

Key findings



Challenges and Changes: The Political Economy of National Development Banks. A Synthesis of Four Country Case Studies (Ghana, Rwanda, Cote D'Ivoire and Tunisia)

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Although national development banks (NDBs) were established with a mandate to provide credit and other support to drive the development in certain sectors such as agriculture and industry in general, some NDBs have shifted focus to become universal banks operating with a retail commercial banking business models (e.g. ADB, NIB from Ghana, BFPME from Tunisia and Rwanda's BRD).

The shift in focus and their ill-performance resulted from negative political influence, weak governance structures, regulatory changes and an array of challenges and changes in their political and economic environment. A well-functioning governance system and a sound and suitable regulatory framework are necessary to properly position NDBs to effectively fulfil their mandate. Also, a well-designed and rich strategic approach can create the enabling environment for NDBs to contribute to the achievement of the sustainable development goals (SDGs).



Objectives and research questions

The main objective of the research is to explore the development activities and impacts of NDBs, and the financial, governance, business models and reform challenges in Ghana, Cote d'Ivoire, Rwanda, and Tunisia.

Based on this broad objective, the research seeks to address the following key questions:

- i. Political influence: What is the relationship between the bank and the national government, and how have governance structures integrated, or insulated, the bank from political influence, both positively and negatively?
- ii. Operations and performance: How have the bank's mandate and operations evolved over the past 5-10 years? What has been the role of this political relationship or influence in driving the bank's record of performance?
- iii. Enabling environment: How has the wider economic and institutional context supported or frustrated the bank's ability to fulfil its mandate? How has the bank fared in shaping and achieving its stated goals?



Methods

Drawing from earlier work undertaken by ODI, we drew from the extensive extant literature available to set the context from which the case study framework would draw. A number of stakeholders were identified and mapped to the key parameters of the case study framework. We interviewed a number of these stakeholders from varying backgrounds. We also undertook a number of focus group discussions where varying perspectives were provided on the key research questions. Validation workshops were also organized with both policy and industry players attending to dialogue on major challenges and reforms required to make NDBs effective and efficient in their role as development financing partners.



Results

Political influence mostly affects the lending decisions of NDBs, and the political economy consideration of credit extension has resulted in high levels of non-performing loans. Also, the prudential regulations and capital requirement are not favourable for development banks and these limit the banks' ability to operate as NDBs. The coronavirus pandemic also negatively affected the NDBs' performance increasing their liquidity, exchange rate, and interest rate risks. Nevertheless, NDBs have also been useful in providing technical assistance and advisory services to SMEs as well as a host of achievements in other areas of country's development agenda. NDBs in all countries financed and supported notable and strategic flagship projects and infrastructure that have made significant contributions to the development efforts of the countries.

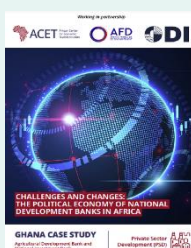


Recommendations

Following the findings of the various cases, the following policy recommendations are proffered aimed at improving the governance, management, operations and sustainability of NDBs:

- The systems, structures, and performance of NDBs should be enhanced to make them attractive to strategic financing and partners that help drive their development mandates.
- The undue political interference in financing, investment and lending decisions that lead to the bad financial performance of NDBs should be avoided. This can be done by instituting an independent board appointment process for these banks. The government should leave the responsibility of appointing the Management of the NDBs to the board. The process of this appointment should be formal and rigorous as through a call for applications.
- NDBs in partnership with multinational development banks (MDBs) and bilateral donors need to institute a rigorous credit risk management system. Appropriate Basel regulation needs to be adopted in designing adequate risk management framework for NDBs.
- NDBs' structure should complement the government along the chain. NDBs can serve as think tanks, collecting information that feeds into the design of national strategies. Information obtained by NDBs can provide orientation in addressing national issues.
- The Ministry of Finance in the respective countries, in conjunction with MDBs need to design separate policies and regulations for NDBs. The government and stakeholder (local and international) consultation should enact laws that address the governance of such strategic institutions. NDBs must resort to long-term resources from multilateral development banks such as the African Development Bank (ADB) and the European Investment Bank (EIB). These resources could enable them to meet the needs of fragile actors such as SMEs.
- The nature of NDBs requires professional leadership with expertise in development finance or development banking. NDBs need to engage staff with the relevant skill, knowledge, and orientation in development banking.

This one-pager is produced to disseminate research for the Finance in Common Summit 2022 and remain the responsibility of their authors.



Access the paper

[Challenges and Changes: The Political Economy of National Development Banks in Ghana](#)