

**An Assessment of Regional Development Banks  
in Sub-Saharan Africa**

BY

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**UNITED STATES INTERNATIONAL UNIVERSITY**

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# **An Assessment of Development Banking in Sub-Saharan Africa**

A Research Project Report Submitted to the Chandaria School of  
Business in Partial Fulfillment of the Requirement for the Global  
Executive Degree of Masters in Business Administration (GEMBA)

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## STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

**Signed:** \_\_\_\_\_ **Date:** \_\_\_\_\_

Mr. Brook Yitaferu (637035)

This project has been presented for examination with my approval as the appointed supervisor.

**Signed:** \_\_\_\_\_ **Date:** \_\_\_\_\_

Prof. Peter Kiriri

**Signed:** \_\_\_\_\_ **Date:** \_\_\_\_\_

Dr. George Achoki,

For Dean, Chandaria School of Business

## **ABSTRACT**

The purpose of this study was to assess development banking in Sub-Saharan Africa specifically focusing on the EAC, COMESA and SADC economic regions. The study focused on the following specific objectives: to determine the impact of RDBs on GDP Growth and to assess the changes in RDBs affecting the region of operation.

For the purposes of this study, descriptive research design was used. The total population of the study consisted of four development finance institutions operating in the specified area. Being that the total population was relatively small, a census was carried out. The data was collected using data collection forms. The data analysis for this study was done using descriptive statistics. The data was analyzed and the results presented through averages and percentages using graphs and tables to as to clearly correlate the relationships between variables. Microsoft excel was used as a tool of analysis for the data gathered for this study.

In the determination of the impact regional development banks have on GDP growth in the region, the study found that regional development banks' interventions had a positive impact on the GDP growth rate of the region. In each of the years covered in this study, countries who did not record any intervention from RDBs showed lower cumulative average in GDP Growth rates than the average GDP growth rates of the countries that had an intervention from one of the four regional development banks.

In determining the operational changes in RDBs in response to the region's needs, the results of the research showed that there was a clear correlation between a slowdown in GDP growth and an increase in RDBs intervention into the financial sector. It was noted that in 2009 and again 2011 when the GDP growth rate of the region slowed there was an increase in financial sector interventions. It was also noted that throughout the focus time period the percentage sectorial focus intervention in industry and mining as well as infrastructure remained relatively constant.

The conclusion of this study was that regional development banks have a significant impact on the countries they operate in both through overall impact on economic growth as well as targeted sectorial development. Being that most African nations do not have a sovereign credit rating, access to finance in the international markets was difficult and relatively expensive. Regional development finance institutions provided services to fill the gap in international financial markets. They were based close to their area of operation and thus could react quickly to the needs of the region while also understanding the unique needs of the region.

On the basis of the results of this research, sub-Saharan countries benefit from membership to regional development banks as was noted, countries that had interventions from RDBs had higher economic growth than those that did not. It is thus the recommendation of this study that countries assess their needs and get membership to regional development banks so as to take advantage of the products and services they provide. Furthermore it is the recommendation of this research that further study into the level of impact different sectorial interventions have on economic growth in the African continent. Furthermore, it would be of interest to the academic fraternity to compare and contrast regional development banks around the world and their impact as well as the sectorial distribution of their interventions.

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**“Remember, aid cannot achieve the end of poverty. Only homegrown development base on the dynamism of individuals and firms in free markets can do that.”**

— William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*

## **ABBREVIATIONS**

AfDB	African Development Bank
DBSA	Development Bank of South Africa
DFI	Development Finance Institution
EADB	East African Development Bank
GDP	Gross Domestic Product
PTA Bank	Eastern and Southern African Trade and Development Bank
RDB	Regional Development Bank
RMC	Regional Member Country



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## CHAPTER ONE

### 1. INTRODUCTION

#### 1.1. Background of the Study

The terms Development Bank and Development Financial Institution (DFI) are used interchangeably. However, the use of term development Bank has become more prevalent since the 1980s as the banking aspect of their activities has garnered more emphasis (Bruck, 1998). However, the term DFI more appropriately describes their operation since the term 'Bank' implies deposit taking and such institutions do not always participate in deposit taking activities (ADFIAP, 2009). A simplistic definition of a development bank or DFI is a "*national or regional financial institution designed to provide medium- and long-term capital for productive investment.*" (Britannica, 2012) Development Banks are financing channels for medium to long term projects that have a social and economic importance to the economic development strategy of a nation or region. They are multipurpose financial institutions and do term lending, investment in securities and other development-related financial activities.

According to Garth P. Nicholls (1997) in his paper, *Development banking issues in the ECCB Area*, the concept of a development bank arises out of the apparent need of a particular society to provide mechanisms which facilitate economic development. They are micro economic institutions which exist because of segmentation in the financial system. It finds its rationale in the appeal to the concept of market failure on the part of existing financial institutions.

The importance of DFI's in Sub-Saharan Africa is premised on the fact that private as well as public entities in countries within Sub-Saharan Africa have historically had difficulty raising credit for projects that would have had a significant economic impact on African economies. The main reason for this has been the fact that access to credit in the international markets revolves around the sovereign credit rating of the country. A credit rating evaluates the ability of a borrower to repay its debts. Furthermore credit rating allows foreign investors to get a feel of the business environment in the country including factors such as political risk

which have significant effects on the credit rating of a country. From a business perspective, sovereign credit ratings serve as a baseline for evaluating the economic environment surrounding investment possibilities and as a benchmark for investors to distinguish among markets, which provides valuable information and a basis for evaluating risk. Most African countries have a lower rating than other parts of the world and a majority of countries in the Sub-Saharan African region have not received these credit ratings. In 1995, the only Sub-Saharan country to have had a credit rating was South Africa and by 2012, less than 50% of African countries have received a credit rating (Greenidge, Drakes & Craigwell, 2010). In the absence of credit ratings and thus the difficulty in raising capital in the international markets, the importance of Development Finance Institutions to Africa is magnified. African countries and their respective private sectors have the option of using DFIs for the financing of projects and stimulating their economic growth.

DFIs are usually funded by their shareholders that are governments and are backed by government guarantees. They fill the gap created between public aid and private investment. Regional development banks may also include developed countries in their shareholding structure adding additional leverage in their perceived creditworthiness. This allows them the capacity to raise money in the international capital markets at relatively low rates for on lending to projects in their respective member states.

DFIs provide a broad range of financial services in developing countries, such as loans or guarantees to investors and entrepreneurs, equity participation in firms or investment funds and financing for public infrastructure projects. DFIs initiate or develop projects in industrial fields or in countries where commercial banks are reluctant to fund projects without heavy collateral (Kampffmeyer, 2000). DFIs are also active in financing small and medium-size enterprises (SME's) and supporting micro loans to companies, often viewed as too risky by private sources of financing. Additionally, DFIs empower the regions they operate in providing capacity building in technical and entrepreneurial skills through grants.

Traditionally, DFI's were very different from other types of banking institutions. The mandate of DFI's was to be an instrument for economic development through long term investments in sustainable private sector projects. Whereas other financial institution's main objectives are primarily profit driven and thus are unlikely to take risks on unproven sectors, DFI's focus on sectors that can have developmental impact, where the private sector can be leveraged but lacks capital (Kingombe, Massa & Velde, 2011). In focusing on providing long term finance, DFIs inherently have a higher risk portfolio and thus require specialized knowledge in the sectors and environments they operate in. On the other hand, being that DFI's enter into unproven sectors and regions, they tend to have the first mover advantage and thus are able to make high levels of profit which are reinvested into the business for ongoing engagements.

The first development bank was set up in Europe in the early 19<sup>th</sup> century. Europe's rapid industrialization during the period gave rise to the need for long-term financing which commercial banks were not able to provide as they were not willing to take the risk of financing new enterprise and they did not have the required skills to deal with high risk, long term investments. The solutions to the financing requirements came in the form of government sponsored Development Finance Institutions (DFIs) with the first one, *Societe General Pour Favoriser l'Industrie National*, created in the Netherlands in 1822 (Armendariz, 1999). A number of other European countries soon had DFIs in the form of Credit and Industrial banks, both Government and privately owned, with notable institutions having been started in France and Germany. As the results from the operations of European DFI's became quantified, nations around the world slowly started DFI's of their own modeled similarly to those of the European DFIs to support their own growth.

Reconstruction efforts have played a significant role in the history of DFIs with the end of the First World War in 1918 bringing with it a wave of government sponsored National Development Banks to meet the huge financing needs to spur reconstruction and growth. The reconstruction effort after the Second World War saw the birth of global finance funds such as the World Bank. It also saw a significant increase in the number of National Development

Banks tasked with managing the inflow of external funds for the reconstruction efforts which later evolved into long term financial institutions with prominent examples of such institutions including the Japan Development Bank and German *Kreditanstalt für Wiederaufbau* (Armendariz, 1999).

As African nations started attaining their independence, they also created national development banks such as *Banque Gabonaise de Developpement* established in 1960 to support the development and industrialization of Gabon (UN-DESA, 2005). The first regional DFI in Africa was created on August 4<sup>th</sup> 1964 in Khartoum, Sudan, when 23 African Governments signed an agreement creating the African Development Bank ([www.afdb.org](http://www.afdb.org), 2012).

In the 1980's and 1990's, Development Finance Institutions were forced to evolve and change due to financial crisis as well as governance and management problems. A 1983 World Bank report noted that a significant proportion of development finance intermediaries were facing serious portfolio problems. In adapting to the circumstances, some were privatized whilst others diversified to meet the new financial needs of the environment they were operating in (UN-DESA, 2005).

Even in the past few years the need for Development Banks has not diminished. The effects of the global financial crisis of 2008 has reinvigorated the discussion on the role of Development Finance Institutions with even the United States of America dedicating USD \$4 billion in its 2011 Federal budget towards the building of a development bank to support large infrastructure projects. (Lazzarini, Musacchio, Bandeira-de-Mello & Marcon, 2011)

## **1.2. Statement of the Problem**

As per Bruck's paper from 1998, he noted there were 520 National development banks operating in 185 countries worldwide with 28.5% of those being in Africa. This equates to around three National Development Banks per African Nation. Furthermore, there are a number of Regional Development Banks such as the African Development Bank (AfDB), the



East African Development Bank (EADB) and the Eastern and Southern African Trade and Development Bank (PTA Bank) as well as Global Development Finance Institutions such as The Netherlands Development Finance Company (FMO) and the World Bank also in operation in the region.

With such a large number of institutions operating in the region, there is skepticism in their effectiveness and questions in the impact they can achieve. Part of the problem maybe the shareholder structure of the organization such that the public feels political interference in the decision making organs of the institutions misaligns objectives and thus funding is skewed towards politically connected institutions. Furthermore, the ever changing global financial sector has seen significant overlaps between the operations of the traditionally different financial institutions. This has further blurred the distinct niches they used to occupy.

The ever-increasing number of development banks worldwide points towards an understanding of the strategic purpose and valuable service these institutions provide to the regions, countries and sectors they intervene in and this needs to be illuminated and qualified based on the specific purpose they serve.

Most studies currently available have focused on the impact the World Bank and other Western-based DFIs have had. Very little has been documented on the impact Sub Saharan regional development banks have had. A study on the impact on economic development in the region would be beneficial to all stakeholders given that Sub-Saharan Development banks are based closer to the regions they operate in and thus have a different understanding of the issues affecting the region and a deeper knowledge of the business environment allowing them to assess projects more effectively and efficiently.

Furthermore unlike national development banks which operate at the national level and in line with national policies, regional development banks are not as prone to policy changes at the national level of the member states they operate in. Regional DFIs also tend to have an advantage over their national development bank counterparts due to their ability to source

cheaper capital from international lenders. Most lenders find the risks with DFIs lower due to the diversification of their operations in a wider region giving regional DFIs an advantage in sourcing its funding. The objective of the DFI is to provide affordable credit to spur economic growth, thus high transaction costs may render DFI ineffective or unproductive in attaining its objective.

### **1.3. General Objectives**

The general objective of this study was to assess and analyze Regional development banks in sub-Saharan Africa.

### **1.4. Specific Objectives**

1.4.1. To determine the impact of RDBs on GDP Growth

1.4.2. To assess the changes in RDB's interventions

### **1.5. Significance of the Study**

Africa has been showing rapid economic growth for the past decade with some nations consistently posting growth rates at or near double digits per year. The impact and role regional development finance institutions have had and continue to have in assisting and facilitating this growth is currently undervalued. Even as there are significant amounts quantitative and qualitative data compiled and analyzed about the impact of European development financial institutions have had on developing nations, there are far fewer data sources regarding the collective impact Pan-African DFIs have had in the Sub-Saharan African region.

This study therefore seeks to contribute towards providing a better understanding of the impact that regional development banks in Sub-Saharan Africa have had in the region with multiple stakeholders potentially benefiting from such a study.

### **1.5.1. Management of DFIs in Sub-Saharan Africa**

The finding of this study could provide a broader picture of the combined impact of the DFIs' activities in the region. This would enable management make informed strategic decisions regarding high impact sectors and interventions.

Furthermore, the study will also reveal investment gaps currently not being catered for by Sub-Saharan RDBs. Additionally, the study could allow for the fostering of closer co-operation between regional DFIs to build on current synergies while also reducing overlaps that cause inefficiencies in operations in the region.

### **1.5.2. Shareholders and Member states of DFIs**

The findings of this research will hopefully aid member states in making strategic decisions on efficient and effective use of development banks in financing developmental projects. The study provides a glance at the value of shareholders' support to DFIs as the impact of the DFIs activities are compiled and presented.

These results could foster closer co-operation between member states and DFIs in formulation of strategies to better impact the development of the countries. Additionally, these results could also be used by management to grow shareholding of the DFI based on the tangible impact they have on the sub-Saharan region.

### **1.5.3. Financial Industry**

The financial industry as a whole could benefit from this study as it will provide an overview of sectors and regions that are underserved or concentrated on by the regional development banks allowing institutions to build on the boast provided by development institutions. For example sectors previously thought to be high risk by commercial financiers could be considered less risky based on the investment committed by development institutions in the region.

#### **1.5.4. Academicians and Researchers**

The study can contribute towards studies regarding development finance institutions in Sub-Saharan Africa and their impact on the economies of the member states they operate in.

#### **1.6. Scope of the Study**

There are a lot of development banks from around the world operating in the Sub-Saharan African region. In the past few years, a lot of focus has been put into regional integration and the harnessing of synergies in the region context, Regional Development Banks have an important and ever increasing role to play backed by government funds and guarantees ensuring their credit-worthiness, Regional Development Banks can raise reasonably large amounts of funds on international capital markets to provide loans or equity investment on competitive terms. For this study, the researcher focused on Pan-African Regional Development Banks (RDBs) based in Sub-Saharan Africa with majority of their shareholding being the Sub-Saharan countries they operated in. The geographical focus of this study was confined to the countries covered by the 3 economic blocs, Common Markets for Eastern and Southern Africa (COMESA), East African Community (EAC) and Southern African Development Community (SADC). The 3 economic blocs covered 26 countries in Africa. The population scope of this study was relatively small with only four RDBs operating within the three economic blocs thus a census was carried out for this study. The RDBs reviewed for this study were African Development Bank, Development Bank of South Africa, East African Development Bank, Eastern and Southern African Trade and Development Bank. The study was based on a review of the RDBs' Annual Reports and GDP data of the countries they operated in for the years from 2008 to 2011.

#### **1.7. Definition of Terms**

##### **1.7.1. COMESA**

The Common Market for Eastern and Southern Africa (COMESA) is one of Africa's oldest regional trade blocs. COMESA originated as a preferential trade area (PTA) in 1982 and as at 2013 has 19 member- countries. These member countries are: Burundi, Comoros,

Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

11 of the 19 member states participate in a free trade area (FTA) which allows the exchange of goods between the members without tariffs being imposed. The other countries trade on preferential terms, where reduced tariffs are imposed on member states. This FTA was formed in October 2000 as the result of a long period of tariff reductions and has followed some of the principles of open regionalism.

### **1.7.2. Credit Rating**

“Credit ratings make information about default likelihoods and recovery rates of a security widely available, limiting duplication of effort in financial markets. They allow uninformed investors to quickly assess the broad risk properties of tens of thousands of individual securities using a single and well-known scale.” (Becker & Milbourn, 2010)

### **1.7.3. Development Finance Institutions**

DFIs are financial institutions that occupy the space between public aid and private investment. They provide credit to the private sector for investments that promote development. They focus on developing countries and regions where access to private sector funding is limited. They are usually owned or backed by the governments of one or more developed countries. (Griffith & Smith, 2012)

### **1.7.4. EAC**

The East African Community (EAC), created in June 2001, is the regional intergovernmental organization of the Republic of Kenya, Uganda, Tanzania, Rwanda and Burundi with its headquarters in Arusha, Tanzania. Kenya, Tanzania, and Uganda were the original members with Rwanda and Burundi being accepted as members in November 2006.

### **1.7.5. Economic Trading Bloc**

A trade bloc is a geographical area covering a number of countries which is defined by a 'preferential trade agreement' (PTA). The trade bloc is designed to significantly reduce or remove trade barriers within member countries. A regional trade bloc comprises of neighboring or geographically close countries defined by a 'regional trade (or integration) agreement'. It is sometimes also referred to as a 'natural' trade bloc to underline that the preferential trade is between countries that have presumably low transport costs or that trade intensively with one another.

Two key characteristics of a trade bloc are:

- (1) Trade blocs bring about a reduction or elimination of barriers to trade;
- (2) This trade liberalization is discriminatory, in the sense that it applies only to the member countries of the trade bloc with non-member countries being discriminated against in their trade relations with trade bloc members.

### **1.7.6. Gross Domestic Product**

“Gross domestic product (GDP) is the monetary, market value of all final goods and services produced in a country over a period of a year. The real GDP per capita (corrected for inflation) is generally used as the core indicator in judging the position of the economy of a country over time or relative to that of other countries” (van den Bergh, 2009).

### **1.7.7. SADC**

The Southern African Development Community (SADC) as an organization of frontline Southern African states (Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe) to resist the influence of apartheid South Africa in the region. This Community was transformed into a development community only in August 1992 with the signing of the Treaty of Windhoek. The SADC currently has 15 member states.

The SADC trade protocol, which is based on negotiations and offers by contracting parties had an original aim of liberalizing all trade by 2012. Member countries agreed to liberalize 85 percent of intra-SADC trade by 2008 and to liberalize sensitive products by 2012.

### **1.8. Chapter Summary**

Chapter one introduces the concept of DFI's tracing their history and development from the industrialization age in Europe to their global expansion looking at their purpose and use. The chapter presents the statement of the problem regarding the assessment of development banking in the Sub Saharan African Region that will be studied in the following chapters and outlines the specific objectives for this research, the significance of the study, importance and the scope of the study as well as the working definitions of specific terms used in the research.

Chapter two provides a literature review presented using the specific objectives identified, specifically the first section will review literature regarding the Impact RDB's have had on GDP growth followed by a review literature on the evolution of development banking. In chapter three, the research methodology used in conducting the research answering the specific objectives will be highlighted including the research design, population and sample, data collection methods, sampling design and sampling size as well as data analysis methods. Chapter four presents and analyzes the data gathered in the research process. Finally, Chapter five will discuss and conclude on the findings of the research carried out.

## CHAPTER TWO

### 2. LITERATURE REVIEW

#### 2.1. Introduction

Development finance institutions were established to fill the gap that existed in the financial industry as last resort financiers of development projects that required high levels of capital input. Looking back, it is clear that DFI's have had an impact on socio-economic development of countries such as jumpstarting the reconstruction effort in Europe after the 2<sup>nd</sup> World War and driving the economic growth in Asia in the 1970's and 1980's. Africa is now in its own economic boom and the role DFI's play will be important in supporting this growth.

This paper hopes to address the significance of DFI's to developing nations and the impact they are having on the nations they operate in. This chapter will evaluate advances in the development banking sector, with an emphasis on multilateral development banks. Finally, this chapter, through a literature review will take a peek into what lies ahead and what role will DFI's play as Africa continues in the path of significant economic growth.

#### 2.2. The Impact of RDBs on GDP Growth

The economic development of a nation is measured by the percentage change in the total value of the goods and services produced otherwise known as the real Gross Domestic Product (real GDP) of a country. Based on this measure, developing countries around the world are working to increase productivity so as to alleviate poverty and stay on the course to development. Industrialization and a general diversification of economic activities are seen as being important for achieving this goal of development (Chandrasekhar, 2011). An important vehicle to achieving the above goal is the development of a strong private sector.

Dalberg Global Development Advisors in its paper, *The Growing role of the Development Finance Institutions in International Development Policy (2010)*, have noted that a thriving



private sector has a big impact on the social and economic development of a country. Infact, investment in the private sector has had a larger impact than investment in the public sector. However, the development of a robust private sector also depends on infrastructure such as roads, telecommunication, manufacturing industries, that attract and grow a diverse economy. Infrastructure also helps to reduce the barriers to specific sectors of the economy. For example, the establishment of factories and building of infrastructure are highly capital intensive endeavors with very long gestation periods before operationalization and realization of returns on investment. Therefore the promoters of such projects, whether they are private or public sector, require significant credit to set up such projects.

The unique needs described above, forms the need for development finance institutions which can provide adequate long term credit and investment to policy targeted sectors for sustainable projects (Chandrasekhar, 2011). DFI's to date around the world, have been delivering on their objectives by supporting the economic growth of many nations. A paper by Massa in 2011, analyzed the impact of Multilateral DFIs on the economic growth of developing nations between 1986 and 2009 and concluded that their investments have had significant impact on economic development:

“Our findings show that a 10% increase in multilateral DFIs’ commitments increases growth by 1.3% in lower income countries and by 0.9% in higher income countries (Massa, 2011 p.13).”

To further highlight the impact DFI's have had, the investment made by European DFI's in select developing countries in 2008 was responsible for 2 million jobs and tax revenues for Governments in developing nations amounting to Euro 2 billion (Dalberg, 2010).

In Africa, like in most developing parts of the world, the issues faced by firms “include problems with access to finance, infrastructure, investment climate, and worker skills.” (IFC, 2011). The role of DFI's in addressing these impediments while also working to improve regional trade is therefore paramount.

### **2.2.1. Access to Finance**

One of the most severe constraints on developing countries and their ability to sustain a high growth has been access to finance. Even as it seems logical that Foreign Direct Investment would flow to a *high growth- high returns region* as is the case with the Sub-Sahara African region, the flow of FDI is not as high as it would seem. The major constraint is the lack of international credit facilities available to many country African countries. Similarly, most African countries fail to access finance in the international markets due to lack of a sovereign credit rating which is assigned to a country's debt instruments which is the main consideration a lender reviews in extending credit (Greenidge, Drakes and Craigwell, 2010).

The credit rating has a direct impact on interest cost as well as the perception of private investors considering investment options. Furthermore, a sovereign credit rating has significant influence on financial sector development as well as acting as a ceiling on private bond issuers, with high quality issuers obtaining ratings as good as their sovereign (et al, 2010).

Most sub-Saharan African countries have lower than investment-grade credit rating, with a majority of countries not even having been rated. This makes it very difficult for private and public institutions domiciled in this region to access affordable credit to grow businesses. The United Nations Development Program (UNDP) launched an initiative in 2003 to tackle the lack of sovereign credit rating in Africa with a number of nations including Ghana, Cameroon and Benin having received a rating though this initiative (Langohr & Langhor, 2008). However investment -grade rating is still a major hurdle set at being higher than BBB- with only a few African countries having obtained such a rating as at 2013.

Development Finance Institutions therefore fill the void that is created by the lack of ratings as well as the *lower –than- investment grade rating* through providing access to affordable capital for businesses in the regions they operate in. This is achieved through the higher

credit rating they can garner to leverage when sourcing for capital in the international markets.

DFI's direct a heavier proportion of their investment portfolio towards the financial sectors of their member states as the growth of the financial sector of a member state provides for greater access to finance for businesses in the country.

Furthermore, Development Finance Institutions develop ways to meet the financing needs of the regions they operate in. For example, after the 1997 Asian financial crisis, when there was a general loss of confidence in the local banking systems, international banks either cancelled credit or reduced bank limits causing a credit crunch. During this period, regional development banks such as the Asian Development Bank provided guarantee facilities to international banks confirming local banks' Letters of Credit which facilitated international trade to cover the political and commercial risk emanating from the region (Auboin, 2007).

In Sub-Saharan Africa, Zimbabwe's economy was hit by the highest levels of inflation ever recorded in the world due to political turmoil and international sanctions which culminated in abandonment of its local currency on the 12<sup>th</sup> of April 2009. Further to the sanctions imposed on Zimbabwe, international banks and investors deemed it too risky by to operate or lend in Zimbabwe however regional development banks such as PTA Bank and DBSA took the strategic role to fund banks in Zimbabwe to spur a recovery of its economy. Over time, the presence of DFIs has become increasingly important emerging markets on their road to economic growth.

### **2.2.2. Infrastructure**

In the World Bank report (2004) infrastructure is described as an umbrella term for many activities which play an important role in the overall economy. It is often an overlooked and hidden asset but it's essential nature is hard to question touching on a wide number of services including transport, water supply, power, telecommunication as well as irrigation.

Infrastructure plays a key role in economic development especially in developing countries with direct investment in infrastructure creating jobs for the poor, stimulating economic activity and reducing transaction costs making production of goods competitive. Investments in Infrastructure provide the building blocks for sustainable economic growth. The lack of infrastructure also has considerable effects on the economy. For example, according to the World Bank report (2008), Indonesia's lack of sufficient infrastructure for the access to clean water was estimated to have cost the country 2.3 percent of its annual GDP. The costs were incurred in the loss of work hours due to water borne diseases, impact on fishing industry due to improper disposal of sanitation and etc.

In recent years, intensive investment has been committed by governments around the world on infrastructure projects in their respective countries. A clear example is China which, over the last 20 years, has built over 46,000 miles of highway, the world's most expensive high speed rail, state of the art airport terminals, extensive urban subway system as well as the largest hydroelectric dam in the world. (Urban Land Institute and Ernst & Young, 2012) China's expenditure on infrastructure was 15 percent of its GDP in 2009 alone. African countries are no exception with infrastructure becoming an important avenue to economic growth. As an average, African countries are spending close to 8 percent of their GDP on infrastructure projects (Et al, 2012). However the shortfalls in Africa's infrastructure are staggering requiring the region to spend USD 95 billion per year to plug the infrastructure gap. Currently, it is estimated that the region spends approximately 45 billion a year on infrastructure (PIE Media, 2012). The lack of adequate infrastructure has led to curtailing of domestic and international trade, reduced the competitiveness of the continent and inhibited the continents integration to the global economy.

Similar to the findings by PIE media, AfDB estimates the financing requirement to close Africa's infrastructure deficit amounts to USD 93 billion annually until 2020. Noting the heavy negative impact on the continent the lack of infrastructure has had development banks, have invested heavily in infrastructure projects in Africa working to alleviate some of the gaps. In 2007, African Development Bank, World Bank, European Commission, European

Investment Bank, and Development Bank of South Africa combined financed infrastructure projects worth USD 8.8 Billion through aid and loans in the region. The African Development Bank had infrastructure investments accounting for 44.5% of its total portfolio in 2008. Such investments have a far reaching impact as progress in infrastructure improves the investment climate by supporting other sectors that depend on infrastructure to thrive.

### **2.2.3. Investment Climate**

The investment climate of a country can be instrumental in how competitive a product manufactured in the country is in the international markets. All firms and enterprises play a role in the growth of an economy. However their contribution to the economic growth is dependent on the investment climate with factors such as government regulations, taxation, corruption levels as well as other factors having an impact on investment direction.

The private sector in Africa has been the key to growth and the recognition of the critical role it plays in the development has attracted focus from the governments as well as development organizations. The private sector in Africa is characterized by “a large informal sector side-by-side with a formal sector” with the informal sector accounting for 75% of all non-agricultural employment in Sub-Saharan Africa (Salisu, 2006). This informality of the private sector poses long term risk to development as the continued growth of business depends on access to formal trade, financial and capital markets as well as a good investment climate.

The assessment of the investment climate of a country looks at a broad range of factors that affect productivity of a company in the private sector to identify and determine the barriers to private sector investment in a specific country. For instance, the issues that plague Africa’s investment climate add to the informality of the private sector while also contributing to indirect costs relating to transport and government red tape, impose roughly 30% penalty on total sales. Furthermore, the poor performance and slow customs procedures have been identified as being partly to blame for the fact that African countries are less likely to export products than Asian countries do (World Bank, 2009).

African DFIs not only invest in the private sector but also try to address some of the challenges businesses face, for example through investing in and strengthening the financial institutions in their Regional Member Countries (RMCs). A review of the 2010 annual report of AfDB, DBSA, PTA Bank and EADB noted that an average of 13.5% of the year's disbursements went to the financial sectors of their member countries.

Development banks around the world also work to find ways to alleviate some of these impediments affecting the investment climate as a whole. Standard methods of assessing the investment climate have allowed for ways to assess improvements over time as well as providing a way to make cross border comparisons this has led to development banks such as the World Bank, Asian Development Bank and African Development Bank creating specific funds to look into and improve the investment climates of countries within their regions of operation through funding of coalitions for investment climate reform and supporting business community- government dialogue.

#### **2.2.4. Regional Trade and Integration**

Regional agreements vary widely across the world however their main objective is to reduce trade barriers between its member states. This impacts a member's economy by attracting new investment while also providing new markets for its products. Currently, Intra-African trade accounts for only 10% of its total trade (Kandiero, 2009). Projects that have regional reach and impact have garnered focus from DFIs as the integration of markets within the region could have greater impact on economic development. "Regional Infrastructure, notably power pools, road corridors and communications networks, is critical to the supporting of growth and competitiveness by achieving economies of scale and reducing the cost of doing business" (Kandiero, 2009).

### **2.3. Changes in RDB Interventions**

The preceding sections have highlighted the importance of DFI's to member countries. Development Banks have been and are still having great impact on the achievement of

development goals. However, this continued impact has required that DFI's to be innovative and adopt to change throughout their existence to meet the ever changing demands of the developing nations they serve.

The changes and the direction in which development banks have evolved differ from region to region even from country to country based on external factors that have impacted the region on operation. However, overall generalization should show that these changes have occurred in the form by which they mobilize sources, to the way projects are analyzed and to the diversification of the services they provide (Bruck, 1998). This section will examine an aspect of these changes and interrogate their effectiveness and impact.

### **2.3.1. Resource Mobilization and Funding**

Resource Mobilization is the raising of sufficient resources to meet the objectives and goals of the organization. Development Finance Institutions have their origins in government policy and the government's realization that there were gaps in the finance industry. This led to the structure of development banks as institutions driven and financed by government policy to support and develop specific sectors and industries the government deemed to be important for economic growth and industrialization. This dependence on government coffers had meant that there was little focus on profitability and more focus on achieving government objectives. As was clearly noted in James's paper, *New Direction for Development Banking in the Caribbean: Financing to take advantage of unlimited supplies of labour skills and entrepreneurship*, "Development Banks, under government ownership and control, were forced to function in a manner that converted them into social-sector transfer mechanisms, transferring public funds into social-sector transfer mechanisms, transferring public funds to address the needs of many sectors in a way that offered little prospects of viability."

In the 1980 and early 1990's, after the financial crisis of 1982, Financial institutions and specifically development finance institutions had to endure a number of changes regarding governance, management and structure which affected their sources of funding and thus their

resource mobilization activities. The institution that adopted, restructured or privatized and survived had to focus more on profitability and reducing their arrears to improve the quality of their project portfolios which improved the institutions credit rating allowing for options and opportunities with regards to strategies in resource mobilization. Development Finance Institutions reduced their reliance on a single source of funding which had previously been government budgets. There was now more complex and robust resource mobilization methods in use with regards to borrowing and participation in the capital markets.

One of the most common ways RDBs in Sub-Saharan Africa get their funding is by using their “callable capital [pledged by their shareholders] as collateral to borrow funds on the world capital market” (U.S. General Accounting Office, 1995). However, the reliability of callable capital is only as strong as the country rating for the shareholders and thus Development Finance Institutions have looked to attract western and Asian nations to join as shareholders in an effort to improve the overall credit rating and reduce their interest rates on loans.

Development Banks have also gone to the bond markets to raise capital. This strategy has been adopted to raise money in the local currency of the RMC the institution intend to deploy the funds in allows for the mitigation of fluctuation in exchange rate. Due to the diversity of institutions operating in the region, the opportunities have also increase for co-financing of projects specially those projects with regional impact attracting greater interest.

### **2.3.2. Project Appraisal and Review**

Project appraisal is an important aspect of a bank’s operations. It involves the evaluation of projects from the perspective of performance regarding the technical competency, the organizational and managerial strength as-well-as its commercial viability. The project evaluation criteria used by development banks is a lot more significant as it also considers the institution’s goal for development (Bhatt, 1974). The appraisal examines the projects financial, economic, institutional, environmental, marketing and management aspects as well



as the social impact. Unlike commercial banks, the appraisal process by development banks considers social impact as a critical aspect of the appraisal process due to its impact on the development agenda. Due to the vigorous appraisal process, development banks are able to weigh the risk profile based on the many different goals of the institution and avoid the funding of projects that are not economically viable while at the same time ensuring development impact.

Development banks have had to evolve with respect to project appraisals over the years as the pressure to be profitable increase and the autonomy of the management in decision making was improved. There was more emphasis put on the quality of the project with regards to operational performance as well as development impact.

Development banks, through their operational experiences in the regions that operate, have developed a wide range of criteria for the evaluation of project.

### **2.3.3. Additional services**

Over the years, development banks have moved from a pure last resort financier for long term projects, to having a diverse blend of product for their customers to meet the specialized demands of their member countries with a view to achieving their development objectives. Development banks “are adding an assortment of new roles to their traditional functions” (Bruck, 1998) now providing products such as short term lending, guarantees, advisory services, and even technical assistance all in an effort fill the gaps in the markets they operate in.

The African Development Bank (AfDB) for instance has financial products “comprising of loans (including synthetic loan currency and syndicated loans), guaranties, equity and quasi-equity, and risk management products. In addition, in response to the global financial crisis and recession, the bank added to its menu of products some shorter term counter-cyclical products in order to meet the emergent requirements of its regional member countries.”([www.AfDB.org](http://www.AfDB.org), 2013)

It is important to note that different development banks offer different products and services based on their mission and objectives as well as their size. AfDB being the largest multilateral DFI in the region it has a very large list of products whereas others such as EADB offers a smaller list of products. Furthermore, the additional services change quickly based on the issues the region is facing as is noted from AfDB's inclusion of products specifically designed to mitigate the issues from the financial crisis of 2008.

#### **2.3.4. Country Specific Intervention Strategies**

One of the most important drivers to strategic change in RDBs interventions appears to be the economic factors affecting specific countries within the regions. Even as RDBs operate in a number of countries they make different strategic interventions in different countries to fill the gaps that exist at the specific country level. RDBs change the product mix available to specific countries depending on the needs of the economy mixing levels of grants and loans to develop underserved or under developed sectors of the country. For instance AfDB classifies its Regional Member States (RMS) into groups to make decision making with regards to the product mix simpler and more transparent. Its classifications categorize countries according to their past growth rate and future growth prospects and considers their macroeconomic frameworks, financial markets and the development of their private sector (Brixiova & Ndikumana, 2011). Depending on the classification the country is eligible to different levels of grants and loans to meet its specific needs.

#### **2.4. Chapter Summary**

This chapter briefly analyzed the evolution that has occurred in the development banking industry in Africa and more specifically pertaining to multilateral development banks. At its core, is a discussion of the development and sustainability of the role of DFI's in Africa's economic future.

The literature review addressed the significance of DFI's to developing nations and the impact they are having on the nations they operate in. Furthermore, the operational changes RDBs have undertaken to achieve their stated goals are also discussed.

The following chapter outlines the research methodology adapted for this study and will detail the population size for the study as well as the data collection method deployed.

## CHAPTER THREE

### 3. RESEARCH METHODOLOGY

#### 3.1. Introduction

The purpose of this research is to look at the evolution of Regional Development Banks in Sub-Saharan Africa and analyze their country and sectors of intervention. “Research Methodology is a way to systematically solve the research problem” (Kothari, 2009). In this chapter, the methodology through which the research questions highlighted in chapter one are analyzed will be discussed including the source of the data, the sample population as well as the data analysis methods that was used.

#### 3.2. Research Design

According to Kothari (2009) the function of research design is to provide for the collection of relevant evidence with minimal expenditure of effort, time and money. “For any investigation the selection of an appropriate research design is crucial in enabling you to arrive at valid findings, comparisons and conclusions. A faulty design results in misleading findings and is therefore tantamount to wasting human and financial resources” (Kumar, 2011). The research design approach taken for this research was a descriptive research design as it is deemed to be the most appropriate in achieving the objectives of answering the research questions identified in chapter one. Descriptive research design “attempts to examine situations in order to establish what is normal - what can be predicted to happen again under the same circumstances” (Clarke, 2005). It looks at the what, the when, the where so as to provide the foundation for deducing the why. Furthermore, this research will utilize the structured approach where by the objectives, design, sample and the questions are predetermined. This approach is more appropriate to determine the extent of a phenomenon (Kumar, 2011). The descriptive research design of this paper was able to provide the required information with regards to the importance of regional development banks in the economic growth of the countries they operate in as well as providing the data needed to determine the focus points of the regional development banks.

In this research secondary data sourced from public organizational reports was used to analyze the focus sectors and countries of regional development banks in Sub-Saharan Africa and then compare country level economic data to the amount of investment from regional development bank to see if there is a pattern that emerges.

### **3.3. Population and Sampling Design**

#### **3.3.1. Population**

“A population is defined as all members of any well- defined class of people, events, or objects” (Ary, Jacobs, & Razavieh, 2010). For this particular research, the population comprised of regional development banks in the three economic blocs COMESA, EAC and SADC found in Sub-Saharan Africa. There are a total four such entities classified as an RDB in the specified economic blocs providing investment capital for their particular regions of operation they are African Development Bank, Development Bank of South Africa, East African Development Bank and Eastern and Southern African Trade and Development Bank.

#### **3.3.2. Sampling Design**

##### **3.3.2.1. Sampling Frame**

According to et al, (2010) a sampling frame consists of a complete list of individuals in a population. In this Research the sampling frame consists of the four RDBs in the population namely African Development Bank (AfDB), Development Bank of South Africa (DBSA), East African Development Bank (EADB) and Eastern and Southern African Trade and Development Bank (PTA Bank).

##### **3.3.2.2. Sampling Technique**

“When investigators seek information about large groups, the expenses involved in carrying out a census is often prohibitive. Therefore, researchers use sampling techniques and use the information they collect from the sample to make inferences about the population as a whole” (et al, 2010). This research has a small population due to the number of institutions

operating in the region of study. Therefore this research will be based on a census as it will contain data from the total population.

Furthermore, as part of this research looks at trends, we will be looking at data spanning multiple years. With the exception of the African Development Bank all of the other regional banks were created in the 1980s with significant changes having taken place in the late 1990s and early 2000s to each of the banks in the population of study. This research will therefore focus on 2008 to 2011 as this timeframe also relates to changes in the economies of the region.

### **3.3.2.3. Sample Size**

A sample is defined by Salant and Dillman (1994) as being a set of respondents selected from a larger population for the purpose of a survey. In this research, because the population size is small a census will be conducted.

## **3.4. Data Collection Methods**

Secondary data was used for this research. Secondary data sources include “the use of organization’s records to ascertain its activities; and the collection of data from sources such as articles, journals, magazines, books and periodicals to obtain historical and other types of information” (Ranjit, 2011). The sample population in this study, produce Annual reports that provide the required data for this research providing information on the amount dispersed per country and per sector. Economic performance data for the countries will be gathered from the International Monetary Fund’s economic outlook database. This research uses forms that were designed specifically to gather the necessary data from secondary sources. The forms which serve as the data collection tool were tested to ensure the correct information is gathered through their use.

### **3.5. Research Procedures**

In going about conducting this research, the first step in gathering the information was done via visits to each of the respective RDB's websites and downloading the annual reports published. It was noted that some of the websites did not contain all of the annual reports for the years needs for this research. In this case a follow up was made by telephone calls to the respective organizations to request for the needs annual reports. The annual reports will provide details on amounts dispersed each year and to which sectors and countries. Furthermore information regarding GDP growth for the countries in the region was collected for the period of research from the economic outlook database. The total data collected from the above sources were then compiled and analyzed for this research. The forms used to collect the relevant data are contained in Appendix I and II

### **3.6. Data Analysis Methods**

Having collected the raw data, it was checked to ensure accuracy and completeness. The research utilized descriptive analysis in analyzing the data. Descriptive analysis, as described by Gerald Keller (2009), involves arranging, summarizing and presenting a set of data in such a way that useful information is produced. Its Methods make use of graphical techniques and numerical descriptive measures (such as averages) to summarize and present the data. In this research paper, average GDP of countries that use RDB were compared to the average GDP of those that do not make use of RDBs for analysis of whether or not there is an impact on GDP growth from RDB intervention. Furthermore, percentages are used to describe the reach of the RDBs in the region as well as the sectorial distribution of RDBs interventions. Microsoft Excel was used in the analysis process with the use of measures of central tendency and measures of dispersion. Tables and figures will be used to clearly portray the finding of the research.

### **3.7. Chapter Summary**

This chapter highlighted the design and methodology used in the analysis and answering of the research objectives discussed in the first chapter. A descriptive research design was utilized in the analysis of the data collected from a census carried out on the five regional

development banks operating in Sub-Saharan Africa. The data was collected from secondary sources relaying on annual reports from the respective organizations. Microsoft Excel was used in the analysis of the data. The next chapter outlines the results of the research.

In the following chapter the findings will be provided with regards to the specific objectives of the research paper.



## CHAPTER FOUR

### 4. RESULTS AND FINDINGS

#### 4.1. Introduction

This chapter provides the findings of the preliminary data collected from the field using secondary data sources. The main objective of this research paper was to assess development banking in Sub-Saharan Africa focusing on RDBs operating in the COMESA, SADAC and EAC economic blocs of the African continent. The specific objectives the research has focused on include the impact RDBs have on member states they serve as well as the operational adjustments they have undertaken to meet the needs of the countries they operate in during the period between 2008 and 2011.

The analysis of the data collected provided in this chapter is designed to systematically address the research objectives. The first section is a general overview of the region covered in this study and the RDBs operating in the regions of interest and looking at the spread of the countries within the COMESA SADAC and EAC that they cover in their operations between 2008 and 2011. The following sections will assess the data collected in the frame of the specific objectives of the study.

#### 4.2. General Information

The three economic blocks this research focuses on cover a total of 26 countries on the African continent with all except four from the Sub-Saharan region. The following are the 26 countries; Angola, Botswana, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Lesotho, Libya, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

These economic blocs are characterized by a significant overlaps in their composition of Member States with majority of the countries belonging to multiple economic blocs. The

largest of the economic blocs is COMESA with 19 countries followed by SADC with 15 countries and the EAC region with 5 Member States.

#### 4.2.1. Distribution of RDB Operations

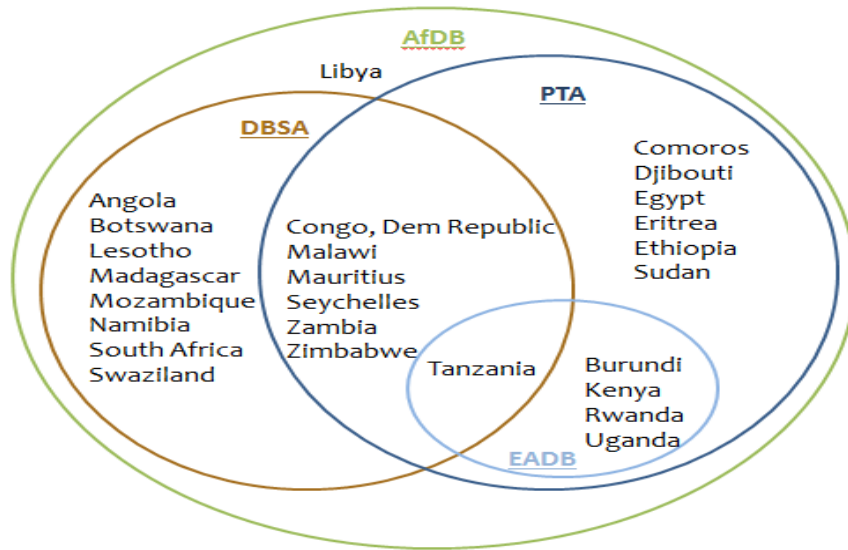
The RDBs operating in the three economic blocks of focus in this research are AfDB, DBSA, EADB and PTA Bank. During the period 2008 to 2011, projects in all countries, with the exception of Libya, had received a loan or grant approval from at least one of the four RDBs operating in the region with most countries having received loan and grant approvals from multiple RDBs.

**Table 4.1: Countries with Loan Approvals for the period 2008 to 2011**

RDB	Number of Countries
AFDB	25
DBSA	13
EADB	4
PTA	12

#### 4.2.2. RDB's Operation Area

Of the four RDBs that operate in the focus region of this study, AfDB has the largest operational area covering all of the 26 countries in the three regional Blocks. PTA Bank has the second highest coverage area of operations followed by DBSA which operates within SADC economic bloc consisting of 15 countries and EADB which operates only within the EAC economic bloc. Countries that have access to multiple lenders can have added advantage due to the different area of focus of the lender. Tanzania is the only country encompassed by the operational cover of all the DFI's in this study. Libya on the other hand, is only covered by AfDB.



**Figure 4.1: Operational Area**

### 4.2.3. Average GDP Growth

During the time period this research covers, the GDP growth rate of the 26 countries, between 2008 and 2011 covered in this research ranged from a decline of 59 percent to growth of 13.8 percent. The huge range experienced during this period can be explained by major political unrest, with the spring uprising affecting Egypt and Libya with both nations seeing significant downturn in GDP growth as a result. Libya saw the highest drop in GDP growth of any country during the period of this study with -59 percent growth in GDP having been recorded for 2011. Furthermore, the year 2009 saw the region affected by the global financial crisis of 2008 and the credit crunch and recession that followed. 2009 saw the most number of countries with a decrease in GDP growth in the research focus region with 4 countries experiencing negative GDP growth rates.

The average GDP growth rate of the 26 countries ranged between 2.2 percent and 5.2 percent. In comparison to the world average GDP growth rate, the region of focus for this research has had a higher rate of GDP growth over the focus period with the exception of the year 2011 where the world average was slightly higher however this can be explained by the

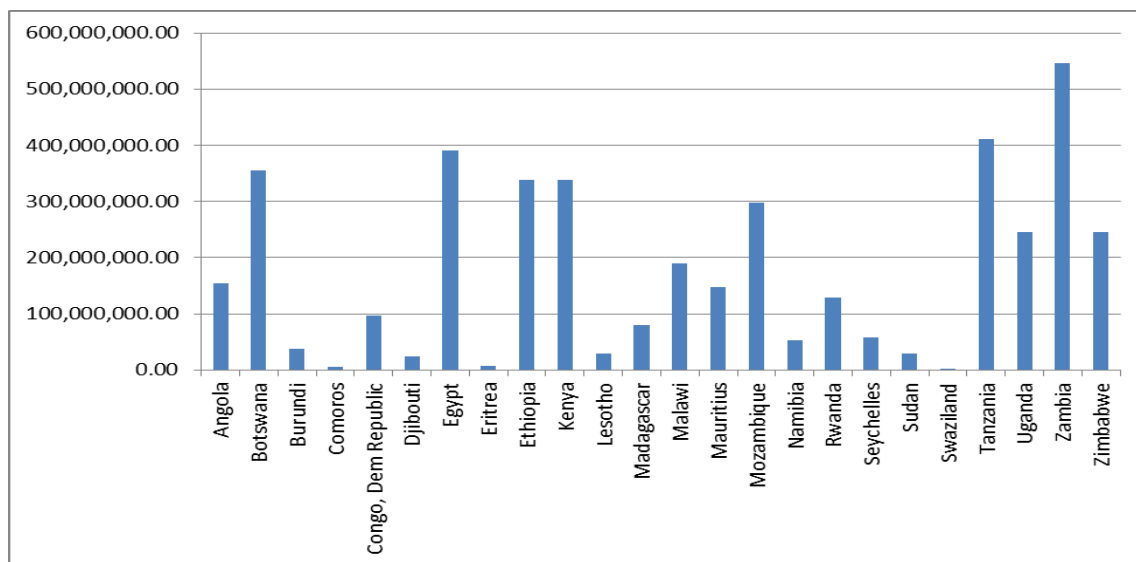
exceptionally high decrease in GDP experienced by Libya significantly lowering the overall average for the region.

**Table 4.2: Average GDP Growth rate of the 26 countries in the study**

	2008	2009	2010	2011
<b>Average GDP</b>	<b>4.1</b>	<b>3.1</b>	<b>5.2</b>	<b>2.2</b>

#### 4.2.4. Spread of Total Loan & Grant Approvals

Between 2007 and 2011, a cumulative average of USD 232,398,608.64 per year in loan and grant approvals per country, was committed by all the RDBs combined. There is a large difference between the highest average recipient, which was South Africa with an average of USD 3,648,961,926.55 a year, and the lowest average recipient, which was Libya with USD 0. Nevertheless, being that DBSA is wholly owned by the South African government and a majority of its operations are within South Africa, its domestic operations distort the result gathered. If the two outliers (Libya and South Africa) in the data gathered are excluded, a trimmed mean of USD 99,725,079.09 is achieved. The trimmed mean, in this particular case provides a more realistic average considering all the countries of the region in this study.



**Figure 4.2: Average Loan and Grant Approvals per Year**

#### **4.2.5. Sectorial Distribution of RDB Interventions**

The 4 RDBs classified their operations in different sectorial classifications however for the purposes of this research; the sectors were divided into 6 main sectorial classifications namely, Infrastructure, finance, Industry and Mining, social, Agriculture and Rural development and others.

The Agriculture and rural development sector classification covers projects relating to food crops, livestock, agro-industry and irrigation. The Finance sector includes intervention towards Development banking, commercial banking, micro-finance as well as non-bank financial intermediations. Industry and Mining covers a wide range of industries including Manufacturing, small and medium size industrial enterprises, oil and gas as well as mining, quarrying and tourism. Infrastructure Sector classification encompassed projects in water supply & sanitation, Energy projects both in the production as well as the transmission of power, ICT, and transport. Social sector includes activities in education, health, gender equality and other social related development activities. Lastly the other sector classification relates in this case to a broad variety of activities that include multi-sectorial interventions and other services that do not fit within the classifications listed.

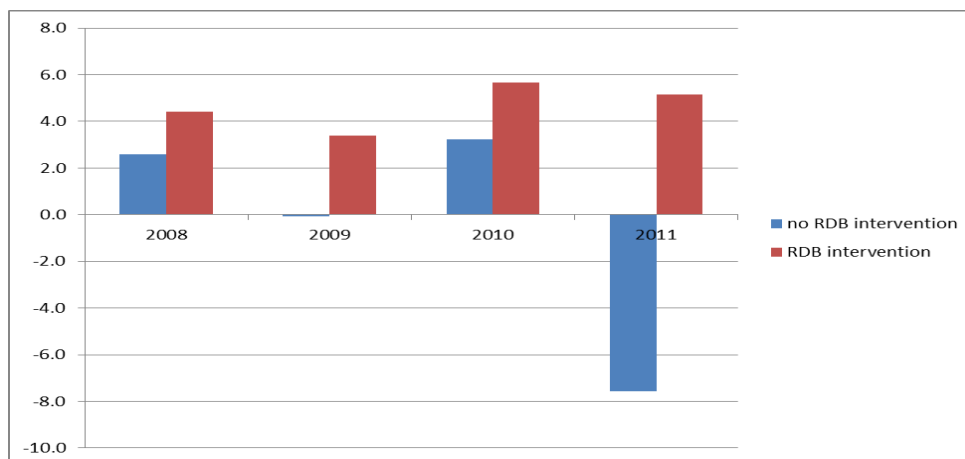
Overall, the RDBs highest level of intervention during the period was consistently directed towards infrastructure projects followed by the other sector which is mostly dominated by multi-sectorial interventions and then Finance. Between 2008 and 2011, 46.9% of all the interventions by RDBs were directed towards Infrastructure.

**Table 4.3: Average Sectorial Distribution of RDB's Intervention 2008-2011**

Sector	Intervention
Agriculture & rural Development	4.5%
Finance	11.9%
Industry & Mining	11.6%
Infrastructure	46.9%
Other	17.6%
Social	7.3%

### 4.3. Impact of RDBs on GDP

The study intended to determine the impact RDBs have had on the GDP of the region under this study. Based on the results collected, a vast majority of the countries in the study were approved for loans and grants amounting to values below USD 100,000,000 each year. During each of the focus years of this study, there were countries that did not access Loans or Grants from the four RDBs operating in the region. The year 2011 saw the most number of countries not accessing loans and grants from RDBs with 6 countries followed by 2008 and 2010 with 5 countries. 2009 saw the highest number of countries with Loan and Grant approvals with only 2 countries, Libya and Swaziland not having received an approval. The results of this research showed that countries which did not have a loan or grant approval averaged consistently lower GDP growth rate than the average GDP growth of those who accessed loans and grants from the RDBs.



**Figure 4.3: Comparison of GDP Growth between countries who had RDB intervention and those who did not**

#### 4.4. Assess the Changes in RDB Interventions

To determine the changes regional development banks have undertaken in their operations based on the specific current needs of the region, this study looked at the sectors of intervention and the change in the RDBs focus as it relates to the changes in GDP growth of the region between the years 2008 to 2011.

In the review of the data the clearest correlation between average GDP growth and sector of intervention was in relation to the financial sector. It was noted from the data that as there is a drop in the average GDP growth of the focus region, the total percentage share of the intervention committed by all RDBs towards financial sector increased. This was noted both in 2009 and 2011 when the average GDP Growth was seen as being lower than the year before.

Interventions in the infrastructure sector recorded the highest percentage of the total intervention by RDBs by a significant margin averaging 46.9 percent between 2008 and 2011.

**Table 4.4: Percentage sectorial distribution of RDB Intervention**

<b>Sector</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Agriculture &rural Development	5.8	4.3	3.0	5.1
Finance	9.0	9.7	10.0	18.9
Industry & Mining	15.5	6.7	12.6	12.0
Infrastructure	40.3	48.6	61.8	37.2
Other	20.3	26.6	6.7	16.6
Social	9.1	4.1	5.9	10.2

#### 4.5. Chapter Summary

In this chapter, the researcher analyzed the data collected from the different RDBs and IMF GDP growth data to provide the conclusions that can be drawn with regards to the specific objectives of this research.

The data showed that there was indeed an impact from RDB intervention on the region's average GDP growth. It showed that RDB intervention had a positive impact on the GDP growth rate of the region. In each of the years covered in this study, countries who did not record any intervention from RDBs showed lower cumulative average in GDP Growth than the average GDP growth of the countries that had an intervention from a Regional Development Bank.

It was also determined that there was a correlation between intervention in the financial sectors of the regions member states and GDP growth. It was noted that in the years when GDP growth is lower there is an increase in the percentage intervention allocated to the financial sector.

In the next chapter, the results collected and presented here will be discussed and a conclusion and recommendation offered.



## **CHAPTER FIVE**

### **5. DISCUSSION, CONCLUSION AND RECOMMENDATIONS**

#### **5.1. Introduction**

This chapter provides a discussion on the finding of the research results provided in chapter 4 as they pertain to the research questions. It will also compare the findings with that of the literature review to see the correlation that can be identified and drawn. Furthermore, the chapter will identify gaps for further investigation and research as well as concluding on the research gone in regards to the objectives of this research.

#### **5.2. Summary**

This research's objective was to assess development banking in the sub-Saharan region using the four development banks that operate within the three main economic blocs of the region. The researcher specified the research objectives to the identification of a correlation between the Development banks and the GDP growth of the countries they operate in as well as looking at any trends in terms of specific sectors of intervention development banks have collectively moved into to assess their evolution over the short span of time between 2007 and 2011.

Descriptive research was used in the study of the specific objectives stated in this research paper. A total population of 4 Development Banks operate in the selected region of study thus it was deemed appropriate to use a census as opposed to the use of a sample. The data was collected through the use of secondary data. The data was then analyzed through the use of descriptive analysis to summarize and present the data in a format that produced useful information. Microsoft Excel was used to achieve the said analysis and used the mean to provide useful information representative of all the 26 countries covered by the four DFIs. The data was presented in the form of tables and figures selected to provide the necessary information at a glance.

In the determination of the impact regional DFIs have on GDP growth in sub-Saharan Africa, the findings of the research showed that RDB intervention had a positive impact on the GDP growth rate of the region. In each of the years covered in this study, countries who did not record any intervention from RDBs showed lower cumulative average in GDP Growth than the average GDP growth of the countries that had an intervention from a Regional Development Bank.

In determining the operational changes in RDBs in response to the region's needs, the results of the research showed that there was a clear correlation between a slowdown in GDP growth and an increase in RDBs intervention into the financial sector. It was noted that in 2009 and again 2011 when the GDP growth rate of the region slowed there was an increase in financial sector interventions. It was also noted that throughout the focus time period the percentage sectorial focus intervention in industry and mining as well as infrastructure remained relatively constant.

### **5.3. Discussion**

#### **5.3.1. Impact of RDBs on GDP growth**

DFIs around the world have different methods of assessing the impact of their interventions. Usually the assessment is at the micro level measuring the impact an intervention will or has had based on the number of jobs created, the projects financial performance and its social impact. It is however very difficult to find much data on the impact DFIs have had at the macro-level especially for DFIs in Sub-Saharan Africa. However, based on the operations of DFIs it is expected that they have an impact on the economic growth of the region they operate in.

In this study we were able to ascertain that there is a clear impact achieved by the four RDBs operating in the defined region of this study. In each of the years this study focusses on, the cumulative average GDP growth rate of the countries that had an intervention from at least one of the four RDBs was higher than that of the cumulative average GDP growth of those countries that had no intervention. Even with the removal of the figures for Libya in 2011,

the cumulative average GDP growth rate of the countries with no intervention stood at 2.8 percent, still lower than those with an intervention which stood at 5.2 percent.

The finding of this research agrees with the findings from the literature review such as that of Isabella Massa, whom in her paper, *Impact of Multilateral Development Finance Institutions on Economic Growth(2011)*, identified that multilateral DFIs are a stable, positive and significant driver of economic growth in low income countries. She notes that in the study of 101 countries over the period 1986 to 2009, a 10 percent increase in Multilateral DFI commitments increased the growth of a low income country by 1.3%. In the findings of this study between 2008 and 2011, the countries with interventions from the four RDBs managed to show an average of 5.1 percent better GDP growth as compared to those with no intervention. Even after removing Libya's unprecedented drop in GDP growth in 2011 from the calculations, the difference between those with intervention and those without intervention averaged 2.5 percent.

### **5.3.2. Changes in RDBs' Interventions**

As was discussed in the literature review, all through the history of development banking, the institutions had to adapt to the ever changing environments they operate in to meet the specific needs of the areas they operate in. The time period covered in this research saw a number of changes take place in a very short period from political instability to the financial crisis that gripped the world. Furthermore the region covered in this study covers a wide variety of countries at different levels of development. The results showed interesting results with regards to how RDBs have been able to adapt to the needs of the countries over the time period.

The Infrastructure sector, over the 4 year period consistently received the majority of the interventions. As noted in the literature review, Africa's infrastructure deficit is such that it has a high cost on the rate of economic growth of the region and as such the RDBs focused in the infrastructure sector averaging 47 percent of their total intervention over the period. This

finding is in line with findings of other research papers where DFI intervention in the infrastructure sector had the highest impact on economic growth. (Massa, 2011)

2009 saw a drop in growth rates of most of the countries in the region due to the effects of the global credit crisis on exports from the region. The global credit crisis of 2008 had, by January of 2009, reduced export volumes from Sub-Saharan Africa by a staggering 51 percent as compared to the peaks seen on August 2008. (World Bank, 2011) From the results of the Sectorial analysis in 2009, the four RDBs increased their intervention in the Financial Sector from the levels seen in 2008 by 0.7percent. The increase in the intervention in the financial sector over the period seems to suggest that as the GDP growth rate is negatively impacted, the interventions to the financial sector show a sharper than normal increase.

However the results relating to agriculture and rural development sector averaged the least percentage of the total intervention over the period. Which was a stark diversion from the literature review where in low income countries, interventions in the Agricultural sector had a higher impact on economic growth as compared to interventions in industry whereas in higher income countries, interventions in the industrial sector had a higher impact than that of interventions in the Agricultural sector. (Massa, 2011) Being that most of the countries in the region of this study are considered to be lower income countries, the results from the sectorial analysis showed the opposite route to have been taken by the regional development banks. Interventions in industry and mining had a higher average of the interventions as compared to that of agriculture and rural development in the region.

## **5.4. Conclusion**

### **5.4.1. Impact of RDBs on GDP growth**

As has been ascertained from the research, Development Finance institutions have a significant impact on the GDP growth of the countries they operate in. The rate of GDP growth is higher in countries that make use of regional development banks than those that do not. Furthermore in the years where there have been significant international economic downturns, countries that took advantage of their membership in regional development banks

were affected to a lesser severity. Overall it is concluded from the results of this research that regional development banks provide a vital service in the region's economic development.

#### **5.4.2. Changes in RDBs' Interventions**

The results of the research showed that the sectorial distribution of regional development banks interventions was similar across the banks operating in the region. The focus sectors as per the research results were also in line with the findings from the literature review. The focus on infrastructure addresses the significantly large infrastructure deficit that currently exists in Africa requiring an estimated USD 95 billion a year in infrastructure projects. Furthermore, it was also noted that, worldwide, the biggest impact on economic growth was derived from intervention in infrastructure.

The results of this research also showed that in the years that saw a significant reduction in the GDP growth of the member countries, RDB's showed an increased investment into the financial sector. This appears to have had a significant effect on the level of impact felt by the countries due to global economic downturns.

In conclusion, RDB's should realize the impact investments in specific sectors have on economic development of member countries so that they can improve the services as well as improve their reaction to the economic needs of member states with products that have the highest effect.

### **5.5. Recommendations**

#### **5.5.1. Recommendations for Improvement**

##### **5.5.1.1. Impact of RDBs on GDP growth**

Being that most African nations do not have a sovereign credit rating, access to finance in the international markets is difficult to access and relatively expensive. Regional development finance institutions provide services to fill the gap in international financial markets. They are based close to their area of operation and thus can react quickly to the needs of the region while also understanding the unique needs of the region. It is the recommendation of this research that countries assess their regional opportunities and seek membership into regional

development banks that meet their needs going forward. It is also important for countries to assess the advantages they could exploit through membership in economic blocs as members of economic blocs get preferential trade pacts that could benefit countries in access to new markets for their products allowing for economic growth.

#### **5.5.1.2. Changes in RDBs' Interventions**

As per the findings of this research it was noted that RDBs react quickly to global economic downturns to shield and meet their members' needs. It is however recommended from our research that the different RDBs operating in similar areas work together to synchronize their response to the needs of member states. This will allow for a more coordinated response to the specific needs of the member states.

#### **5.5.2. Recommendations for Further Studies**

The study recommends further research regarding the impact of regional development finance institutions with regards to their intervention in specific sectors and the level of impact different sectorial interventions have on economic growth in the African continent. Furthermore, it would be of interest to the academic fraternity to compare and contrast regional development banks around the world and their impact as well as the sectorial distribution of their interventions.

Being that African countries are also at very different levels of economic maturity and growth, it may be interesting to see the extent and level of African regional development banks' interventions effect in relation to the different clusters of countries by stage of economic development.

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## APPENDICES

### Appendix 1: Regional Development Bank Data Collection Form

Bank Name:

#### Section 1 = Sectorial Distribution of Intervention:

Sector	Amount in USD
Agriculture & rural Development	
Finance	
Industry & Mining	
Infrastructure	
other/ Multi-sector	
Social	

#### Section 2 = Intervention per Country per Year:

Country	2008	2009	2010	2011
Angola				
Botswana				
Burundi				
Comoros				
Congo, Dem Republic				
Djibouti				
Egypt				
Eritrea				
Ethiopia				
Kenya				
Lesotho				
Libya				
Madagascar				
Malawi				
Mauritius				

Mozambique				
Namibia				
Rwanda				
Seychelles				
South Africa				
Sudan				
Swaziland				
Tanzania				
Uganda				
Zambia				
Zimbabwe				

## Appendix 2: GDP Growth Rate Data collection Form

Country	2008	2009	2010	2011
Angola				
Botswana				
Burundi				
Comoros				
Congo, Dem Republic				
Djibouti				
Egypt				
Eritrea				
Ethiopia				
Kenya				
Lesotho				
Libya				
Madagascar				
Malawi				
Mauritius				
Mozambique				
Namibia				
Rwanda				
Seychelles				
South Africa				
Sudan				
Swaziland				
Tanzania				
Uganda				
Zambia				
Zimbabwe				