interest margin implies investment inefficiency. The banks covered are generally perceived as profitable.

Figure XI shows the return on average assets and the return on average equity. The return on average assets shows how well a company uses its assets to generate profits. In general, the higher the return on average assets, the more efficient the company is at generating profits. Figure XI shows that most of the banks have a low return on average assets while, for a few of them, the return on average assets is greater than 50. Nevertheless, the return on assets must be considered in the context of peers within the same industry and sector. A similar pattern is also displayed in the kernel density of the return on average equity, with most of the banks having a lower return on average equity, while a few have a return on average equity ratio greater than

\(^9\) The equity-to-assets ratio is calculated by dividing total equity by total assets. The higher the equity-to-asset ratio, the less a bank is leveraged by debt.

\(^{10}\) The operating ratio shows the efficiency of the management of the bank by comparing the total operating expense with net earnings. The operating ratio shows how efficient the management is in keeping costs low while generating revenue. The smaller the operating ratio, the more efficient the bank is at generating revenue and keeping total expenses low.

\(^{11}\) The net interest margin is the ratio of interest income minus interest expense divided by earning assets.
100. The return on average equity measures the performance of the banks based on average outstanding shareholder equity. The higher the return on average equity the better. Investors want to see a high return on average equity because this indicates that the bank is using its funds efficiently. A return on equity of 15–20 per cent is generally considered good.
V. Review of national development banks: case studies

It is important to discuss experiences of selected national development banks and draw lessons on what works and does not work in operating these banks. This review uses two cases from Africa and one from Brazil. The way in which Brazil operationalized its developmentalist project shall be explored using the example of the Brazilian National Development Bank, which illustrates elements of both change and continuity through the country’s developmentalist past. Although large loans were granted to many historically large firms and industrial sectors in Brazil – as has been reported widely – the data also show significant numbers of smaller loans to firms in all sectors, as well as renewed support for internationalization and innovation. In contrast, the Land and Agricultural Development Bank of South Africa has been dogged with many operational difficulties, while Tamwil El Fellah of Morocco did relatively well compared with the South African experience.

A. Case study: Brazilian National Development Bank

1. Background information

The Brazilian National Development Bank is the main financing agent for development in Brazil, and it is 100 per cent owned by the Federal Government of Brazil. The Bank was founded in 1952 and has since played a fundamental role in stimulating the expansion of industry and infrastructure in the country. The Bank has 34 subsidiaries and is well diversified, with a total of 223 companies within its group. Some of these companies are involved in technology, energy, sports and tourism. The Brazilian National Development Bank is one of the largest development banks in the world after the China Development Bank, and has total assets of $1.2 trillion. Its non-performing loan ratio stands at 2.2 per cent – slightly worse than that of the China Development Bank, which stands at 1 per cent.

The mandate of the Brazilian National Development Bank has evolved in accordance with social and economic challenges in Brazil to include support for exports, technological innovation, sustainable socioenvironmental development, and the modernization of public administration. It offers financial support mechanisms to Brazilian companies and public administration entities. It has a flexible mandate, meaning that its official mandate is not confined to a specific mission. According to the institution’s website, its mission is "to enable financial solutions that add investments for the sustainable development of the Brazilian nation".

2. Financial performance assessment

Table 4 shows the financial statistics of the Brazilian National Development Bank for the period from 2013 to 2021. The Bank looks well capitalized and has a strong asset base. Most of its assets are in fixed assets, with a few in current assets – mostly cash and cash equivalents. The Bank had a significant credit base from 2013 to 2017 and has not been issuing loans since 2018. The Bank’s return on equity, return on capital employed and net assets turnover are weak, being below the 15–20 per cent threshold. This low performance may be attributed to zero or low levels of loan issuance. However, the Bank has a strong profit margin and operating profit margin (i.e. earnings before interest and taxes), which are higher than the 10 per cent rule-of-thumb level. The Bank has healthy interest coverage, which is above the 3 per cent benchmark, and the collection period has been improving, from 375 days in 2013, to as low as 0 days in 2016/17 and
The Bank has been highly liquid and solvent, as shown by the high liquidity ratio and solvency ratios. This means the Bank has strong financial weight to meet its debt obligations.

The literature shows evidence indicating that loans from the Bank have increased investment, employment and exports, especially when credit is given to micro, small and medium-sized companies. The Bank is also having positive effects on economic activity through its consistent positive influence on investment and exports. To implement its mandate, the Bank uses four main products that directly affect investment: FINAME, FINEM, Automático and Cartão.

A few studies have been used to try to quantify the additionality derived from the Brazilian National Development Bank – that is, how much each real ($0.19 at time of writing) disbursed by the Bank could generate in new investments, which would not have occurred in the absence of Bank products. Barboza and Vasconcelos (2019) found that each real of Bank loans increased investment by 0.46 reals ($0.09) on average between 2002 and 2016. In the case of FINAME loans, each real increased investment by an average of 0.73 reals ($0.14). Another Bank product called PSI was estimated to have an additionality investment of $1.18 reals ($0.22) in 2009 and 0.58 reals ($0.11) in 2010 for every real disbursed by the Bank (Grimaldi and others, 2014). These values suggest that the Bank has had positive effects on investment.

In addition to supporting investment and employment, the Brazilian National Development Bank has credit lines to support exports. This support can be direct, and could include financial investment in a new production plant, for instance, thus allowing export volumes to expand. This

### Table 4: Statistics for the Brazilian National Development Bank

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</tr>
</thead>
<tbody>
<tr>
<td>Capital (billions of US dollars)</td>
<td>10.8</td>
<td>11.6</td>
<td>14.9</td>
<td>15.5</td>
<td>18.2</td>
<td>18.5</td>
<td>15.4</td>
<td>22.7</td>
<td>25.6</td>
</tr>
<tr>
<td>Total assets (billions of US dollars)</td>
<td>20.6</td>
<td>22.5</td>
<td>30.5</td>
<td>27.6</td>
<td>26.9</td>
<td>24.7</td>
<td>17.3</td>
<td>29.0</td>
<td>38.8</td>
</tr>
<tr>
<td>Loans (millions of US dollars)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>18.7</td>
<td>282.2</td>
<td>293.1</td>
<td>120.8</td>
<td>251.4</td>
</tr>
<tr>
<td>ROE using P/L before tax (%)</td>
<td>13.22</td>
<td>2.25</td>
<td>9.21</td>
<td>3.48</td>
<td>7.05</td>
<td>(2.82)</td>
<td>(19.43)</td>
<td>5.85</td>
<td>2.47</td>
</tr>
<tr>
<td>Return on capital employed using P/L before tax (%)</td>
<td>–</td>
<td>–</td>
<td>8.263</td>
<td>3.322</td>
<td>6.661</td>
<td>(2.109)</td>
<td>(16.840)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Profit margin (%)</td>
<td>98.4</td>
<td>46.9</td>
<td>89.5</td>
<td>58.4</td>
<td>68.0</td>
<td>(55.4)</td>
<td>–</td>
<td>66.0</td>
<td>43.5</td>
</tr>
<tr>
<td>EBIT margin (%)</td>
<td>90.6</td>
<td>74.9</td>
<td>87.8</td>
<td>93.1</td>
<td>85.9</td>
<td>74.8</td>
<td>84.1</td>
<td>67.5</td>
<td>88.8</td>
</tr>
<tr>
<td>Net assets turnover (%)</td>
<td>0.12</td>
<td>0.04</td>
<td>0.09</td>
<td>0.05</td>
<td>0.09</td>
<td>0.05</td>
<td>0.09</td>
<td>0.08</td>
<td>0.05</td>
</tr>
<tr>
<td>Interest cover (%)</td>
<td>–</td>
<td>–</td>
<td>113.8</td>
<td>30.2</td>
<td>42.6</td>
<td>6.76</td>
<td>5.7</td>
<td>–</td>
<td>–</td>
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<tr>
<td>Collection period (days)</td>
<td>4.03</td>
<td>3.81</td>
<td>35.26</td>
<td>5.40</td>
<td>0</td>
<td>0</td>
<td>6.61</td>
<td>67.89</td>
<td>374.9</td>
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<tr>
<td>Current ratio (%)</td>
<td>8.06</td>
<td>15.36</td>
<td>15.03</td>
<td>7.82</td>
<td>27.72</td>
<td>7.53</td>
<td>2.18</td>
<td>0.49</td>
<td>1.57</td>
</tr>
<tr>
<td>Liquidity ratio (%)</td>
<td>8.06</td>
<td>15.36</td>
<td>15.03</td>
<td>7.82</td>
<td>27.72</td>
<td>7.53</td>
<td>2.19</td>
<td>0.49</td>
<td>1.57</td>
</tr>
<tr>
<td>Solvency ratio (asset based) (%)</td>
<td>89.85</td>
<td>88.72</td>
<td>87.01</td>
<td>86.90</td>
<td>91.26</td>
<td>92.05</td>
<td>91.24</td>
<td>85.67</td>
<td>83.60</td>
</tr>
<tr>
<td>Gearing (%)</td>
<td>4.63</td>
<td>9.48</td>
<td>12.37</td>
<td>10.42</td>
<td>9.05</td>
<td>8.31</td>
<td>9.09</td>
<td>11.44</td>
<td>15.19</td>
</tr>
</tbody>
</table>

**Source:** Moody’s Analytics, BankFocus database (April 2022).

**Abbreviations:** EBIT, earnings before interest and taxes; P/L, profit/loss; ROE, return on equity.
support could also be indirect, using investment to increase productivity, which could facilitate a firm’s entry into the international market. Lobo e Silva (2012), Schmidt (2012), Galetti and Hiratuka (2013) and Alvarez, Prince and Kannebley Júnior (2014) found that the Bank product called Exim had greatly supported exports of Brazilian goods and services. The Bank has also made a positive contribution to GDP. Several studies have estimated the effects of the Bank’s operations on GDP. Zanchi (2019) indicated that the indirect credit from the Bank was effective in increasing municipal GDP per capita, with each additional 1,000 reals ($184) of credit per capita increasing the GDP per capita of the following year by 0.35 per cent. Zanchi (2019) found that GDP and GDP per capita grew by an average of 0.4 per cent annually in the units that experienced an increase in disbursement growth, and the benefit generated for each real ($0.18) of disbursement from the Bank had an average GDP growth rate of 0.29 per cent. Most of the available evidence suggests that increases in Bank disbursements have stimulating effects on local and aggregate activity. This result is consistent with the evidence obtained for investment, employment and exports. This strengthens the case for considering the Bank as an instrument for countercyclical action within the list of available public policies, as is usual in the literature on development banks.

3. Operational and management challenges

Regarding risk management, the Brazilian National Development Bank has a specific division that centralizes matters regarding management of risks pertaining to credit, market and operations, while making efforts to improve internal controls. In addition, the institution maintains a risk management committee, which includes the president, vice-president and managing directors of the Bank. One of the group’s responsibilities is to assess the scope of risk management and internal controls. The aim of the committee is to assess market risk and monitor and control the exposure of the Bank to such risk. The Bank is strong on governance, and disseminates and influences ethical and socially responsible principles and procedures, both in the economic sphere and in the public sector. As a public company, it adopts the principle of broad transparency as one of the pillars of its relationship with those outside the Bank. To keep its communication channel with society, the Bank regularly provides the media with news regarding its activities by issuing press releases on financing operations, policy and credit practices. The Bank also publishes useful information on its website regarding the institution’s activities.

To strengthen its corporate management, the Bank has a corporate board of directors in charge of specific areas, such as human resources, information and process technology, which is aimed at modernizing systems and processes at the Bank. The board produces a report on the Bank’s effectiveness, in which it collates information and studies monitoring and evaluating the Bank’s operations and its contribution to development in Brazil. As part of monitoring and evaluating its efforts, the Bank creates official records, publishes accounts and draws on lessons learned, which helps to fine-tune its policies and programmes.

From the public governance perspective, the management of the Bank is controlled by a fiscal council, which comprises representatives of external agencies, and an advisory board, which includes representatives of the Government and civil society. As a financial institution, the Brazilian National Development Bank is subject to inspection by the Central Bank of Brazil and to the norms and resolutions of the National Monetary Council. In addition, its accounts are inspected by the Federal Court of Accounts, which is an auxiliary entity of the National Congress. The Bank is audited by the Office of the Comptroller General. Regarding project analysis and selection, all financial requests received by the Bank undergo a series of procedures, in which project analysis and the selection process are carried out.
by a group of people, based on the responsible use of resources and impartiality.

The Bank is facing a number of challenges. During the COVID-19 pandemic, it contributed to efforts to expand and improve access to medical and hospital services, which involved investing in more efficient management and payment systems, digitalization and incorporating new technologies. The Bank must make progress in respect of private and foreign investment in the green economy, a natural and resilient infrastructure, green and innovative industry, and intensive agriculture with recovery of degraded land. The Bank has been challenged to invest in critical projects and to move away from projects that can easily be financed by private investors or by commercial banks. Thus, it faces a challenge of disinvesting or reducing its participation in mature companies and reallocating resources and risks towards high-impact projects, such as social infrastructure, renewable energies or micro, small and medium-sized enterprises.

The Bank can be criticized for its lack of infrastructure investment projects. Nationally, Brazil currently invests less than 2 per cent of its GDP in this segment of the economy. According to the most recent estimate in 2018, this sector’s capital stock amounted to about 36 per cent of GDP. For the country to reach a capital stock closer to the average of the main world economies (70 per cent), the rate of investment in infrastructure would have to increase to 4.2 per cent of GDP and remain at that level for at least two decades. This suggests that the Bank needs to increase funding for infrastructure projects. Some of the target infrastructure projects pertain to increasing access to water supply, sanitation and sewerage, as well as promoting the treatment of urban solid waste. Regarding the manufacturing industry, the Bank has long been challenged in supporting the productivity of domestic industries and facilitating greater credit access for domestic micro, small and medium-sized enterprises. Most studies that investigate the effect of the Bank on productivity have not found evidence of any impact (Araújo, 2014; Ribeiro and De Negri, 2009; Lage de Sousa and Ottaviano, 2018). The Bank has been called upon to ensure the transparency of its actions, to promote partnerships with other institutions, and to take part in meaningful dialogue with society.

All the above-mentioned soft infrastructure helps to shape the success of the Brazilian National Development Bank. Successful national development banks should emulate the strong governance, work ethics and risk management practices mentioned in this example. Such practices attract a high level of credibility, which opens up lines of financing, improves capitalization and asset accumulation, and helps to reduce the risk of failure.

B. Case study: Land and Agricultural Development Bank of South Africa

1. Background information

The Land and Agricultural Development Bank of South Africa is a development finance institution, with a mandate “to support, promote and facilitate the development and transformation of the agricultural sector.” From its inception in 1912 until 1936, it provided mortgage loans to farmers. At the start of the twenty-first century, the Land and Agricultural Development Bank Act (No. 15 of 2002) was passed to address the needs of the agricultural sector. The Bank is wholly owned by the Government of South Africa and is a key financial player in agriculture, providing retail and wholesale finance for development and commercial farmers. It contributes strategically to rural poverty reduction, sustainable economic performance, and development and transformation in the agricultural sector. The Bank’s key mandates are to provide finance to emerging farmers to facilitate the equitable ownership of land, agrarian reform and land distribution, to remove the legacy of past racial and gender discrimination, and to promote food security and support commercial agriculture.
2. Financial performance assessment

The Land and Agricultural Development Bank of South Africa has two subsidiaries and 14 companies in its corporate group. Table 5 shows that the Bank has a strong asset and loan base, although the Bank shows weak returns on average assets and on average equity, which displayed negative values in 2019–2021. Due to the high loan base, the Bank has a high net loans-to-asset ratio, which stayed above 76 per cent over the period 2013–2021. The Bank had health liquidity levels of 58.4 per cent, 17.0 per cent and 28.6 per cent for the years 2021, 2020 and 2019 respectively. The percentages for non-performing loans are high, with a highest value of 32.5 per cent in 2021.

3. Operational and management challenges

The Land and Agricultural Development Bank of South Africa has recently faced a number of challenges, some of which originate from the overall performance of the economy and the state of agriculture in the country. The agricultural sector in South Africa has been in a volatile state in recent years. The main factors for this include dry seasons in certain parts of the country, outbreaks of avian influenza and foot and mouth disease, erratic rainfall and the recent COVID-19 pandemic. During the 2015/16 agricultural season, El Niño-related weather conditions resulted in a late start to planting and low, erratic rainfall across Southern Africa. Between 2017 and 2018, the country experienced avian influenza. The outbreak of this highly pathogenic influenza had a notable effect on the poultry industry. Following the outbreak of the disease, there was a 15 per cent growth in chicken imports, which negatively affected local chicken farmers and stakeholders. In 2019, South Africa had a record high incidence of foot and mouth disease. During this period, South African meat producers could not export any meat products to certain countries, for fear of spreading the disease. This directly affected frozen meat exports from South Africa and hit local farmers with a further blow. The COVID-19 pandemic added to the existing problems. These various problems had a trickle-down effect on the Bank, mostly through an increase in non-performing loans, an inability to take in new clients, deteriorating profit margins, increasing costs and falling liquidity levels. In addition to the above-mentioned problems, there is a lack of solid internal and management control.

<table>
<thead>
<tr>
<th>Table 5: Performance indicators for the Land and Agricultural Development Bank of South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2021</strong></td>
</tr>
<tr>
<td>Total assets (billions of United States dollars)</td>
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<tr>
<td>Loans (billions of United States dollars)</td>
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<tr>
<td>Return on average assets (%)</td>
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<tr>
<td>Return on average equity (%)</td>
</tr>
<tr>
<td>Net loans / total assets (%)</td>
</tr>
<tr>
<td>Net loans / deposits and short-term funding (%)</td>
</tr>
<tr>
<td>Net loans / total deposits and borrowing (%)</td>
</tr>
<tr>
<td>Liquid assets / deposits and short-term funding (%)</td>
</tr>
<tr>
<td>Non-performing loans / gross loans (%)</td>
</tr>
<tr>
<td>Equity / total assets (%)</td>
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</table>

*Source: Moody’s Analytics, BankFocus database (April 2022).*
The Bank was slow in adopting industry-standard metrics to measure and control credit, liquidity and capital risk. Management at the Bank had no quantitative capital or liquidity management tools in place prior to 2017; neither did it have credit risk models in place. In addition, the Bank had no interest rate risk management policies, and it started implementing a form of risk management only in 2018 using interest rate swaps, in which only 6.7 per cent of the book was hedged in, accounting for 2.8 billion rand. This means that risk management did not play a major role at the Bank, which is only in the very early stages of risk management implementation. It should also be noted that the quality of the collateral taken for credit granted has deteriorated over the years.

The Bank groups its loans three stages of performance. Stage 1 covers loans whose repayments are up to date. Stage 2 covers loans that are underperforming – that is, in arrears by 30 to 90 days. Stage 3 is for non-performing loans, which are 90 days or more in arrears. Over the past seven years, a significant share of the Bank’s loans have been underperforming or non-performing as a percentage of the total loan book. In 2020, the proportion of non-performing loans increased to 20 per cent from 9 per cent, while that of underperforming loans increased from 9 to 14 per cent. The increase in non-performing assets is due to farmers struggling to repay their debts on time, the effects of the COVID-19 pandemic, adverse weather conditions that caused late planting and harvesting, and a general decrease in the quality of borrowers (AMC Trade Finance, 2021, p. 21).

In April 2020, given the accumulated challenges, the Bank issued a Stock Exchange News Service announcement that it would not be able to repay some of its debt that was coming due in the following week, which triggered a default (AMC Trade Finance, 2021, p. 24). The Finance Minister of South Africa, in his budget speech of 2021, announced a 7 billion emergency rand funding package for the Bank. However, this funding might not be enough, as most of the funds are likely to be used in servicing debt rather than growing the loan book. This means that the problems that are currently being faced are likely to resurface.

A few options have been cited as a solution for the Bank. The first involves a partial privatization to ensure that farmers have a reliable financing source. The second is to raise capital from foreign investors and make a buyout offer to the Bank. The third option is to establish a farmer-owned cooperative bank to operate alongside the Land Bank. This would typically be a partnership between foreign investors, local farmers and agribusinesses such as cooperatives and international insurance or agricultural businesses. Finally, the Bank has the option to provide a partial solution for exporters of agriculture commodities, which may be in the form of hard-currency foreign loans. This is contrary to the seasonal facilities that the Bank used to provide farmers, whereby processors could pay advances to their suppliers and settle payment once they were paid by their debtors. There is a significant need to reform the Bank, revising its lending model and improving

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12 See also the annual reports of the Land and Agricultural Development Bank, available at https://landbank.co.za/Pages/Investor-Relations.aspx.
its cooperate governance and risk management, among other measures.

C. Case study: Tamwil El Fellah

1. Background information

In 2009 the Government of Morocco launched the Green Morocco Plan, which emphasized the important role of agriculture in the country and set strategies to promote the sector’s development by attracting domestic and international investment and organizing private actors into competitive and profitable value chains. The Green Morocco Plan is based on six principles:

- The agriculture sector is the main source of economic growth and poverty reduction.
- Agricultural development strategies should not focus on agriculture alone but should also take into account its links to the non-agricultural sector and to various stakeholders and territories.
- Aggregation models need to foster innovation and equality within agricultural value chains.
- The core objective is to raise investment in agriculture from domestic and foreign investors.
- A pragmatic approach with the capacity to advance concrete projects should be applied.
- The plan applies to all value chains, both modern and traditional.

In support of the Green Morocco Plan, the Agricultural Development Finance Company (or Tamwil El Fellah) was established in 2008 by the Groupe Crédit Agricole du Maroc. The mandate of Tamwil El Fellah is to specialize in agricultural lending to smallholder families with no collateral. Tamwil El Fellah is 100 per cent owned by the Government of Morocco. The bank has 15 subsidiaries and 194 companies under its ownership group. The 194 companies demonstrate how well diversified the bank is: they operate in a range of fields including tourism, transport and logistics, asset management and hydrocarbons. In terms of its asset quality and asset base, the bank is ranked fourth in Morocco.

2. Financial performance assessment

Table 6 below shows that Tamwil El Fellah is well capitalized, given its total capital, the total capital ratio and the tier 1 ratio. In 2021, the bank’s total capital was $1.3 billion. Since 2016, the bank’s total capital ratio has stayed above 12.53 and its tier 1 ratio has not fallen below 9.62. The bank had a strong loan base of $14.1 billion in 2021, which has remained at or above $9.0 billion since 2013. However, the level of non-performing loans is high, hovering just under or above 8 per cent over the period 2018–2021. Given the 10–15 per cent benchmark, the bank’s return on average assets and average equity remained low. The highest return on average assets was 0.64 per cent, recorded in 2014. The bank has had healthy net loan ratios and liquidity ratios. The bank’s net loan-to-total assets ratio was above 71 per cent over the period 2013–2021, which is well above the 40 per cent benchmark. The liquidity of the bank improved significantly, from 5.71 per cent in 2013 to 20.60 per cent in 2021.
In dealing with risk management, the bank created a credit guarantee fund with the Government in 2009. Under this arrangement, the Government secured a 60 per cent stake in Tamwil El Fellah. The credit guarantee fund is directly managed by Groupe Crédit Agricole du Maroc, which helps to ensure compliance and has improved governance. The Government allocated a budget of 100 million dirham to the credit guarantee fund (Hoessler, 2013).

### Table 6: Tamwil El Fellah statistics

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</tr>
</thead>
<tbody>
<tr>
<td>Total capital (billion</td>
<td>1.3</td>
<td>1.4</td>
<td>1.3</td>
<td>1.1</td>
<td>1.1</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Total assets (billion</td>
<td>14.1</td>
<td>13.9</td>
<td>12.1</td>
<td>11.2</td>
<td>10.4</td>
<td>9.0</td>
<td>9.0</td>
<td>9.3</td>
<td>9.7</td>
</tr>
<tr>
<td>Loans (billion</td>
<td>10.1</td>
<td>10.1</td>
<td>8.7</td>
<td>8.1</td>
<td>7.6</td>
<td>6.7</td>
<td>6.5</td>
<td>6.8</td>
<td>7.1</td>
</tr>
<tr>
<td>Return on average</td>
<td>0.30</td>
<td>0.17</td>
<td>0.55</td>
<td>0.61</td>
<td>0.63</td>
<td>0.60</td>
<td>0.63</td>
<td>0.64</td>
<td>0.53</td>
</tr>
<tr>
<td>Return on average</td>
<td>4.53</td>
<td>2.41</td>
<td>7.72</td>
<td>8.14</td>
<td>8.10</td>
<td>7.96</td>
<td>8.64</td>
<td>9.19</td>
<td>8.03</td>
</tr>
<tr>
<td>Interbank ratio (%)</td>
<td>50.92</td>
<td>13.40</td>
<td>35.36</td>
<td>51.81</td>
<td>10.85</td>
<td>8.62</td>
<td>22.82</td>
<td>13.43</td>
<td>17.03</td>
</tr>
<tr>
<td>Net loans / total</td>
<td>71.82</td>
<td>72.32</td>
<td>72.36</td>
<td>72.24</td>
<td>72.59</td>
<td>73.82</td>
<td>71.56</td>
<td>72.87</td>
<td>72.90</td>
</tr>
<tr>
<td>Net loans / deposits</td>
<td>95.21</td>
<td>97.57</td>
<td>97.65</td>
<td>101.21</td>
<td>92.86</td>
<td>91.58</td>
<td>87.02</td>
<td>88.43</td>
<td>90.03</td>
</tr>
<tr>
<td>and short-term funding</td>
<td>20.60</td>
<td>20.10</td>
<td>20.47</td>
<td>23.51</td>
<td>5.02</td>
<td>13.34</td>
<td>6.12</td>
<td>4.38</td>
<td>5.71</td>
</tr>
<tr>
<td>Non-performing loans</td>
<td>8.89</td>
<td>8.43</td>
<td>8.11</td>
<td>7.84</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>gross loans (%)</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total capital ratio (%</td>
<td>12.53</td>
<td>13.74</td>
<td>14.43</td>
<td>14.09</td>
<td>13.73</td>
<td>12.57</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 ratio (%)</td>
<td>9.62</td>
<td>10.30</td>
<td>10.57</td>
<td>10.19</td>
<td>10.05</td>
<td>9.85</td>
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</tr>
</tbody>
</table>

**Source:** Moody’s Analytics, BankFocus database (April 2022).
exist (Ramirez and Hernandez, 2016). With a view to facilitating access of finance, Tamwil El Fellah formed agreements with the Moroccan Association of Importers of Agricultural Machinery, the Moroccan Association for Sprinkler and Drip Irrigation and the National Association for the Commercialization of Seeds and Inputs. These institutions have a long history of working with their members, which puts them in a position to assess creditworthiness and provide technical assistance and support. (L'Economiste, 2011).

In 2015, Tamwil El Fellah disbursed a credit volume of $129 million to 63,489 smallholder clients, 99 per cent of whom had no formal collateral, and more than 10,000 of those clients received loans through their cooperatives. Agricultural value chain finance was also provided. At least 1,800 irrigation projects using solar-powered water-pumping systems were financed in 2015. Some 97 per cent of the portfolio of Groupe Crédit Agricole du Maroc is agricultural (Tamwil El Fellah, 2015), so diversification is shallow. The credit provided by Groupe Crédit Agricole du Maroc is allocated to diverse subsectors of agriculture: 27 per cent of credit goes to irrigation, 23 per cent to livestock providing red meat, 13 per cent to dairy, 12 per cent to horticulture, 7 per cent to farm infrastructure, 4 per cent farm equipment, 2 per cent to cereals and legumes, 1 per cent to ecological activities and 3 per cent to other agricultural activities. Growth rates were very high, with credit volumes and the client base increasing around the mid-2010s. These factors, along with a healthily low percentage of non-performing loans (2 per cent in 2015), indicate a successful development bank (Ramirez and Hernandez, 2016).

Tamwil El Fellah is currently facing a number of challenges. The maximum loan that it can offer to clients is $10,000, which is deemed too low to finance the working capital and investments needed by smallholders, but it is not possible to increase it, given the mandatory credit guarantee coverage of 60 per cent and the fixed size of the credit guarantee fund. Tamwil El Fellah has been hiring staff at local branches, most of whom are young and with a background in the agricultural sector, trained by loan officers seconded from Groupe Crédit Agricole du Maroc. Tamwil El Fellah’s growth therefore partly depends on the number of officers seconded from the Group, an arrangement that puts pressure on the Group’s own operations (Ramirez and Hernandez, 2016).

D. Contrasting the national development bank experiences

There are some similarities among the three banks selected for this review’s case studies, but they each have distinct characteristics. All the banks have a significantly strong capital and assets base, and they all have high liquidity ratios. The Brazilian National Development Bank has a mixed mandate, while the Land and Agricultural Development Bank of South Africa and Tamwil El Fellah of Morocco have agriculture-focused mandates. Based on the number of companies under their respective corporate umbrellas programmes, the Brazilian National Development Bank appears to be the most diversified, followed by Tamwil El Fellah and finally the Land Bank. The Brazilian National Development Bank has favourable ratios for return on equity and return on capital employed, while Tamwil El Fellah and the Land Bank have relatively weak ratios for return on average assets and return on average equity. Tamwil El Fellah and the Land Bank have a relatively strong loan base, but they also have a high percentage of non-performing loans. To enhance sustainability, national development banks in Africa need to create a diversified assets base and adopt robust risk management measures.

It is clear from the three case studies that national development banks have diverse experiences in the delivery of their mandates. Attempts to liberalize financial markets have failed to provide access to financial services for the vast majority of households and firms in countries such as Brazil and South Africa. Small and medium-sized
enterprises, which are critical for employment, income creation and economic development, are particularly excluded from liberalized private financial markets in both countries, despite the existence of national development banks. Market failure requires government intervention, as the case of the Land and Agricultural Development Bank of South Africa seems to suggest. It is thus generally agreed by practitioners that, to enhance the financial access of small and medium-sized enterprises, Governments must play an active role, not only through creating a policy framework and financial infrastructure that assist small and medium-sized enterprises, but also by supporting the direct provision of financial services through national development banks and credit programmes. The experiences of Tamwil El Fellah seem to confirm just that. Moreover, it is clear that the extent of efforts to strengthen governance systems, enhance portfolio quality, seek out of new investment opportunities and adopt appropriate risk management strategies has played a critical role in the success or failure of the three national development banks examined. In addition, the role of Government in providing a suitable regulatory environment that allows for innovation and flexibility in mandate delivery remains crucial. Financial sustainability requires a constant search for new sources of funding and the ability to plough resources back into investments deemed to be safe.
VI. Action-oriented recommendations

In this section, lessons shall be drawn from the three national development bank case studies, and action-oriented recommendations will be provided. It is clear that Governments must consider governance, risk management, funding priorities, sustainability, the quality of financing pipelines and emergent opportunities as key factors in managing or setting up a national development bank.

A. Deepening governance and flexible mandates

From the analysis presented in this review, it is clear that good corporate governance remains a critical factor in the success or failure of a national development bank. In establishing a national development bank, there is need for a proper framework to ensure clarity in and effective delivery on its mandate. Several studies suggest that most of the poor performance of national development banks results from shortcomings in corporate governance structures, including political interference and poor managerial skills (Dinç, 2005; Caprio and others, 2004; La Porta, Lopez-De-Silanes and Shleifer, 2002). Moreover, establishing an appropriate governance system for national development banks is not an easy task. Notably, the exercise of direction and control is complicated by the multitude of institutions usually involved in the ownership of a national development bank. Because of the leverage involved in their operations, national development banks have the potential to create contingent fiscal liabilities for the Government. In many instances, national development banks must settle for a trade-off between the two potentially conflicting objectives of fulfilling their policy mandate and being financially sustainable (Scott, 2007). Therefore, introducing and enforcing a sound corporate governance framework for a national development bank requires significant investment in resources and, most important, continued commitment by shareholders.

It is in the interest of Government, as a key shareholder, that a national development bank delivers on its policy mandate and performance targets in a financially sustainable manner. Historically, failure to do so has tended to lead to political interference, excessive management autonomy or difficulty in measuring and evaluating the performance of the board and ultimately of the national development bank. Evidence from a survey conducted by the African Development Bank in the framework of the Prudential Standards, Guidelines and Rating System suggests that only half of African national development banks have an explicit performance agreement with the Government outlining the areas mentioned above, and only 30 per cent have a performance-based incentive system for their managers. Around 45 per cent of African national development banks require government approval in at least one area of operations.

There is need to ensure clear reporting lines. This in turn requires an enhanced information, reporting and disclosure regime. Effective governance demands information-sharing across the institution and with all stakeholders. Transparency implies effective information management systems, with management reporting to a board of directors, the board reporting to shareholder representatives, shareholder representatives reporting to the Government and, finally, the Government reporting to the public through the publication of accounts. Evidence suggests that African national development banks show mixed compliance on annual reporting. While 82 per cent of the institutions that participated in the survey reported that they had prepared an annual budget to guide their operations, only 9 per cent had a detailed cost accounting system in place to measure profits and losses associated
with specific programmes and products, and only 24 per cent were able to report separately on funds managed on behalf of the Government. A diverse board would enhance the governance and capacity of African national development banks and would introduce critical technical expertise. The strengthening of African national development banks, with good governance, would help to mobilize long-term private finance towards achieving the Sustainable Development Goals and structural transformation (Zalk, 2021).

B. Implementing effective risk management

As part of an overall corporate governance framework, it is essential to be able to identify, measure and monitor risks, and to determine that national development banks hold adequate capital reserves against those risks. The case studies examined here suggest that credit risk is the main risk faced by national development banks. Corporate governance aside, development banks have failed to maintain good credit standards and sound portfolio risk management. They must put in place sound credit risk management frameworks and credit-granting processes, along with solid credit administration and credit risk controls. Irrespective of differing management practices among national development banks, a comprehensive credit risk management framework is required. Asset quality assessment, the adequacy of provisions and reserves and credit risk disclosure are also important requirements (Atuahene, 2021).

It is important for African national development banks to establish frameworks that guide their exposure limits and their approach to risk diversification. Concentration of risk can take many forms, and this can affect both the asset and liability sides of the bank’s activities. As the case of the Land and Agricultural Development Bank of South Africa suggests, concentration risk can stem from sectoral specialization, statutory reliance on government budget allocations or excessive credit exposure to single borrowers, and it can result in significant losses. Even if systemic risk is not highly diversified, credit risk concentration can be mitigated by setting appropriate limits. For single exposure limits, 25 per cent of capital can serve as a suitable target for the upper limit; 76 per cent of African national development banks were reported to be compliant with this criterion in 2013 (Calice, 2013).

In granting credit, national development banks should consider the risks against the expected returns, make use of transaction structure, collateral and guarantees to help mitigate risks, and take into account the borrower’s repayment capacity. Given their social and economic development mandates, banks should factor development impact into their lending criteria, while identifying and monitoring environmental and social risks. The performance of African national development banks is mixed in this respect. While they may be financially prudent in granting loans (with 76 per cent of them requiring the borrower to contribute at least 25 per cent of the total project cost with equity and to provide collateral by way of cash and physical assets, covering at least 35 per cent of the loan value), they do not always clearly define development criteria, and only 21 per cent calculate key performance indicators such as expected development outcomes (Calice, 2013).

C. Enhancing financing and resource mobilization

Profit maximization may not be the primary motive for national development banks but, if they are able to generate extra resources, this can substantially increase their capitalization and strengthen their risk-bearing capacity. It is clear from the case studies that losses can lead to a rapid depletion of equity (a burden that is ultimately borne by taxpayers), while eroding confidence in the bank. High-quality assets can boost profitability, and a high-performing portfolio generates interest income. Sound risk
management can lead to good asset quality; the latter has been problematic for African national development banks (Calice, 2013).

Table 7 shows the levels of non-performing loans for national development banks in select African countries.

From table 7, it is clear that non-performing loan ratios are significantly higher for national development banks than they are for commercial banks, with the exceptions of Angola, Burundi, Morocco and Senegal, where national development banks perform better in this respect. This is not surprising, given that they tend to provide loans to riskier segments of the economy.
D. Ensuring funding priorities, innovative instruments and their relevance

There is need for national development banks to set the right funding priorities, including by leveraging funding from private sector finance. The private sector tends to invest in existing assets with proven financial viability, rather than riskier new projects. Projects needing private finance require preparation, advice and feasibility studies, entailing more time and costs and often requiring external expertise. National development banks need an adequate pipeline of bankable projects to be able to deliver on their mandates. It is critical for national development banks to be able to negotiate development contracts if they are to operate effectively. Such negotiations are generally costly, complex and time-consuming and, because African countries often lack the capacity and legal framework to negotiate and execute, these difficulties may result in poorly structured agreements or elaborate workarounds of existing laws and regulations. Project sponsors may sometimes be required to see projects through that difficult process (Organisation for Economic Co-operation and Development (OECD) and African Center for Economic Transformation, 2020).

E. Ensuring project quality at entry and financing pipelines

Successful project delivery comes with many requirements, such as effective early screening, feasibility assessments, design evaluation, legal and regulatory compliance, financial viability, a favourable cost-benefit analysis, as well as social, economic and environmental impact assessments. Feasibility assessments should identify development outcomes in line with overall national development priorities and demand projections (OECD and African Center for Economic Transformation, 2020). In essence, project quality is an important determinant of the success of any national development bank.

Rigorous social and environmental impact assessments are required to address climate change and ethical investment concerns. Development projects may be carefully planned to create employment opportunities while fostering social inclusion and local empowerment but, without adequate risk management, the local environment and the well-being of the local population could deteriorate, risking social discontent, delays and cost overruns. Environmental concerns such as climate change, access to water, pollution and biodiversity should

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13 Development contracts are contracts entered into when designing and operationalizing projects.
not be compromised to speed up the project development process, nor should social elements such as gender equality, social inclusion and the health and safety of workers. Good procurement practice is also important; it is crucial that the process is transparent and fair. African countries need to ensure that procurement is backed by robust administration and interministerial coordination. Without experienced administrative personnel, implementation of procurement processes can take longer, leading to delays in the project cycle (OECD and African Center for Economic Transformation, 2020). In summary, it is important to have a supportive framework in place for good project management throughout the project cycle.

F. Managing opportunities in emerging sectors – issues of selection and prioritization

National development banks should develop the capability to identify emerging opportunities. One key area concerns trade and the implementation of the Agreement Establishing the African Continental Free Trade Area. As was observed at the third regional consultation on rethinking the role of national development banks in Africa, held in Johannesburg, South Africa, in November 2006, regional integration and effective implementation of the Agreement was intended to address market failures in infrastructure, institutional failures and the phenomenon of path dependency. Regional development projects struggled to reach financial close due to a lack of sponsors, the need to invest in feasibility studies, the need to secure partners, weak institutional capacity and insufficient regional financial capacity. Financial sector development and the role of national development banks were identified in that regard. For example, the Regional Indicative Strategic Development Plan of the Southern African Development Community focused on private sector resources and the integration of financial systems to create opportunities for national development banks to invest beyond national borders. The Regional

Indicative Strategic Development Plan prompted financial institutions to provide a broader range of services to both households and firms, while also highlighting the need to harmonize policies and regulatory frameworks at the regional level and to coordinate central banking activities. The proposed finance and investment protocols concerned closer monetary and financial cooperation, encouraging harmonization, stronger investor rights, better protection of intellectual property, implementation of double-tax treaties and regional competition policies.

It is well known that Africa has a considerable need for funding, with the largest funding gaps in infrastructure and in connection with the attainment of the Sustainable Development Goals. National development banks have a critical role to play in mobilizing resources for the investment that is required. Aside from the major infrastructure development in China and a few other Asian countries, however, infrastructure development and upgrades have been seriously faltering for decades in most of the world (Arezki and others, 2016). Hopes that privatization in the 1980s would fuel a private sector infrastructure investment boom fell well short of expectations (see Estache and Fay, 2007; Iossa and Martimort, 2012). Despite laudable economic motivations behind this push towards privatization, public sector infrastructure remained inadequate in the 1980s, with weak governance, cost overruns, poor maintenance and corruption (Vickers and Yarrow, 1991). Many infrastructure projects became white elephants owing to failures in maintenance (Hammami, Ruhashyankiko and Yehoue, 2006). More recent evidence indicates a relative slowdown in infrastructure development and a levelling off of investment flows in many regions (Arezki and others, 2016).

Infrastructure needs are not being met in a context of ageing infrastructure, deteriorating facilities, growing populations and increasing urbanization. Global privatization over the past three decades has held back large-scale infrastructure projects in many parts of the world. Under public-
private partnerships, private sector funding of infrastructure will not be sufficient to meet the rising global demand for infrastructure. With continuing underinvestment, global infrastructure investment requirements could rise to around $3.3 trillion per year until 2030 (see McKinsey Global Institute, 2016). Following the global financial crisis of 2007–2009 and the growing urgency of climate change mitigation, the world then reached a similar position as in 1990, when the Washington Consensus emerged as a new potential template for development (Williamson, 1990). Once again, institutional innovations to encourage a flow of capital towards infrastructure investment should be considered (Arezki and others, 2016).

The significant financing gaps have presented opportunities for infrastructure development, as the size of the savings of long-term investors, such as pension funds, insurance companies, sovereign wealth funds, has never been higher – exceeding $100 trillion worldwide (City UK, 2013). In Africa, these investors are sitting on significant resources, as exemplified by pensions funds in North Africa ($40.9 billion). In East Africa, Kenya dominates the institutional investment landscape, with its pension assets amounting to $8.14 billion, followed by the United Republic of Tanzania ($3.8 billion), Uganda ($2.2 billion) and Rwanda ($779 million); and in Southern Africa, South Africa is a significant outlier in the subregion, with its assets amounting to $322 billion, compared with $6 billion for Botswana, $1.1 billion for Zimbabwe, $850 million for Mozambique and $783.9 million for Zambia (Ben-Barka and others, 2018). Moreover, the bulk of these savings is invested in lower yielding fixed income assets (Çelik and Isaksson, 2013). At a time when the world is seeking to recover from COVID-19 and public debt levels remain elevated, the provision of private sector financing to help replace ageing infrastructure in advanced economies and build brand new infrastructure in emerging markets could significantly contribute to reigniting economic growth and accelerating the necessary transition to renewable energy.

Tapping into these funding opportunities will require addressing the significant institutional bottlenecks that impede the financing and initiation of infrastructure projects. Institutional innovation by some development banks in infrastructure investment platforms is a promising avenue for removing these bottlenecks. It is necessary to reconfigure the corresponding financing models and to draw attention to the key link between global macroeconomic opportunities and the microeconomic challenges of infrastructure development (Arezki and others, 2016).

G. Strengthening regulation and supervision

Thorne and du Toit (2009) highlighted the importance of the regulatory and business environment for the success of national development banks. They noted that “poor regulation and supervision by a government have contributed to the downfall of many development banks, including the Development Bank of Zambia in the 1990s” (see also Benefit Advisory Research, 2006). Given the governance structure of most national development banks and the ownership role of the State, there can be a potential conflict of interest in the regulation and supervision of the banks (Caprio and others, 2004, p. 8).

State regulatory and supervisory regimes may usefully be supplemented by market-based measures such as credit ratings. Theoretically, credit ratings should help both the Government and the national development bank to gauge the quality of the bank’s financial management. Through such ratings, development banks would submit themselves to the discipline of the market, while also encouraging their clients (especially subnational governments) to obtain such ratings to help them gain access to the private capital markets. A poor sovereign rating would also imply a negative rating of the country’s national development banks, given their nature as public
entities, which may make it difficult for them to improve their financial standing.

H. Deepening competition and raising productivity

National development banks can work with their stakeholders to identify what policies matter for competitiveness and corporate social responsibility, taking into account why competitiveness matters for economic growth and development and indeed at all levels. In a modern economy, competitiveness relates to "a country achieving production capabilities through self-discovery, learning from others and interacting with alternative paths of capability creation." National development banks should support countries on such journeys to develop their production capabilities. The pursuit of technological innovation for the modern knowledge economy is essential for developing countries seeking to catch up. Corporate rivalry and the demand for goods and services can boost capability and innovation, lowering costs and improving product quality, thereby raising demand (Nallari, 2011, p. 162). Research and development and innovation in support of the above remain critical functions of national development banks.

Conclusion

National development banks can play an important role in addressing many of Africa’s economic and social challenges, and in the promotion of sustainable and inclusive economic growth, employment, productivity and industrialization. By delivering on their mandate of supporting economic development through medium-term and long-term lending, national development banks can contribute to financial development in various ways. Based on a foundation of efficient balance sheet management and synergy with other financial institutions, national development banks can contribute to domestic bond markets and financial sector development by leveraging their comparative advantage in long-term lending. They can also enhance financial inclusion, notably by directly and indirectly channelling resources to credit-rationed sectors, especially small and medium-sized enterprises and enterprises owned by women and young people. National development banks can also play a critical role in complementing the activities of multilateral development banks. In this regard, in-depth bank and country case studies shed light on the full potential of national development banks to contribute to economic growth, industrialization, financial inclusion and financial sector development in Africa.

Certain features need to be put in place for national development banks to fully achieve the above-mentioned solutions. These characteristics may be heterogenous across the various mandates of national development banks, country jurisdictions and target sectors. Among the features highlighted in the present study are the formulation of robust governance and a strong response to the mandate that has been set. The governance measures required range from clear oversight to timely publication of audited financial statements. National development banks should adopt and abide by international risk management measures, and they should be free to carry out due diligence on project financing and loan allocations with minimum external influence. National development banks should strive to develop an appropriate credit risk environment, operating under a sound credit-granting process while maintaining adequate credit administration and ensuring controls over credit risk. Taking such steps can help to attract finance, secure capitalization and mobilize financial resources. Most of Africa’s national development banks struggle to accumulate enough capital to match the projects they undertake, and they fail to mobilize the resources needed for certain projects or at particular stages of projects. The ability to improve capitalization can equip national development banks to fulfil significant initiatives in their respective countries. According to the lessons learned from the three
case studies presented in this study, identifying the right funding priorities and creating high-quality project pipelines are key to the success of national development banks.

It is clear, furthermore, that national development banks do not have adequate resources to meet growing requirements for medium-term and long-term credit in African economies. Moreover, private lenders tend to shy away from long-term lending owing to high-risk aversion. To bridge financing gaps, national development banks can leverage their capital and their privileged position as government-guaranteed institutions to catalyse private financing while minimizing the risk faced by private lenders. This approach to financing is standard practice in major regional and international development financing institutions, although it remains largely unexplored in the case of national development banks. In this respect, national development banks have much to learn from the experience of multilateral development banks, and they can also explore modalities to incentivize co-financing partnerships with private lenders to better leverage all the resources available in their respective economies. Finally, national development banks need greater flexibility to adapt their mandates to the ever-changing needs of African economies.
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