Africa’s National Development Banks: Lessons from Côte d’Ivoire and Rwanda

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Preface

This thesis is the result of my own work and includes nothing which is the outcome of work done in collaboration except as declared in the preface and specified in the text.

It is not substantially the same as any work that has already been submitted before for any degree or other qualification except as declared in the preface and specified in the text.

It does not exceed the prescribed word limit for the Politics and International Studies Degree Committee.

Summary

This thesis looks at the relationship between National Development Banks (NDBs), governments, financial market participants, and non-financial firms in Africa. Despite rapidly increasing financial inclusion since the 2000s, Africa is the continent where enterprises struggle the most to access credit, particularly long-term loans, which NDBs specialise in offering. Though NDBs have featured prominently in academic and policy debates over the past decade, their function and impact in Africa are insufficiently investigated. This research project addresses this gap in the literature by comparing the experiences of Côte d'Ivoire and Rwanda's NDBs to draw lessons on development banking in developing countries, the political economy of finance and development, and, most broadly, how the interactions between the financial sector, the state, and enterprises affect economic development.

The central argument of the thesis is that the standard practice by mainstream economists of attributing the lacklustre performance of African NDBs to political corruption is highly deficient. Besides government officials, foreign players such as bilateral and multilateral institutions also influence the ability and the willingness of NDBs to accomplish their mission. The thesis finds that NDBs in Côte d'Ivoire and Rwanda have an outsized role in promoting the industrialization of their respective economies compared to privately owned banks. However, structural factors and external pressures make it challenging for these NDBs to reach their full potential. In Côte d'Ivoire, for example, the International Monetary Fund's policies encouraged Côte d'Ivoire's main NDB to shift its focus from enterprise financing to consumer loans. In Rwanda, the struggles of the country's only NDB stem more from the difficulty to mobilise funds due to foreign exchange risk than from the bank's governance, management, and operations. Both case studies also highlight the limitations of modern central banking for developing countries trying to support local entrepreneurship, since the prevailing tendency of these banks to prioritise price stability over credit creation is shown to hinder NDBs.

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List of Abbreviations

AADFI	Association of African Development Finance Institutions
AGF	Agricultural Guarantee Facility
BAS	BRD Advisory Services
BCEAO	Central Bank of West African States
BDF	Business Development Fund
BEAC	Bank of Central African States
BFA	Banque pour le Financement de l'Agriculture
BHCI	Banque de l'Habitat de Côte d'Ivoire
BHR	Banque de l'Habitat du Rwanda
BIDI	Banque Ivoirienne de Development Industriel
BNDA	Banque Nationale pour le Development Agricole
BNDES	National Bank for Economic and Social Development
BNI	Banque Nationale d'Investissement
BNR	Banque Nationale du Rwanda
BRALIRWA	Brasseries et Limonaderies du Rwanda
BRD	Banque Rwandaise de Développement
CAA	Caisse Autonome d'Amortissement
CAR	Capital Adequacy Ratio
CCCE	Caisse Centrale de Coopération Economique
CCI	Crédit de la Côte d'Ivoire
CDB	China Development Bank
CEMAC	Economic and Monetary Community of Central African States
CIDT	Ivorian Company for the Development of Textile
CNPS	Caisse Nationale de Prévoyance Sociale
COFEB	Centre Ouest Africain de Formation et d'Études Bancaires
COTIVO	Ivorian Cotton Company
CTC	Crushed-Tear-Curl
DBE	Development Bank of Ethiopia
DRC	Democratic Republic of the Congo
EEC	European Economic Community
EGF	Export Growth Fund
ESP	Entrepreneurial Solutions Partners
IFC	International Finance Cooperation
IFI	International Financial Institution
IMF	International Monetary Fund
ISI	Import Substitution Industrialisation
IT	Information Technology
JDB	Japan Development Bank

KDB	Korea Development Bank
LLC	Limited Liability Company
MDE	Million-Dollar Exporter
MINECOFIN	Ministry of Finance and Economic Planning
NAEB	National Agricultural Export Development Board
NAFINSA	Nacional Financiera
NDB	National Development Bank
NPL	Non-Performing Loan
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PPCA	Project to Promote the Competitiveness of the Cashew Value Chain
RFCC	Rwanda Farmers Coffee Company
RMT	Rwandan Mountain Tea
ROA	Return on Assets
RPF	Rwandan Patriotic Front
RTC	Rwanda Trading Company
SALCI	Société des Ananas de Côte d'Ivoire
SAP	Structural Adjustment Program
SIBOR	Singapore Interbank Offered Rate
SME	Small and Medium-Sized Enterprise
SOE	State-Owned Enterprise
SOMIRWA	Société des Mines du Rwanda
SORWATHE	Société Rwandaise du Thé
SOTEXI	Société Industrielle Textile de la Côte d'Ivoire
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
UTEXI	Industrial Textile Union of Côte d'Ivoire
WAEMU	West African Economic and Monetary Union

Chapter 1—Introduction

1.1. Objectives and Purpose of the Thesis

This thesis studies the role of finance in economic development, which can be defined as a "sustained increase in output per person … accompanied by substantial structural change in the economy … [involving] an increase in size of the secondary sector of the economy and a corresponding decrease in the relative size of the primary sector" (Cameron, 1967, p. 6). Specifically, it looks at National Development Banks (NDBs) in Sub-Saharan Africa (henceforth Africa), the political economy of finance and development, and, most broadly, how the relationship between the financial sector and enterprises affects economic development.

The relationship between finance and economic development is highlighted in numerous historical overviews of industrialization. For instance, Marx's general formula for capital (M-C-M) explains that one way to stylise the production of goods in capitalism is to see money (M) as a means by industrial capitalists to invest in commodities (C), the sale of which will generate even more funds (M) to be reinvested (Marx, 1978). Other economists and historians also underline the financial sector's role in promoting economic development. Schumpeter, for example, describes credit creation as the "monetary complement of innovation" (Gerschenkron, 1979; Schumpeter, 1939, pp. 111), while Cameron, Gerschenkron, and Trebilcock explore the role banks played in jump-starting structural change in nineteenth century Europe (Cameron, 1967, #162; Trebilcock, 1982).[1] However, banks are more likely to invest in economic development projects that can reliably generate returns, such as social overhead capital (ports, roads, railways) (Cameron, 1953, p. 479; Smith, 1937).[2] Besides infrastructure, the greater risks

[1] The surplus gained through trade and agriculture and the more gradual nature of their economic development meant British industrialists relied more on reinvested profits than banks to finance long-term investment. This was often not the case for developers following Britain's lead, such as France and Germany, which tended to be more capital poor, yet needed substantial financing to telescope industrialization.

[2] One of the first banks to provide long-term finance to industry was the French Crédit Mobilier. Established in 1852 as a limited liability company, the bank played an important role in France's industrial development by "(a) mobilizing large amounts of capital from other banks and individuals; (b) using that capital for equity investments as well as long-term lending; (c) promoting new enterprises in basic facilities [(infrastructure)], mining and secondary industries;

and uncertainty involved in unexplored or untested fields are often too high to attract private capital without credible external guarantees, such as those that a government can provide through NDBs.

Understanding the role NDBs play in promoting economic development is especially important in low-income regions of the world with shallow financial markets, such as Africa. Yet, academic work on the impact of NDBs on the continent is relatively scarce. Using Côte d'Ivoire and Rwanda as case studies, this thesis fills a gap in the literature by exploring the extent to which NDBs in both countries have contributed to the development of their respective national economies. This thesis also contributes to debates on finance and economic development by highlighting how the subordinate status of African NDBs in the international financial system constrains their ability and their willingness to fulfil their mandates.

The structure of this introduction is as follows. The next section explores in greater detail why NDBs, particularly African ones, are the subject of this thesis. It then proceeds to outlining the research methodology, including the case selection, before providing a summary of the thesis' next chapters.

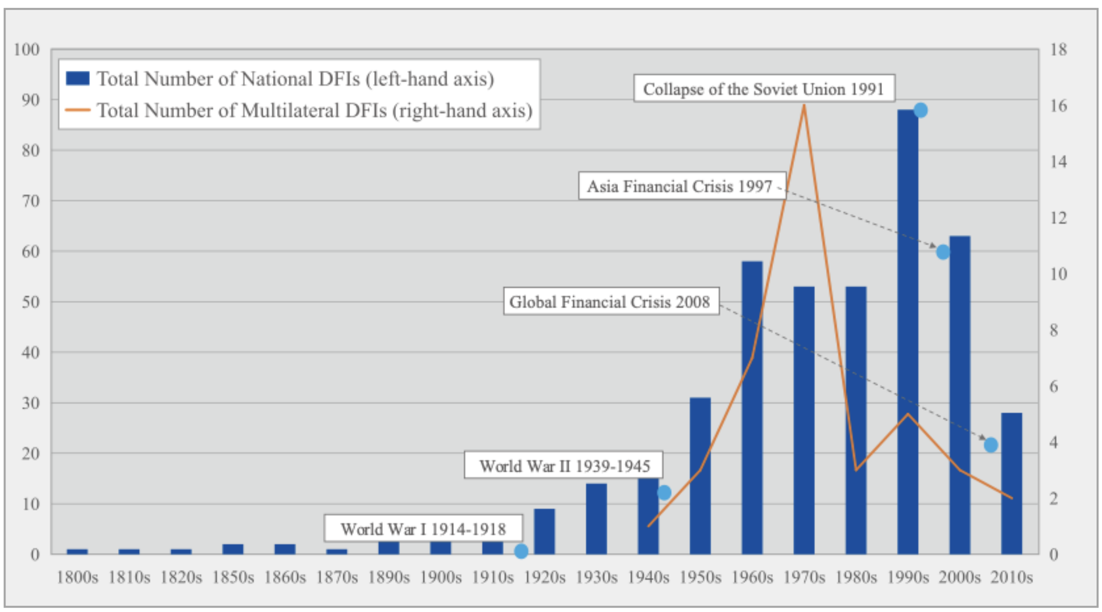
1.2. The Subject of National Development Banks in Africa

A National Development Bank is "an institution which is [generally] majority owned by the government and that has an explicit legal mandate to foster economic and social development in a country, sector, or target market, mainly by providing investment finance" (Calice, 2013, p. 3). Most of the first NDBs were established in the aftermath of World War II, as shown in Figure 1.1. Initially, NDBs were assisted by bilateral donors and International Financial Institutions (IFIs) to promote industrial policy through locally producing parts and capital goods and nurturing export-oriented national champions in countries including Japan, South Korea, and Brazil (Amsden, 2001; Chang,

(d) lending to public authorities; (e) facilitating the use of the joint-stock company [model] by banks; and (f) helping create the institutions of a capital market" (Diamond, 1957, p. 26). Domestically, the Crédit Mobilier helped finance France's railway network, which constituted the backbone of the country's industrial revolution. Abroad, the bank contributed to infrastructure building by lending money to Austria, Spain, Switzerland, Italy, and Russia to construct railways (Cameron, 1953).

2002; Evans, 1995).[3] The standing of NDBs among academics and policymakers has shifted over the decades. In their heyday at the height of Keynesianism (1950s–1970s), NDBs were considered by governments and IFIs as effective tools to support economic development. NDBs then became unpopular between the 1980s and the early 2000s, during which the rise of neoliberalism challenged state-led approaches to development. NDBs at the time were decried by the mainstream, who argued that the propensity for these banks to be corrupt and mismanaged should lead to their closure or privatization (de Aghion, 1999). However, the ability of NDBs to act as a mechanism of countercyclical lending throughout the 2007–2009 Financial Crisis as other banks tightened credit allocation (re)attracted attention to the benefits brought by state ownership of development banks (Brei and Schclarek, 2018; Culpeper, 2012; de Luna-Martinez and Vicente, 2012; Grabel, 2018; Mazzucato and Penna, 2018; The Economist, 2019).

Figure 1.1. The Establishment Timeline of Development Banks

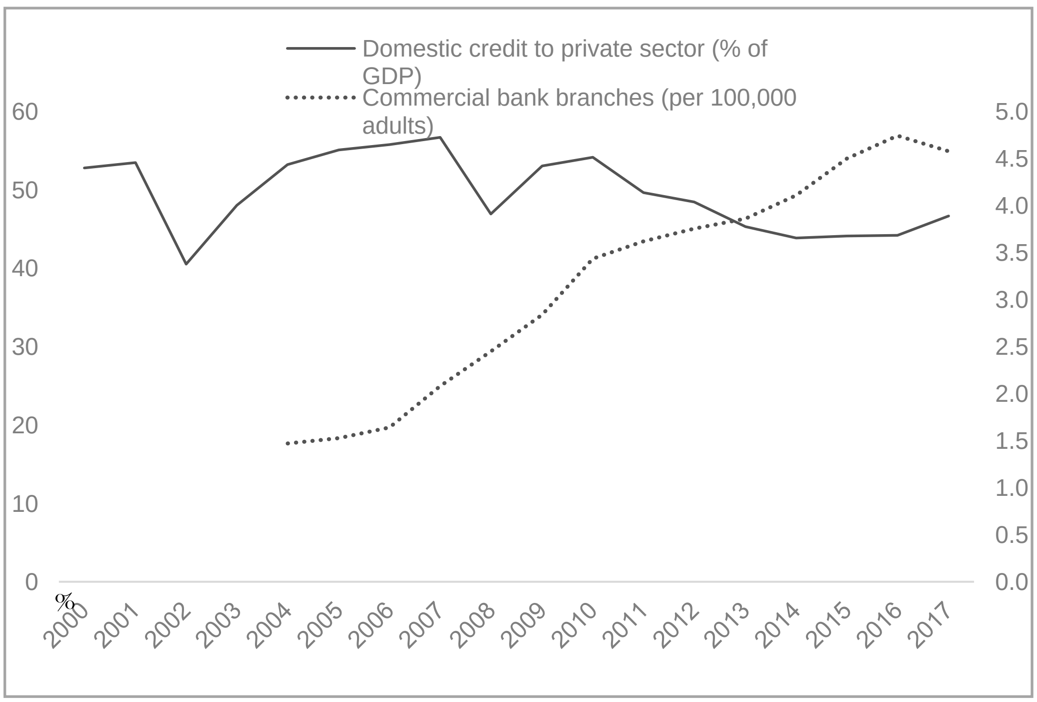


Source: (Xu *et al.*, 2019)

[3] More specifically, industrial policy "is concerned with the structure if the economy, that is the patterns of production in different sectors. It includes both adjustment-promoting and adjustment-retarding measures that operate directly or indirect at both the macro and the microlevel. Its purpose is to influence industrial competitiveness and through it achieve objects such as employment, investment, growth, or an improved balance of payments" (Katzenstein, 1985, pp. 24-25).

Despite the potential of NDBs to help governments promote economic development, their role and impact in Africa are understudied. Indeed, academic and policy debates on banking in Africa have since the 2000s focused mainly on financial inclusion (Ahmad *et al.*, 2021; Beck *et al.*, 2011; Honohan and Beck, 2007). Although access to financial services through bank penetration is steadily increasing, the stagnant level of domestic credit to private sector enterprises shown in Figure 1.2. is detrimental to many companies in the region who need loans to grow their business.[4] This demand for credit is reflected in the World Bank Enterprises Surveys, where African firms are the most likely to need a loan and identify access to finance as the top business environment obstacle (See Table 1.1).

Figure 1.2. Financial Inclusion in Africa



Source: World Development Indicators

[4] Using a five-year panel regression analysis for 80 countries (of which 62 are developing and 29 are African), Fosu and Abass show that domestic credit is positively and significantly associated with export diversification (Fosu and Abass, 2019). Export diversification is, in turn, associated with stronger sectoral and inter-sectoral linkages and technological progress, all of which contribute to structural transformation (Abegaz, 2018). The positive and significant effect of domestic credit on exports is the most pronounced in Africa (Fosu and Abass, 2019), which highlights how the absence of credit hampers firm growth and economic development in the region.

Table 1.1. Access to Enterprise Finance Around the World

Economy	Percent of firms with a bank loan/line of credit	Percent of firms not needing a loan	Proportion of investments financed by banks (%)	Percent of firms identifying access to finance as a major constraint
East Asia & Pacific	29.4	50.5	10.1	12.2
Europe & Central Asia	37.7	54.3	14	16.6
Latin America & Caribbean	51.3	44.3	26.9	17.5
Middle East & North Africa	28.6	51.8	15.6	31.9
South Asia	27	44.7	14.4	26.5
Sub-Saharan Africa	20.7	36.6	9.2	39.3

Source: World Bank Enterprise Surveys

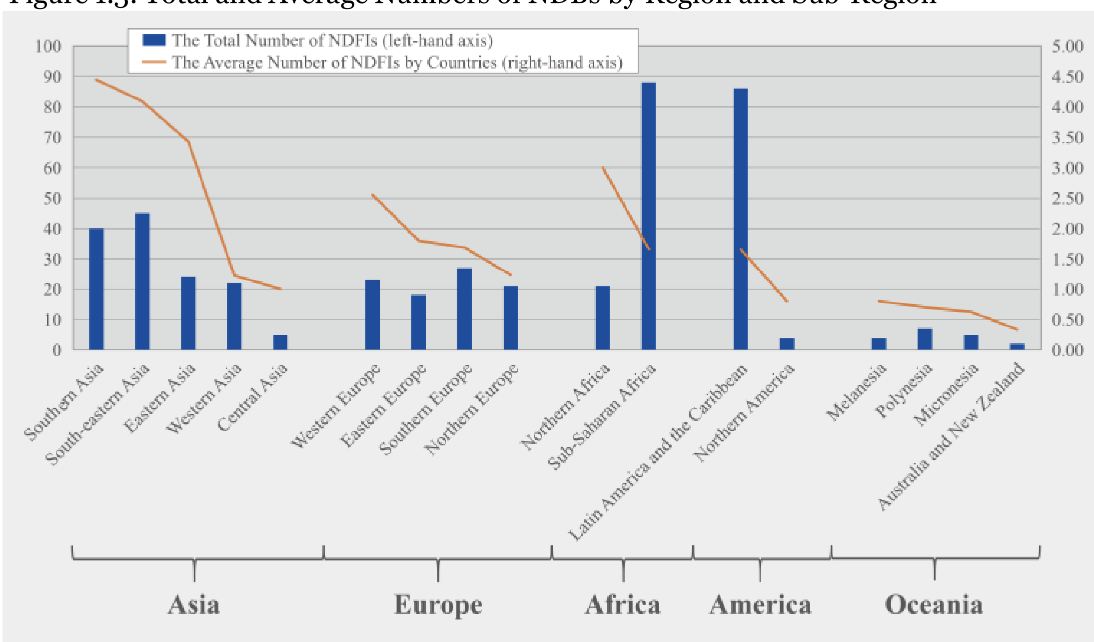
Two key factors explain the sluggish growth of domestic credit to the private sector in Africa. First, the propensity of banks to rely on sight or short-term customer deposits means it would be dangerous for these banks to issue longer-term loans, which firms need the most to purchase capital goods (short-term loans and deposits have a maturity of one year or less, while medium-term loans and deposits have a maturity between one and five years. Loans and deposits with maturities exceeding five years are long-term). In addition to the desirability to match assets with liabilities in terms of maturity, banks are also beholden to shareholders, who expect maximum quarterly profits. Together, these constraints push banks to be particularly risk averse by investing in assets that offer safer returns, such as government securities, rather than providing enterprises with credit to help them grow. This business model seems to pay off in Africa, as banks operating in the region enjoy higher returns than their international counterparts due to higher interest rate spreads (Banque de France, 2009; Griffith-Jones *et al.*, 2014). When they do finance firms, banks—which, unlike in most other parts of the Global South, are mostly foreign-owned[5]—are likely to lend to multinationals, which provide better guarantees in the form

[5] As of 2009, foreign banks operating in Africa had around 60 percent of the share of total bank assets. This share was around 65 percent in Europe and Central Asia, 30 percent in Latin America

of an established credit history and collateral from their parent company. In vogue in the 1990s and 2000s, microcredit schemes have been shown to divert credit that could be leveraged by Small and Medium Enterprises (SMEs), which have between five and a hundred employees, to fund individual entrepreneurs who operate at economically inefficient scales (Bateman and Chang, 2012).

Besides being the least industrialized (Rodrik, 2016) and most underserved continent in terms of enterprise financing, case studies on NDBs in Africa are rare or dated (Abebe and Schaefer, 2015; Cisse, 1986; Harlander and Mezger, 1971; Ndongko, 1975; Oloka-Onyango, 1987), despite the region having roughly 25 percent of the world's NDBs (see Figure 1.3).[6]

Figure 1.3. Total and Average Numbers of NDBs by Region and Sub-Region



Source: (Xu *et al.*, 2019)

and the Caribbean, 19 percent in the Middle East and North Africa, and 12 percent in East Asia and the Pacific (Massa, 2015).

[6] Other studies also highlight the high number of NDBs in Africa. For example, Gallagher and Studart found approximately 250 NDBs worldwide in 2016, including 119 in Asia and the Pacific, 63 in Latin America and the Caribbean, 61 in Africa, 45 in the Middle East, and 15 in Europe and North Africa (Gallagher and Studart, 2016). Of the 520 NDBs Bruck identified in 2005, 152 were in Latin America and the Caribbean, 147 in Africa, 121 in Asia and the Pacific, 47 in Europe, and 47 in West Asia (Bruck, 2005). Using data from the French Development Agency (Agence Française de Développement), Ocampo and Ortega find that Sub-Saharan Africa has 20 percent of the world's 425 NDBs (Ocampo and Ortega, 2022, p. 238).

The research gap in the study of NDBs in Africa raises the following questions:

- *What is the role and impact of National Development Banks in Africa?*
- *What factors affect the ability and the willingness of these banks to fulfil their mandates?*

In this thesis, I challenge mainstream narratives blaming the poor performance of African NDBs on deficient governance and poor management by showing how external factors can affect the ability and the willingness of these banks to accomplish their mission, even without systemic corruption, which is supposed to be the main consequence of deficient governance and poor management.

1.3. Methodology

1.3.1. Case Study Selection

To answer the above questions, this thesis uses a comparative "method of discovering empirical relationships among variables" through case study analysis (Lijphart, 1971, pp. 683). Case studies are useful in the social sciences because they help make sense of topics, such as the political economy of finance and development, which can be "highly complex .... and ... unfold along non-linear context-specific trajectories" (Woolcock, 2013, p. 4). Put differently, comparative case studies allow researchers to avoid blanket statements and strawman arguments by parsing out the idiosyncratic from the generalizable (Kielmann *et al.*, 2012; Skocpol, 1985).

Three criteria were used when considering what cases to examine. The first criterion was to identify the fastest-growing African countries, which represent the most promising prospects for economic development on the continent. The second criterion was to determine whether those countries have NDBs using data from the Association of African Development Finance Institutions (AADFI). For countries that have NDBs with AADFI membership, the final criterion was to find out when these banks had been established for long, to allow for an in-depth historical analysis. Africa's fastest growers between 2010 and 2017—the year before work on this thesis began—were Ethiopia, Djibouti, Zimbabwe, Rwanda, Ghana, the Democratic Republic of the Congo (DRC), Tanzania, Côte d'Ivoire, Mozambique, and Niger, respectively (see Figure 1.2). While these countries all have NDBs that are AADFI members, Rwanda, Ghana, and Côte d'Ivoire have existing NDBs that were established in the 1960s, when many African countries gained independence (Association of African Development Finance Institutions, 2022).[7] Ethiopia is the exception in the list, since the country was not colonised by European powers and its NDB (the Development Bank of Ethiopia) was established in 1909. Moreover, Ethiopia's NDB has already been featured in a recent study (Abebe and Schaefer, 2015). Of the three remaining countries, Côte d'Ivoire, whose NDB (the Banque Nationale d'Investissement) was established in 1959 and Rwanda, whose NDB (the Development Bank of Rwanda) was established in 1967 were selected for reasons that will be explained below.[8]

Table 1.2. Top 10 African Countries by Average GDP Growth: 2010-2017

Rank	Country Name	GDP Growth Rate (%)
1	Ethiopia	10.18
2	Djibouti	7.85
3	Zimbabwe	7.77
4	Rwanda	7.14
5	Ghana	6.90
6	DRC	6.50
7	Tanzania	6.48
8	Cote d'Ivoire	6.32
9	Mozambique	6.21
10	Niger	6.18

Source: Author's Calculations Using the World Development Indicators

Côte d'Ivoire was the first country chosen for this study due its impressive growth rates compared to Rwanda and Ghana, as shown in Figure 1.4. From its independence in 1960 to the late 1970s, Côte d'Ivoire experienced a growth 'miracle' that granted the country lower middle-income status in the 1970s (Bamba, 2016; den Tuinder, 1978;

[7] Djibouti became independent in 1977 and its oldest existing NDB, the Fonds de Développement Économique de Djibouti, was established in 2000. The DRC became independent in 1960 and its oldest existing NDB, the La Société Financière de Développement, was established in 1970. Zimbabwe became independent in 1980 with the end of white-minority rule and its oldest existing NDB, the Infrastructure Development Bank of Zimbabwe, was established in 2005. Mozambique became independent in and its oldest existing NDB, Gapi, Sociedade de Investimentos, was established in 1990. Niger became independent in 1960 and its oldest existing NDB, Société Nigérienne de Banque, was established in 1990.

[8] Ghana's oldest existing NDB, the National Investment Bank, has been around since 1952—around five years before the country's independence in 1957.

Mingst, 1988; Zartman and Delgado, 1984). To promote economic development, the Ivorian government invested in agricultural production to provide enough export revenue to import industrial inputs. Côte d'Ivoire's state-owned marketing Boards offered attractive prices to agricultural producers, who were encouraged to plant cocoa, bananas, pineapple, rubber, coconut, cotton, and palms on previously unexploited land. The Ivorian government also encouraged the processing of agricultural crops into canned goods, edible oils and fats, and textiles, among others (Kelsall and Booth, 2013, p. 32).

The end of the 1970s, however, saw Côte d'Ivoire's economy starting to flounder. Specifically, the oil shocks of the mid-to-late 1970s and the commodity price downturn of the 1980s led to a severe economic crisis that eroded the development gains achieved since independence. A military coup in 1999 and two civil wars in 2002 and 2010–2011 further hampered the country's economic development (*Ibid.*, pp. 42-44).

With a degree of political stability attained since the 2010–2011 conflict, Côte d'Ivoire has emerged as one of the strongest performers in Africa terms of GDP growth, which is sometimes referred to as a second economic miracle (Bavier, 2012; Lagarde, 2013). To capitalise on this post-crisis economic boom, the Ivorian government aims to make the country an 'industrial power' by 2040 (Ministère du Plan et du Développement, 2016). This is to be achieved through the promotion of value addition to the country's chief commodities, such as cocoa and cashews, and the nurturing of export-oriented national champions, particularly in agro-processing (Policies, 2021).

Considered a basket case in the three decades following its independence in 1962, Rwanda has since the 1994 genocide grown by at least 6 percent per year,[9] owing to investments in finance, insurance, real estate, and international conference facilities (Behuria and Goodfellow, 2018; Behuria, 2018).[10] Indeed, Rwanda's 2000–2020 national development plan (VISION 2020) noted the importance of high-end tourism (such as gorilla trekking), business tourism, infrastructure building, and financial services provision as the key drivers of economic growth and development (Planning, 2000).

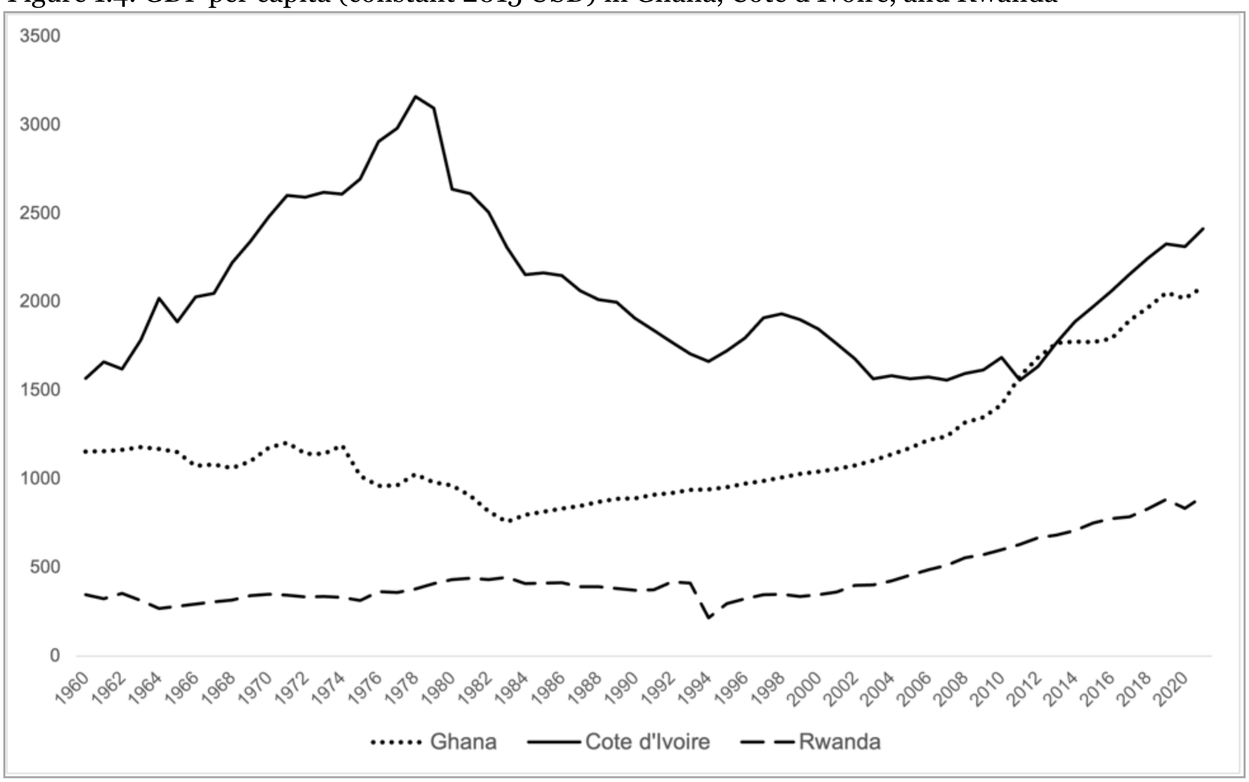
However, Rwanda's plan to leapfrog from the primary sector to services is questionable. For example, VISION 2020's priority industries are removed from

[9] These growth rates were recorded prior to the 2020 COVID-19 outbreak.
[10] This is being accomplished through state-sponsored convention centres and hotels, such as the USD 300 million convention centre built in the capital city, Kigali.

Rwanda's largely agrarian base, which produces the cash crops (coffee and tea) that the country has historically depended on to secure foreign exchange (Ministry of Trade and Industry, 2015; National Agricultural Export Development Board, 2019). Additionally, the skill-intensive nature of many of these service industries are not very labour-absorbing. Most importantly, finance, real estate, and tourism are unlikely to be developmental substitutes for manufacturing, which most advanced economies have relied on to reach high-income status (Chang, 2002; Rodrik, 2016).

To address the shortcomings of the country's growth model, the Rwandan government has since the mid-2010s placed more emphasis on the promotion of light manufacturing (textiles and garments) agro-processing, and horticulture (Ministry of Trade and Industry, 2015). These new priority sectors were identified based on their "potential contribution to import reduction; the existence of planned projects in the sector; domestic market size and export potential to neighbouring countries; availability of raw materials; and whether the projects have strong linkages to other domestic sectors" (Behuria, 2019a, p. 12).

Figure 1.4. GDP per capita (constant 2015 USD) in Ghana, Côte d'Ivoire, and Rwanda



Source: World Development Indicators

The Ivorian and Rwandan case studies will highlight the extent to which domestic factors or ones found at the international level explain the behaviour of NDBs in both countries. Particular attention will be placed on understanding how these banks interact with government authorities, other financial market participants, and non-financial corporations.

1.3.2. Data Sources and Analysis

Comparing NDBs in Côte d'Ivoire and Rwanda is done using mixed methods, which helps enhance data validity through triangulation. The thesis' quantitative segments look at each NDB's effectiveness in terms of their financial health and impact. This is done by compiling and analysing various financial metrics, such as at the size of each NDB vis-à-vis their respective financial sectors, their loan portfolio, and net income—all using data found in NDBs' annual reports or in independent audits of these banks. The thesis also relies economic statistics and survey data collected and published by government agencies, the IFIs, and professional associations representing financial market participants and enterprises, especially those involved in agriculture and in manufacturing. Given the comparative historical nature of this study, a portion of the financial data that is used comes from government, NDB, and IFI archives dating back to the 1970s. Other primary and secondary sources include academic publications and media outlets, such as newspapers, magazines, radio, and television.

This documentary analysis is complemented by semi-structured and informal interviews with stakeholders representing government, NDBs, and enterprises. Initially, these interviews were meant to take place in Côte d'Ivoire and Rwanda in 2020. Unfortunately, the lockdowns and border closures that occurred in response to COVID-19 made travel impossible. The disruptions caused by the virus' outbreak prompted a switch from in-person interviews to online interviews. However, many stakeholders who were contacted were busy dealing with the pandemic, leading to slow response times. Given these constraints, it was decided to focus more on interviews with locally owned agro-processing enterprises, in view of their prominence in both Côte d'Ivoire's and Rwanda's national development plans. This shift of focus in interviews from NDBs to productive enterprises turned out to have unexpected benefits. A lot of information on

NDBs (including their funding structure, operations, and their governance and management culture) as well as the relationship between NDBs and government, could be found without interviews—in these banks' annual reports and independent audits, as well as in the media through news stories, investigations, and news media interviews. are less easily found in publicly available sources compared to NDBs, as these enterprises do not necessarily have the resources to publish a lot of information about themselves and are sometimes too insignificant to receive media coverage.

1.4. Summary of Chapters

The research results are presented in the following manner.

Chapter 2 offers a critical survey of the literature on NDBs and proposes a conceptual framework that outlines what factors affect the ability and the willingness of these banks to fulfil their mandates. A key objective of the chapter is to explain the features that characterise effective NDBs. This is achieved by examining the relationship between these banks and government, financial market participants, and enterprises using examples from developed economies and from developing and emerging ones. Chapter 2 also shows how financialization has reduced the policy space available to NDBs in the Global South—especially in Africa—to promote economic development.

Chapters 3 and 4 delve deeper into how the actors introduced in Chapter 2 influence the behaviour of NDBs in Côte d'Ivoire and Rwanda. Chapter 3 explores the relationship between NDBs and state authorities in both countries. Specifically, it charts the evolution of the ownership structures, mandates, governance, and management of Côte d'Ivoire and Rwanda's NDBs, with a view to understand to what degree these banks are susceptible to graft and corruption. Chapter 4 looks at the relationship between NDBs in both countries and other financial market participants, such as central banks, the IFIs, and credit rating agencies. This chapter pays particular attention to the impact of financialization on the balance sheet of Ivorian and Rwandan NDBs through changes in monetary policy and prudential regimes.

Chapters 5 and 6 examine the relationship between NDBs and firms in Côte d'Ivoire and Rwanda by seeing how indigenous agro-processors deal with the economic, socio-political, and institutional hurdles to enterprise financing. Each chapter is dedicated to one country. Namely, Chapter 5 focuses on Côte d'Ivoire's cocoa, cashew, and textile industries, while Chapter 6 focuses on coffee, tea, and horticulture in Rwanda.

Finally, Chapter 7 summarises the thesis' main findings and contributions and discusses implications for policy and future research.

Chapter 2—National Development Banks

2.1. Introduction

This chapter explores key theoretical debates on the role and significance of NDBs. To this end, it first outlines why NDBs are important due to their ability to address market failures in the financial sector. It then challenges arguments that the risk of government failure means that NDBs should be phased out as soon as possible by highlighting the continued relevance of these banks and discussing what features make them successful. Much of the literature on NDBs focuses on their relationship with state authorities (government). However, other actors, including central banks, credit rating agencies, and International Financial Institutions (IFIs) constitute an NDB's 'task environment'. Alongside identifying the task environment of NDBs, this chapter shows how such an environment can, especially amidst the current trend toward financialization, influence the ability and the willingness of NDBs to accomplish their mission. Specifically, the linkages between NDBs and other financial market participants are shaped by historically determined structural asymmetries, in which actors based in Global South countries are disadvantaged via-à-vis those based in the Global North. The final part of this chapter analyses how these power dynamics play out in Africa.

2.2. National Development Banks

Early development economists extensively argued for states going beyond acting as a nightwatchman, as today's orthodoxy suggests. Though industrialization in the 19th century by the leading country, Great Britain, was achieved through gradual technological progress, structural change among late industrialisers was generally premised on the rapid adaptation of established production processes.

Because of the significant capital outlay and the long gestation periods associated with catching up, the private sector has historically been reluctant to finance industrial development. Privately owned banks are usually risk-averse and short-termist due to their need to satisfy shareholders by delivering quarterly profits. Most banks also rely on short-term deposits from customers to finance their activities, which makes committing to long-term ventures perilous due to asset-liability mismatches. Even entrepreneurs who can afford to self-finance may fear being first movers in industries if that implies shouldering additional risk, but not reaping all the rewards if that investment generates positive externalities (Rosenstein-Rodan, 1943).

As state-owned entities, NDBs can help governments address market failures in the financial sector by lowering uncertainty through loans and equity investments in high-risk fields, such as new technologies and industries, which usually have longer-time horizons and create positive externalities (Diamond, 1957; Hu *et al*., 2022; Stiglitz, 1993; Thorne and du Toit, 2009).

However, while addressing market failures traditionally implies achieving Pareto efficiency,[11] the neoclassical market failure framework does not match a reality in which creative destruction drives economic development (Schumpeter, 2013). NDBs from the perspective of evolutionary economics thus go further than fixing financial markets–they also shape them. Beyond "foster[ing] synergies and promot[ing] the introduction of new combinations that create Schumpeterian rents," (Mazzucato and Penna, 2016, p. 316) state intervention in the economy can make "*things happen that otherwise would not* … shaping and creating markets and not only fixing them" (p. 322).[12]

China's Development Bank (CDB), for example, played a key part in shaping the country's bond market. Almost bankrupt in 1997 (just three years after its establishment), CDB negotiated with the People's Bank of China, the central bank, to allow it to fundraise on China's then embryonic bond market. CDB's initiative contributed to growing China's bond market into one of the largest in the world (Xu, 2018, p. 51).[13] In turn, CDB's ability to tap into increasingly deeper domestic capital markets helped the bank emerge as one of the world's most important NDBs (Além and Madeira, 2015).

The ability of NDBs to promote structural change in other countries is also well documented. In Japan, post-World War II reconstruction led to an increase in the demand for finance for the country's industrial sector of the economy. To this end, the Japan Development Bank (JDB) was created in 1951. JDB nurtured forward and

[11] A state of the world where markets are perfectly competitive with zero economic profits, and in which no one can become better off without making others worse off.
[12] Mazzucato refers to NDBs as State Investment Banks (SIBs)
[13] CDB is the second-biggest bond issuer in the country after the Ministry of Finance, accounting on average for 20 percent of the bond market between 2005 and 2012.

backward linkages through the sequencing of investments, which started with complementary basic industries, such as electricity, iron and steel, shipbuilding, and coal mining, before upgrading to machinery and automobiles. The bank also strengthened these linkages through the promotion of small and medium-sized enterprises (SMEs) as suppliers to larger firms (Shimada, 2017).[14]

Like JDB, Germany's NDB (KfW) was established in the aftermath of World War II. Upon its creation in 1948, KfW was tasked with managing Marshall Plan disbursements for economic reconstruction. The subsequent decades saw the bank increasingly focus on machinery, aircraft, and automobiles manufacturing by directing credit for raw material procurement to firms such as Siemens and Krupp. Alongside sunrise industries, such as renewables, sunset industries in steel, coal, shipbuilding, and textiles received loans from KfW to increase their productivity through investments in R&D–first in West Germany, then in East Germany following reunification in 1990 (Moslener *et al.*, 2018; Naqvi *et al.*, 2018).

Also established using aid funds from the US, South Korea's largest NDB (Korean Development Bank or KDB) was set up in 1954 to help finance the rebuilding of infrastructure after the Korean War. The bank then played a central role in supporting the government's industrial policy. For example, KDB in the 1970s was responsible for 44.7 percent of manufacturing investment in South Korea (Amsden, 2001, p. 185). These funds went to the development of capital-intensive exporting industries, such as chemicals, shipbuilding, steel, machinery, automobiles, and electronics (Chang, 1993; Lee, 2019).

In Brazil, the National Bank for Economic and Social Development's (BNDES) role encompasses "(i) traditional support for large-scale industrial and infrastructure projects (ii) efforts to foster the commercialization of equipment and machinery (iii) support for exports of engineering-intensive goods and services (iv) assistance for micro and small companies (v) and support for the capital market as well as corporate governance" (Ferraz *et al.*, 2013, p. 146). When it was created in 1952, BNDES's main activities were geared toward helping Brazil develop its steel industry. It then went on in the 1960s and 1970s

[14] JDB was replaced in 1999 by the Development Bank of Japan (DBJ), which focuses on regional development.

to finance firms not only in steel, but also in electricity, petroleum, mining, and chemicals. During Brazil's debt crisis and structural adjustment period in the 1980s and 1990s, BNDES leveraged its expertise in banking and project management across sectors to identify, evaluate, and finance acquirers of state-owned enterprises (SOEs). The 2000s saw a shift in BNDES's priorities, as the Brazilian government sought to help national champions increase their foreign footprint through technological upgrading. To this end, most of BNDES's loans went to firms in agribusiness and primary commodities, which were deemed the most competitive in global markets, such as oil giant Petrobras (Musacchio and Lazzarini, 2016).[15]

Late industrialisers without NDBs often saw the state have the entire banking sector act as a "surrogate development bank" (Wade, 2003, p. 129). This was the case in Taiwan, for example, where all banks were state-owned until the 1980s. At the heart of the country's development planning was the drafting of priority lists that detailed sectors and firms to support, which government officials provided to banks. Over the years, these disbursements were channelled toward high-risk, capital-intensive industries, including shipping, as well as frontier technologies, such as chip manufacturing (*Ibid.*).

In France, the period during which banks acted as "instruments of government policy" (Kuisel, 1981, p. 214) is associated with the 'Trente Glorieuses' (1946-1975), which saw the country experience unprecedented levels of growth, industrial development, and increased living standards. Following World War II, the French central bank (the Banque de France) was nationalised to "assure a generous flow of credit for recovery and expansion" (*Ibid.*, p. 203).[16] While the three largest deposit banks (Banque Nationale de Paris, Société Générale, and Crédit Lyonnais) were also nationalized, other privately owned financial institutions were, along with public ones, made subject to regulation via a National Credit Council and a Banking Control Commission (Zysman, 1983, p. 208). Out of these policies emerged an institutional arrangement between the state, through the Ministry of Finance and the Planning Commission, parapublic baking intermediaries,

[15] BNDES also uses its equity division, BNDESPAR, to hold minority shares in some of these firms, creating a "hybrid model in which the government can provide capital to finance projects that have a high social impact … without having to operate the project itself" (*Ibid.*, p. 124).
[16] Before 1945, the French central bank was, in effect, a private bank with a note-issuing monopoly, where major shareholders selected the bank's regents, and the state named the governor.

such as the Crédit National, and privately owned banks, which made France become the advanced economy with the highest proportion of long-term loans issued by banks in the 1970s (*Ibid.*, p. 127).[17] Easy access to long-term credit helped the French economy change from being one characterized by small and medium-sized enterprises mostly serving the domestic market (Landes, 1949; Trebilcock, 1982; Weber, 1977), to one in which large conglomerates with the economies of scale necessary to compete internationally could thrive, such as in the automotive industry.[18]

The examples highlighted above show that state intervention in markets can benefit economic development. Successful development experiences in the 20th century demonstrate that the NDBs or, sometimes, the entire financial sector, can be leveraged to promote structural transformation. This is mainly achieved by financing infrastructure investments and providing long-term loans to manufacturing enterprises, who can use the funds they borrow to purchase capital goods and enhance their productive capabilities.

2.3. National Development Banks and Government Failure

While they acknowledge the potential of NDBs to promote economic development, academics who study state-owned banks caution that their ownership structure can be counterproductive. For instance, NDBs can misallocate credit by supporting large, politically influential firms that can borrow from commercial banks but prefer to access cheap NDB loans that are subsidized with fiscal transfers, which crowds out private investment (Musacchio *et al.*, 2017).[19] Additionally, the susceptibility to corruption associated with state-owned banks makes NDBs prone to green-lighting 'non-viable' projects (picking losers) (de Aghion, 1999; La Porta *et al.*, 2002).

[17] For example, 32.9 percent of bank loans in France were long-term in 1975, compared to 23.5 percent in West Germany, 22.8 percent in Japan, 21.4 percent in the United Kingdom, and 7.9 percent in the United States.

[18] For example, French banks financed the successful merger of Citroën and Peugeot into a conglomerate named PSA, which took place between 1974 and 1976 (Zysman, 1983, p. 260). This merger helped brands in the group rationalize component production, and become the largest European, and fourth global, automaker in terms of output by 1978. PSA's status as a leading automaker was also made possible by the group's acquisition of Chrysler's European branch in that same year (Loubet, 2001).

[19] This is sometimes referred to as the soft budget constraint syndrome (Konrai, 1986)

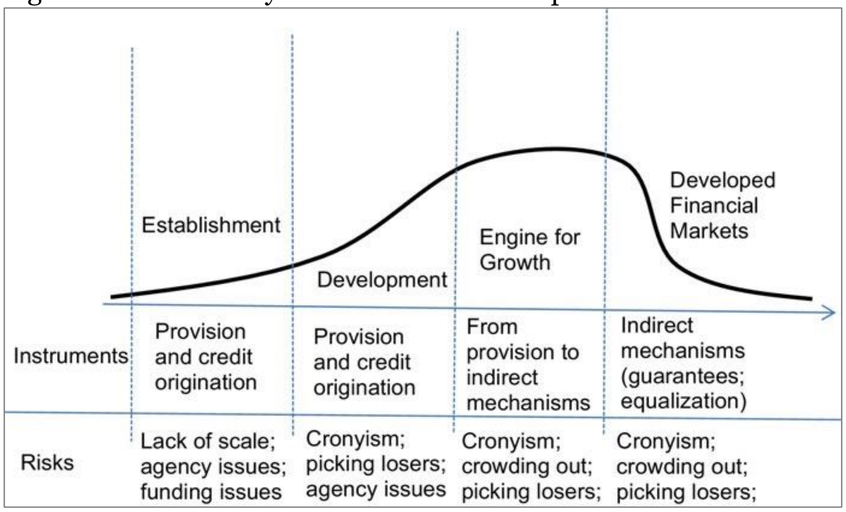
Because of the likelihood of government failure, some economists argue that NDBs should move from first-tier (direct) enterprise lending. Instead, NDBs should focus on second-tier (indirect) project financing by collaborating with retail banks:

> Guided by the principle that government intervention should support rather than distort incentives from the private sector provision of financial services … our preference remains for a reorientation and possible restructuring of existing state-owned financial institutions toward more wholesale long-term financing activities. (Beck *et al.*, 2011, p. 154)

Three core arguments underpin the claim that NDBs are better off as second-tier lenders than as first-tier ones. Firstly, the public-private partnership associated with second-tier operations is believed to make NDBs more likely to behave in ways that complement, rather than compete, with other banks. Secondly, indirect project financing by NDBs is more desirable than direct project financing because it allows NDBs to reach more enterprises by using a retail bank's branch network. Thirdly, NDBs focusing on second-tier activities have a lower risk management burden, since they tend to vet the retail banks they team up with, instead of appraising projects in-house. This outsourcing of risk management from the public to the private sector is also thought to reduce the risk of political interference in project financing (Gutierrez *et al.*, 2011, pp. 19–21).The assumption that privately owned banks are better than state-owned ones when it comes to allocating credit also drives the life cycle hypothesis of NDBs. The life cycle hypothesis of NDBs is based on the belief that these banks are important in countries with shallow capital markets due to their willingness to provide long-term credit to support industrialization. However, according to this hypothesis, government intervention in the financial sector is fraught with hurdles. For example, governments in developing and emerging economies may lack the fiscal space to capitalise their NDBs at a scale that align with the enterprise financing gap. These funding issues may, in turn, make it difficult for NDBs to act as engines for economic growth and development. Moreover, the propensity of NDBs to have weak corporate governance structures due to excessive political influence may lead to cronyism and agency issues.

In of light these risks, advocates of the life-cycle hypothesis suggest that NDBs should, as financial markets develop, shift from the direct provision of credit to indirect mechanisms, as shown in Figure 2.1. Except in the initial stage of development, NDBs, they argue, can reduce the risks retail banks take on by providing credit guarantees and decrease the cost of lending by subsidizing (equalizing) interest rates (Torres and Zeidan, 2016).

Figure 2.1. The Life Cycle of National Development Banks



Source: (*Ibid.*)

While the concerns raised about government failure in the financial sector have some merit, recent empirical work suggests that such outcomes are not foregone conclusions (Levy Yeyati *et al.*, 2007; Marois, 2016). For example, a case study from Pakistan shows that government-owned banks issue 45 per cent larger loans to politically connected firms. Yet, controlling for the type of government bank reveals that, in contrast to state-owned commercial banks, NDBs display no political bias when providing credit to clients (Khwaja and Mian, 2005). In Brazil, loan data indicates that BNDES does favor companies with political connections, although the bank does not seem to systematically bail out failing businesses that are favoured by the government (Lazzarini *et al.*, 2015). Indeed, the main beneficiaries of BNDES' biggest loans are large firms with a good record of servicing debt. While such firms can borrow from commercial banks, they prefer BNDES's below-market-rate loans, which supports the view that NDBs crowd out private lenders (Ferraz and Coutinho, 2019). However, most loans actually go to SMES (Hochstetler and Montero, 2013), who use those funds to increase investments and make productivity gains (Cavalcanti and Vaz, 2017).[20]

[20] The fact that SMEs and light industries generally require less capital than larger firms in heavy industries means more firms can be financed for less.

Narratives emphasizing that state-owned banks ultimately do more harm than good also underestimate the ability and the willingness of privately owned banks to support the productive sector, even with the assistance of an NDB. For example, most privately owned banks lack staff who are aware of the idiosyncrasies of enterprise financing across many sectors. Moreover, setting up such specialised departments may prove expensive, and the projects they will underwrite are not guaranteed to generate profits, especially in the short run.

Put differently, the private sector's incentive to minimise costs and maximise returns (Hart *et al.*, 1997) as soon as possible means that there is no financial rationale for most privately owned banks to develop robust in-house loan appraisal, monitoring, and evaluation units for complex sectors, such as manufacturing. In Mexico, for instance, the country's largest NDB (Nacional Financiera or NAFINSA) was responsible for about a third of financing in the manufacturing sector, mainly targeting state-owned enterprises (SOEs) (Frieden, 1981, p. 415). The Latin American debt crisis and financial sector reforms in the 1980s, however, made NAFINSA shift from being a first-tier lender to SOEs to operating as a second-tier lender working with privately owned banks.[21] Instead of supporting manufacturing firms that can improve Mexico's position in global value chains, privately owned banks have been shown to use NAFINSA-backed funds to promote ventures in commerce, services, and distribution, which are easier to appraise and offer shorter-term returns (Moreno-Brid *et al.*, 2018).

Another reason privately owned banks aren't necessarily the best equipped to finance economic development is due to their procyclical lending behaviour. For example, a study of 336 banks operating in Latin America and the Caribbean between 2000 and 2014 reveals that privately owned banks do lend more than NDBs in normal times. In contrast, the 2007–2009 Great Recession saw NDBs increase lending by around 7.5 percent, while lending from privately owned banks went down by about 3.2 percent (Brei and Schclarek, 2018). Larger NDBs such as KfW, BNDES, and CDB also improved their

21 NAFINSA's shift from first-tier to second-tier lending was also a result of Mexico's of the closure, privatization, or downscaling of SOEs following structural adjustment in the early 1990s.

asset position, as they ramped up efforts to provide loans to firms abandoned by privately owned banks (Culpeper, 2012).[22]

KfW's countercyclical role demonstrates the importance of NDBs, even in developed financial markets. KfW is the second largest bank in Germany, accounting for around 12 percent of total bank credit (Griffith-Jones and Cozzi, 2017). KfW is also one of the few NDBs, alongside CDB and BNDES, with assets surpassing that of large multilateral development finance institutions, such as the World Bank (de Luna-Martinez and Vicente, 2012). KfW's continued relevance resides in its proximity to policymakers and regulators and technical expertise. For instance, KfW's close relationship with German executive and legislative bodies and its experience in appraising projects across many sectors allows the bank to shape the conceptual, financial, and operational modalities of economic development programs. KfW's rigorous risk assessments also helps it meet the performance standards of privately owned banks. Together, KfW's information advantage and its intersectoral technical expertise, which most commercial banks lack, give it the toolkit to fund ventures that significantly contribute to Germany's economic development (Moslener *et al.*, 2018).

In sum, the prospect of government failure does not provide enough reasons to rule out NDBs as tools to promote economic development, given the inability or the unwillingness of privately owned banks to finance risky projects with long gestation periods. Instead of dismissing state-owned banks altogether, academics and policymakers would be better served learning from NDBs that have managed to accomplish their mission.

[22] For some policymakers, the countercyclical role of NDBs is sufficient to justify their existence, since a well-managed NDB must be present throughout the business cycle to ramp up lending during economic downturns. Analogies in the literature have been drawn to illustrate the importance of NDBs by comparing them to a "Sleeping Beauty" that can be awoken when needed. NDBs have also been likened to a standing army, whose existence in peace time allows it to mobilise when a conflict arises, given that it will prove difficult for a country without a military to create one when invaded. Likewise, a state without an NDB will be ill-equipped to address credit crunches that tend to occur during financial crises (Gutierrez *et al.*, 2011, p. 11).

2.4. Features of Effective National Development Banks

A review of the literature on state-owned financial institutions reveals that effective NDBs share a lot in terms of their ①mandates, ②governance and management, and ③performance assessment.

First, while an NDB's mandate should be clear enough to give the bank a defined scope of action and avoid mission creep, it should aim as well to be adaptable in case the country's needs change over time. An NDB's mandate should, for instance, ideally specify target sectors that the bank will support due to market failures in the financial sector. Alongside identifying target sectors is including clear rules of cooperation with the private sector to ensure that NDBs serve as a complement, rather than as a substitute to privately owned banks. An NDB's mandate should also have language indicating financial sustainability as an objective (Rudolph, 2009, pp. 5-6). In Japan, for example, JDB's mandate upon its creation was "'to supplement and encourage the credit operation of ordinary financial institutions by supplying long-term funds in order to promote economic reconstruction and industrial development'" (Yasuda, 1993, p. 5). JDB's broad mandate gave it some flexibility in the way it functioned, with general guidelines being changed depending on the needs of the economy, as outlined in the Japanese government's five-year plans (Shimada, 2017, p. 167). JDB's mandate and target sectors were justified by the market failures that plagued Japan's financial sector in the decade following World War II. Namely, JDB was created to finance capital-intensive and externality-generating basic industries (steel, coal, and electricity), which private lenders snubbed for fast-growing export industries, such as textiles and foodstuffs (Yasuda, 1993, p. 24).

The second way to ensure the effectiveness of NDBs is through good governance and management. For instance, many well-run NDBs have an organizational structure that separates ownership and supervision. Additionally, successful NDBs tend to be overseen by an independent board, which strives to promote strong corporate governance, sound financial management, and transparent performance assessments through regular internal and external audits.

States that exhibit embedded autonomy tend to have NDBs with good governance and management. Autonomy implies that the state, which is staffed by a meritocratic bureaucracy with a strong corporate identity, can act coherently to formulate and implement national development goals driven by industrialization. Embeddedness entails having state bureaucrats create productive ties with capitalists (Evans, 1989). While embedded autonomy in Japan and South Korea is shown to permeate the entire government apparatus (including their NDBs), Brazil has 'pockets of efficiency,' such as BNDES, where embedded autonomy exists. This is evidenced by the bank's meritocratic public entry examination, which promotes corporate cohesiveness and a culture of service. BNDES's mission-oriented *esprit de corps* contributes to establishing norms that curtail arbitrary decision-making of politically appointed higher-level officials against the policy recommendations of technical staff (Evans, 1995, p. 61). For example, the bank's Project Evaluation Committee is composed of Adjunct Executive Directors, who are BNDES career employees, while the Board of Directors is nominated by the Brazilian president. The fact that project proposals at BNDES go through the Project Evaluation Committee before being presented to the bank's Executive Directors helps limit the influence of politics in the loan appraisal process (Ferraz and Coutinho, 2019, p. 96). Mechanisms that check undue political influence in the credit appraisal process are common among other successful NDBs. In China, for instance, randomly selected commissioners at CDB assess pitches from prospective borrowers and vote on whether to recommend a project. Applications that receive at least 70 percent of favourable votes are sent to the bank's president for a final approval or for a veto (Xu, 2018).[23]

The third way to ensure the effectiveness of NDBs is through rigorous performance assessment. Because profit-making for the kinds of firms supported by NDBs may take years to materialise,[24] banks issuing enterprise loans should include contingencies that give them the ability to cut financing, should businesses flounder: "The necessary condition for rent allocation[25] here is not just that a firm gets the rent that allows it to

[23] CDB's loan approval procedures, which were implemented in the late 1990s and early 2000s, contributed to the decrease in the bank's non-preforming loan ratio from 42.7 percent in 1997 to under one percent in the past decade. The period preceding these reforms saw China's government have total control over CDB's lending practices. For example, CDB's main role was to finance projects preselected by the state, which had little regard for their bankability. CDB before the reforms thus acted more as an extension of the Chinese treasury than as an NDB.

[24] This is especially the case when enterprises in countries attempting to catch up are adopting mature technologies.

[25] Khan refers to the funding of enterprises by the state as a 'learning rent.'

engage in learning-by-doing, but also that the conditions of rent withdrawal are clearly set out so that owners, managers, and others feel the compulsion to put in a high level of effort in the learning process" (Khan, 2013, p. 248). NDBs should therefore be wary of issuing the totality of loans to enterprises before their success has been established. 26 Ideally, these banks should only give the bulk of pledged disbursements to firms after they meet predetermined performance standards.

Performance-based financing is a common practice at the world's largest and most successful NDBs. To limit loan failure, JDB involved a third party as a monitoring agent and incrementally disbursed credit conditional on 'satisfactory progress.' JDB required enterprises to create a commercial bank account for the loan. JDB then tasked the commercial bank with monitoring the account to make sure that payments were only being made to businesses or individuals related to the project being financed (Yasuda, 1993, p. 37). Lines of credit granted by KDB also were not wholly allocated at the same time. Instead, funds were sent to a Credit Control Account, in which firms could only withdraw money for expenses approved by KDB. Other mechanisms KDB implemented to reduce lending risk included the cost-sharing of investments with the borrower to encourage conscious spending. Moreover, export firms recommended for KDB loans by Korea's Ministry of Commerce and Industry were no longer financed by the bank if they registered repeated poor performances (Amsden, 2001, pp. 145-149).[27]

This section showed that the NDBs which played a key role in promoting industrialization among late developers and emerging economies share similar qualities. Comparing the experience of BNDES, CDB, JDB, and KDB highlighted the value of clear and well-crafted mandates, good governance and management, and rigorous

[26] Enterprises may not like this arrangement, since it increases financing uncertainty, and may thus choose to engage in rent-seeking to guarantee a steady influx of funds from NDBs (Musacchio *et al.*, 2017).

[27] Besides subjecting their clients to performance standards and tight loan appraisal and monitoring, effective NDBs encourage borrowers to promote domestic capabilities when they source goods and services. For example, BNDES's client contracts in the 1970s and 1980s included clauses that conditioned financing on firms increasing the local input content for raw materials and equipment and prioritizing the hiring of homegrown managerial and technical talent (*Ibid.*, pp. 140–145). In Korea, KDB usually refused to give credit to enterprises intending to import locally made machines, but supported buyers of domestic machinery by issuing loans covering up to 90 percent of the purchase value (Chang, 1993, p. 135).

performance assessment. Of these three aspects, good governance and management are arguably the most important, since NDBs would struggle to accomplish their mission without strong leadership and oversight.

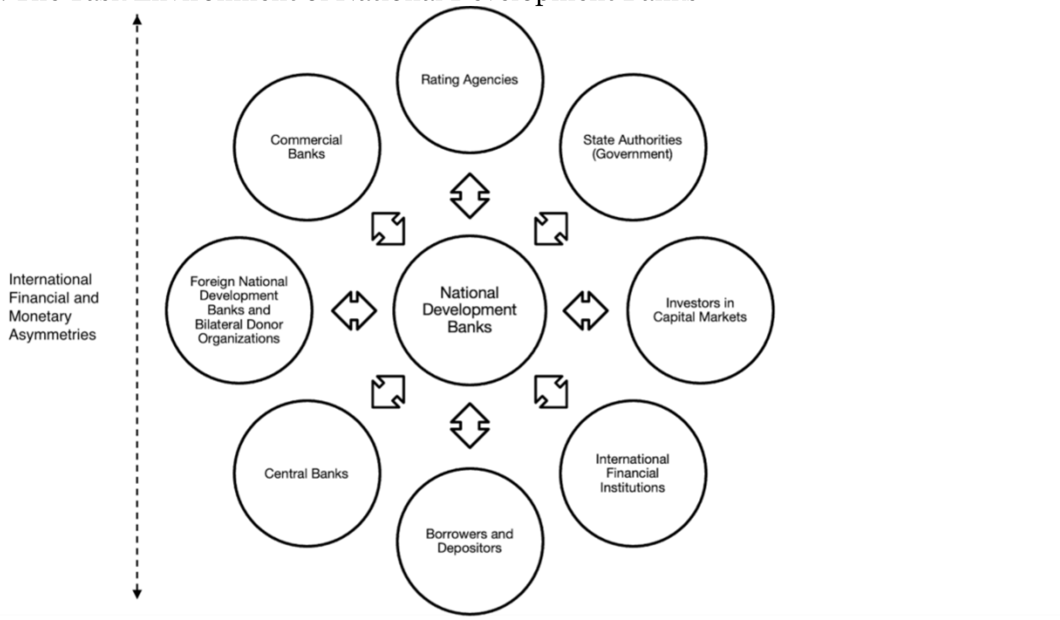
2.5. National Development Banks and their Task Environment

2.5.1 The Power of the Financial Sector

Actors other than state authorities can influence how NDBs behave. Section 2.3 discussed how financial sector reforms in Mexico limited NAFINSA's developmental role, while BNDES remains an important player in providing financial support to Brazil's agriculture and manufacturing sectors. NAFINSA and BNDES's respective trajectories following structural adjustment stem from differences in power relations between actors representing the state, finance capital, and industrial capital in both countries. In Mexico, these power relations featured the presence of a strong bankers' alliance that successfully pressured the government to deregulate the financial sector in the 1990s and restructure NAFINSA (Maxfield, 1991; Moreno-Brid *et al.*, 2018; Pepinsky, 2013). The power of financial sector actors in Mexico contrasts with what is observed in Brazil, where the relative weakness of privately owned commercial banks and the reliance of enterprises on public banks allowed BNDES to keep promoting industrialization (Ferreira and Rosa, 2017; Maxfield, 1991).

International Financial Institutions (IFIs), bilateral donors, rating agencies, and central banks also exist in the task environment of NDBs, as shown in Figure 2.2:

Figure 2.2. The Task Environment of National Development Banks



Source: Author's elaboration from (Tagieva, 2017)

An NDB's task environment aims to identify and chart all the actors who interact with these banks (*Ibid.*). However, its conceptualization in the literature does not explicitly address how power structures in the international financial system (Alami *et al.*, 2022) permeate the task environment of NDBs. Indeed, a careful analysis of the task environment of NDBs reveals the significant presence of "international financial and monetary asymmetries," where Global South countries have a subordinate status vis-à-vis ones in the Global North (Bortz and Kaltenbrunner, 2018, p. 388). For example, an international monetary hierarchy topped by the US dollar and the euro means lenders may charge Global South countries borrowing in these currencies with interest rate premiums to manage exchange rate risk. For borrowing countries, the need to hedge against macroeconomic and currency volatilities encourages them to accumulate excessive foreign exchange reserves, instead of using these resources to make more productive investments domestically (Kaltenbrunner and Painceira, 2018). The reliance of Global South countries on financing from bilateral donors, IFIs, and foreign investors drives them to liberalize their financial markets to attract foreign capital, including foreign-owned banks. While the entry of foreign banks in Global South countries is associated with greater access to consumer credit, these banks issue even fewer enterprise loans than local banks (Rashid, 2011).

2.5.2. Financialization, Capital Markets, and Prudential Regulation

Financialization, which has been progressing since the 1980s and represents "the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy" (Epstein, 2006, p. 3) has affected the way NDBs operate in two key ways.[28]

First, financialization has made it more difficult for NDBs in the Global South to raise funds. For example, the internationalization of securities markets has compelled states to have their central banks prioritise price stability over credit creation to signal credibility to investors (Maxfield, 1998). The internationalization of securities markets has also exposed the presence of structural asymmetries in the task environment of NDBs. For instance, KfW now leverages its AAA credit rating, which is the same as Germany's sovereign rating, to cheaply secure 90 percent of its financing needs on international capital markets (Tagieva, 2017, pp. 141-142). Because they are state-owned, NDB credit ratings usually mirror sovereign ratings. Alongside being a well-capitalised and well-managed bank, KfW's credit rating is thus also a function of the bank having a rich country (Germany) that uses a global reserve currency (the euro) as a guarantor. Fundraising on international capital markets allowed KfW to circumvent the Organisation for Economic Co-operation and Development's (OECD) restrictions on government-subsidised trade credits when it helped finance the development of the Airbus since the 1970s (Naqvi *et al.*, 2018, p. 684). Unlike KfW, NDBs in Global South countries find raising capital on international financial markets costly, given their poorer standing in global income and monetary hierarchies, which is reflected in the lower credit ratings they generally receive (Tagieva, 2017, pp. 141-142). For instance, BNDES, whose B-range credit rating mirrors Brazil's sovereign rating (*Ibid.*), mainly relies on a collection of taxes paid by workers and firms, alongside federal treasury transfers (Hochstetler and Montero, 2013, p. 1490).

The second way that financialization affects some NDBs is by penalizing long-term lending to enterprises. The internationalization of securities markets, and of financial

[28] Financialization is associated with neoliberalism (Fine, 2012), shareholder capitalism (Lazonick and O'Sullivan, 2000) and deindustrialization as companies (including banks) and states invest more in financial assets at the expense of productive sectors to maximise short-term profits (Arrighi, 2010; Fine, 2013; Lapavitsas, 2013).

markets more broadly has increased the need for international agreements on regulatory and supervisory standards for financial market participants. Introduced by the Bank for International Settlements in the 2010s, the third and latest version of the Basel Capital Accords for financial regulation and risk management has several pillars. For example, banks under Basel III must have a 12.5 percent minimum capital adequacy ratio, which measures the relationship between a bank's capital to its risk-weighted assets. Banks must also meet a minimum liquidity ratio requirement of 100 percent, which measures a bank's assets to its sight liabilities (Jones, 2020).[29]

Although it is too early to fully assess the effect of Basel III on the behaviour of banks, these regulations are likely to have a negative impact on development finance. The implementation of Basel I in the 1990s and Basel II in the 2000s was associated with a decline in credit to the private sector in countries that endorsed these prudential norms (Gottschalk and Sen, 2010). The need to satisfy Basel's capital adequacy requirements makes banks focus on consumer loans, which are usually less risky than enterprise loans. Additionally, the criterion for short-term liquidity coverage deters banks from issuing long-term loans to avoid asset-liability mismatches. The Basel Accords also reinforces the procyclicality of banking due to the higher probability of loan default during financial crises, which increases credit risk and threatens capital adequacy and liquidity coverage. Because full prudential compliance would impair their ability to play a promotional and countercyclical role, NDBs such as KfW, BNDES, and CDB are either exempt from adopting certain principles of Basel III, or have tailored and separate regulatory frameworks (Gottschalk *et al.*, 2021).[30]

The effects of financialization on NDBs in the Global South contrast with the greater control late developers had on their financial sector from the 1950s to the 1980s. For example, the task environment of NDBs in East Asian countries during their high growth phase was one where state authorities subordinated financial capital to industrial capital (Stiglitz and Uy, 1996; Wade, 2003; Winters, 1994). In Japan, strict government regulation of a financial sector dominated by privately owned banks allowed the state to channel money toward industrial promotion. Because of underdeveloped domestic

[29] Short-term liabilities that are generally due within 30 days.
[30] KfW and BNDES are exempt from Basel III liquidity ratios, while CDB has a tailored and separate regulatory framework.

capital markets, most Japanese banks in the 1950s-80s borrowed funds from the central bank (the Bank of Japan), which followed directives from the Ministry of Finance, the Economic Planning Agency, and the Ministry of International Trade and Industry. Banks that depended on the Bank of Japan for money were given a list of industrial sectors and companies to support (Zysman, 1983, p. 249). This list closely matched firms financed by the state-owned banks, including JDB, which as a group only supplied around 10 percent of industrial equipment funds in Japan between 1960 and 1985 (Yasuda, 1993, p. 6).[31] [32]

JDB drew most of its funds from the Trust Fund Bureau at the Ministry of Finance. This Trust Fund Bureau was mainly supplied by deposits made to Japan's Post Office Savings Bank, which at the time was the largest deposit institution in the world.[33] Moreover, the fact that interest rates on deposits at the Post Office Savings Bank rose sharply after three years led to longer retaining periods for deposits, giving JDB accesses to longer-term resources (Yasuda, 1993, p. 5).[34] Through its strong regulation of the financial sector, the Japanese government was able to leverage both state-owned banks and privately owned ones when allocating funds to priority capital and knowledge-intensive sectors.

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[31] See Graph 1 in Yasuda (1993)

[32] The ability of central banks to promote structural transformation predates the 20th century. Unlike the post-World War II period that saw the creation of KfW, privately owned universal banks were the ones providing loans and equity capital to enterprises during Germany's 1870–1914 Industrial Revolution (Gerschenkron, 1979; Tilly, 1967; Trebilcock, 1982). At the time, state involvement in Germany's financial sector was mainly done through the central bank (the Reichsbank), which acted as a lender of last resort to other financial institutions. Access to the Reichsbank's refinancing facilities allowed German universal banks to more comfortably use short-term customer deposits to make long-term enterprises loans (De Cecco, 2005, p. 355). In contrast, the French central bank before its nationalization in 1945 was a privately owned bank with a note-issuing monopoly, where major shareholders selected the bank's regents and the state named the governor. The Banque de France's private ownership was in part blamed for the demise of the country's main industrial bank in the 19th century, the Crédit Mobilier. This is because the Banque de France's hawkish shareholders refused to provide the Crédit Mobilier with emergency funding to support its infrastructure projects when the bank faced asset-liability mismatches (Chandrasekhar, 2016, p. 22) (De Cecco, 2005, pp. 352–355).

[33] Deposits at Japan's Post Office Savings Banks in 1986 accounted for around 25 percent of all personal deposits held in the country. This was equivalent to about 20 percent of Japan's total savings.

[34] The average retaining period of postal savings deposits in 1965 was 3.85 years, compared to 0.85 years at other banks.

South Korea also used the entire financial sector to support its main NDB. While KDB mainly borrowed from multilateral development banks and on international capital markets, remaining financing was secured via a National Investment Fund. This fund was replenished through the sale of debt instruments that commercial banks, which were fully government controlled from the early 1960s to the early 1990s, were forced to purchase (Chang, 2006, pp. 261-276) (Lee, 2019, p. 5)

This section showed that government ownership is not the only factor that determines the behaviour of NDBs. Besides state authorities, other actors in an NDB's task environment can affect the ability and the willingness of these banks to promote economic development. The extent to which NDBs can influence or be influenced by these actors is, in turn, conditioned by power asymmetries in their task environment, which financialization exacerbates.

2.6. National Development Banks in Africa

As in other regions of the world, African NDBs waxed and waned since their establishment. When they achieved independence in the 1960s and 1970s, most African states heavily relied on primary commodity exports for revenue. To diversify and upgrade their economies, many of the continent's leaders implemented import substitution industrialisation (ISI) schemes, which NDBs were set up to help finance. However, these NDBs were often poorly managed, with excessive political interference resulting in non-performing loans and debt accumulation in the 1980s and 1990s (Brownbridge and Harvey, 1998).[35]

When these countries were subject to the Structural Adjustment Program (SAP) of the World Bank and the International Monetary Fund (IMF), they were advised to close their NDBs or privatise them, given their lacklustre performance. Another option

[35] The strained fiscal position these countries faced was also a consequence of rising energy prices and falling returns on non-energy exports after the first and second oil crises in 1973 and 1979, respectively. The stagflation that ensued in advanced economies following the shocks pushed these countries to adopt contractionary monetary policies. The resulting decrease in liquidity among the world's largest currency issuers raised global interest rates, which increased the debt burden of developing nations that relied heavily external borrowing. While IFIs, such as the IMF and the World Bank, helped affected states service their debt, the loans and grants they issued were conditional on governments shedding parastatals, including NDBs, to reduce fiscal spending.

recommended to NDBs has been to move from first-tier (direct) enterprise lending and focus on retail banking and second-tier project financing through partnerships with commercial banks and the IFIs (Honohan and Beck, 2007; The World Bank, 2013).

Surveys of 33 members of the Association of African Development Finance Institutions (AADFI)[36] support the claim that NDBs in Africa tend to struggle. For example, 50 percent of African NDBs surveyed reported "having no written performance agreement with the government documenting the mandate, the objectives, the strategy and the financial and non-financial targets"(Calice, 2013, p. 20). Moreover, 70 percent of banks surveyed mentioned that their management was not subject to performance-based contracts, which reduces leadership accountability. Weak loan appraisal, monitoring, and evaluation mechanisms also hinder African NDBs. For instance, over 50 percent of NDBs surveyed noted that they lack the staff to deal with delinquent borrowers, which helps explain why 52 percent of these banks have NPLs that are greater than 15 percent (*Ibid.*).

Econometric work done by the Overseas Development Institute (ODI) corroborates these surveys' findings by showing that the political appointment of executive management leads to higher NPLs and lower returns on assets (ROAs) among African NDBs. Additionally, the financial performance of African NDBs is linked to the presence of independent board members, who help separate a bank's ownership from its management. However, ODI's report also suggests that good governance and financial performance do not guarantee that an NDB will successfully promote structural transformation. Although two thirds of the NDBs in ODI's sample are financially sound, they are often too small to significantly impact economic development (Attridge *et al.*, 2021).

While countries with relatively small NDBs, such as Japan, could leverage their entire financial sector to promote industrial policy, the task environment of African NDBs has made this type of solution difficult to achieve. Contra Japan and other East Asian

[36] The 33 NDBs were surveyed in 2009 and 2011. At the time, these banks represented 69 percent of AADFI members, and accounted for 40 percent of government-owned assets on the continent.

states during and after their 'miracle' years, the task environment of African NDBs features the continued domination of foreign-owned banks.[37]

Many of the largest private sector banks operating in Africa were established during the colonial period as subsidiaries of European financial groups. Historically, these foreign-owned banks had hindered the development of indigenous productive sectors by almost exclusively servicing foreign-owned enterprises involved in the extraction of raw materials (Nkrumah, 1965, pp. 220-227). The emergence of Pan-African banking conglomerates such as Ecobank in the 1990s has eroded the domination of European banks in Africa's financial sector. Yet, these pan-African banks haven't filled the gap left by the hollowing out of NDBs for two reasons. Firstly, the private ownership of these Pan-African banks means they are more likely to focus on less risky customers, such as governments (through the purchase of high-interest bonds), consumers, and large firms, which are usually foreign multinationals (Kvangraven *et al.*, 2021; Mkandawire, 1999). Secondly, the fact that Pan-African banks seldom have major shareholders from the country where operate suggests that they will not have a home bias when issuing loans and buying equity stakes (Koddenbrock *et al.*, 2020, p. 13).[38] The prospect of Pan-African banks and subsidiaries from international ones changing their current business model is improbable, since these banks tend to enjoy better returns than their counterparts in other regions due to higher interest rate spreads (Banque de France, 2009; Griffith-Jones *et al.*, 2014)

Central banks in Africa have also been unable or unwilling to supply NDBs with the support they need to promote economic development. Many African central banks from independence until the 1980s helped direct credit to farmers and industrialists by setting interest rate ceilings for agriculture and manufacturing loans and providing NDBs

[37] Japan's experience with development banking started when the country began to industrialise in the mid-to-late nineteenth century. Initially, quasi-banks, which evolved from the financial institutions of feudal Japan, lent money for the production and sale of the country's then main commodities (rice, silk, and tea). These quasi-banks quickly gave way to privately owned special banks, such as the Industrial Bank of Japan (est. 1902), which became an important source of long-term financing for infrastructure agriculture, and manufacturing projects—even after JDB's creation (Patrick, 1967; Yasuda, 1993).

[38] For example, Ecobank is headquartered in Togo and operates in over 30 African countries. Yet, the bank is majority-owned by the Dutch Nedbank, Qatar National Bank, the World Bank's International Finance Corporation (IFC), and South Africa's Public Investment Corporation.

with refinancing facilities (Lane, 1989; The World Bank, 1990). However, the increasing reliance on official development assistance, IFI grants and loans, and foreign direct investment that came with structural adjustment pushed African central banks to align themselves with the prevailing neoliberal orthodoxy and adopt mandates emphasizing price stability over credit growth (Dafe, 2019; Mkandawire, 2014).

The ability of foreign players to influence the behaviour of African NDBs is further explained by the fact that many of these banks rely on financial support and technical assistance from IFIs and bilateral donors to function. In the two decades following the independence of most African countries (1960s to mid-1980s), foreign assistance was instrumental in setting up NDBs in the region that directly lent to enterprises involved in agriculture and manufacturing (Harlander and Mezger, 1971; Oloka-Onyango, 1987). However, the changes in the dominant economic ideology made foreign actors reluctant to endorse African NDBs engaged in first-tier lending. Instead, these banks were encouraged to focus on wholesale operations so that government failure through NDBs could be minimised (The World Bank Group, 2016)–a practice whose limitations were discussed earlier in this chapter. Additionally, while working with IFIs and privately owned banks provide African NDBs with greater access to money and manpower, over-reliance on other financial market participants has reduced the ability of NDBs to determine the end use of resources (Humphrey, 2019). More importantly, the governance issues African NDBs face should be addressed directly, rather than by being sidestepped through 'outscoring'.

The experience of the Development Bank of Ethiopia (DBE) shows that African NDBs can effectively support local enterprises (Abebe and Schaefer, 2015, p. 147; Hauge, 2017). Established in 1909, DBE played a key role in helping Ethiopia become one of the most important cut flowers exporters, with almost two thirds of firms in the sector having relied at some point on the bank's loans (United Nations Economic Commission for Africa, 2016, p. 68). To support cut flower farms, DBE engaged with professional organizations such as the Ethiopian Horticulture Producers and Exporters Association and with NDBs in foreign countries, including the Netherlands, which is the world's largest flower exporter. DBE is reported to have a designated contact officer for each client farm, alongside research teams that provide services in financial management and export marketing. DBE also supported horticulture companies by acting counter-cyclically when the Great Recession slashed the global demand for flowers. For example, DBE rescheduled loan repayments, gave additional credit, and, sometimes, took over the management of ailing firms. Together, these measures allowed Ethiopia's cut flower industry to emerge from the crisis with few foreclosures (Abebe and Schaefer, 2015, pp. 147-148).

This section showed that NDBs in Africa have experienced ups and downs, much like their counterparts around the world. Contra many late developers, however, the persisting presence and domination of foreign-owned banks in Africa make it difficult for NDBs in the region to mobilise resources. Even central banks and the IFIs, which initially supported African NDBs, have been less willing to do so in the last 30 years, especially when these banks focus on first-tier lending.

2.7. Conclusion

This chapter provided an overview of the literature on NDBs. Specifically, it demonstrated that the existence of market failures in the financial sector means that the state, through NDBs, has a key role to play in providing support for selective industrial policy at all income levels. Although critics of NDBs want them to be phased out or transformed into wholesale lenders, the risk aversion and the short-termism of privately owned banks justify the continued presence of NDBs with first-tier operations. The examples presented throughout the chapter also showed how effective NDBs limit government failure by being mission-oriented, having good governance and management, and devising and implementing performance-based financing schemes.

Another objective of this chapter was to determine the factors that influence the ability and the willingness of NDBs to accomplish their goals. Mainstream analyses of NDBs usually attribute their failure to poor leadership. By identifying how the task environment of NDBs affects their performance, this chapter highlighted the existence of structural variables beyond the control of NDB management and government authorities that can make it difficult for these banks to perform well. Indeed, while the governance of African NDBs has a significant impact on their financial performance, an even bigger factor behind it is their inadequate capitalization, which their task environment, especially the long-standing dominance of foreign banks, perpetuates.

Financialization, which has progressed in the last few decades, can grant NDBs with new sources of funding via international capital markets. However, the extent to which an NDB can rely on international capital markets to borrow cheaply is contingent on their country being one of the few dominant players in the international financial and monetary system, which no African country is. The IFI-led push for financialization also gives governments in developing and emerging economies and their central banks less policy space to use credit controls, which was how many late developers supported their NDBs.

The next four chapters of the thesis will examine the task environment of NDBs in Côte d'Ivoire and Rwanda, starting with the relationship between these banks and state authorities.

Chapter 3—National Development Banks and the State in Côte d'Ivoire and Rwanda

3.1. Introduction

Key to analysing the role and impact of NDBs is understanding their relationship with state authorities. Indeed, NDBs are public sector bodies established by the state to help government carry out national development plans. Additionally, many NDBs are reliant on the state to raise funds through treasury transfers or government guarantees. The public sector's stake in NDBs means government representatives also tend to feature on an NDB's board of directors, which gives the state another means to influence how these banks operate. In other words, NDBs' proximity with government grants them an information advantage vis-à-vis privately-owned banks, as well as access to sovereign-backed funds. However, state ownership can hurt NDBs if government officials use bank funds for personal gain.

In this chapter, I will explore these themes in the context of Côte d'Ivoire and Rwanda. First, I will provide an in-depth overview on NDBs in both countries, including the history behind their founding and the evolution of their ownership structure and economic impact. I will then look at the governance track record of these banks, with a focus on how corruption has affected their ability to fulfil their mandate. Specifically, I will demonstrate that the establishment of NDBs in Rwanda and Côte d'Ivoire played a central role in creating and growing indigenous firms, particularly in manufacturing and agro-processing. Although NDBs in both countries have occasionally been hampered by some types of political influence, the likelihood of widespread corruption and embezzlement going unpunished is small, contrary to popular conception. The conclusion to this chapter draws lessons by comparing NDBs in both countries.

3.2 The Historical Context

The creation of NDBs in Côte d'Ivoire in Rwanda was motivated by both states' desire to redress the unequal access to enterprise finance bequeathed from colonial rule. When Côte d'Ivoire was a French colony, its two most important banks (the Banque de l'Afrique

Occidentale and the Crédit Foncier de l'Ouest Africain) almost exclusively lent to European traders. As a result, these loans helped perpetuate an economic model that prioritised the export of raw commodities over local value addition (Nyong'o, 1987, p. 201).[39]

Following the Second World War, the French government embarked on a plan to upgrade the economies of its colonies, which lacked manufacturing and mechanised agriculture. To achieve these objectives, special credit institutions, such as the Crédit de la Côte d'Ivoire (CCI)[40] were set up in the 1950s to provide loans to SMEs in the French colony.[41] However, the absence of rules granting preferential treatment to indigenous entrepreneurs meant loans were generally issued to firms run by Europeans (Cisse, 1986, p. 31).[42] Indeed, firms owned by European settlers in Africa were advantaged vis-à-vis indigenous-owned ones when it came to access to finance due to the former being more likely to have credit history, collateral, or backing from a parent company. Further increasing the riskiness of lending to indigenous firms compared to foreign-owned ones were the high costs associated with the loan appraisal process, which could not be recovered in the event of a default (*Ibid.*, pp. 30-36).

With autonomy within the French Empire achieved in 1958 and independence in 1960, Côte d'Ivoire set up NDBs alongside CCI, chief of which were the Banque Ivoirienne de Development Industriel (BIDI) for manufacturing, the Banque Nationale pour le Development Agricole (BNDA) for agriculture, and the Caisse Autonome d'Amortissement (CAA), which managed public debt and provided banking services to SOEs (this chapter and thesis focuses on BIDI and CAA due to their outsized role in financing Ivorian enterprises). While CAA was established in 1959 with 100 percent government ownership to support the public sector, BIDI was created in 1965 as a joint-

[39] Plantations and stock raising accounted for 30.8 percent of French private capital invested in Africa by 1940, alongside real estate (48.5 percent), banks and industries (17.1 percent), and forests (12.5 percent).
[40] CCI was established in 1955.
[41] Similar institutions were set up in France's other colonies.
[42] For example, the special credit institution for France's central African colonies allocated 77.8 percent of agricultural loans to Europeans, with Africans receiving the remaining 22.2 percent of credit.

stock company "to promote the setting-up and management of [private][43] industrial enterprises, which have been established under Ivorian law, particularly mining enterprises, plantations, industrially operated fisheries, timber and wood processing industries, and to encourage domestic and foreign capital to cooperate in promoting the development of the country" (Harlander and Mezger, 1971, p. 270). BIDI's joint-stock status meant it had multiple shareholders, who were divided into two categories. The first category of shareholders represented Ivorian public sector bodies, such as the whole government and the central bank, as well as bilateral and multilateral agencies, including the French Development Agency (the Caisse Centrale de Coopération Economique *or* CCCE) and the International Finance Cooperation (IFC). Together, public sector actors held 50 percent of BIDI's share capital. The other half of BIDI's share capital was held by private domestic and foreign capital, which included prominent banks, such as Chase Manhattan and Lazard Brothers (*Ibid*., pp. 272-273; The World Bank, 1985, p. 1).

Rwandan-owned firms also historically struggled to access financing. As in Côte d'Ivoire, banks in Belgian-administered Rwanda were run by Europeans, who rarely lent to indigenous entrepreneurs. Because of these credit policies, the initial stages of Rwanda's industrialization in the early 1960s was kickstarted by foreigners, especially Belgians. For example, one of Rwanda's largest coffee processors and exporters[44] was established by Belgians in 1964. The three companies that controlled Rwanda's mineral production in the country's early independence years were Belgian-owned, too (Tchundjang Pouemi, 2020, p. 172).[45] The ability of foreign firms to control the commanding heights of Rwandan industry, even after independence in 1962, was enabled by the country's first major investment code. When it was promulgated, Rwanda's 1964 Investment Code guaranteed the repatriation of interest earnings and dividends. Foreign firms were also exempt from import duties on capital goods and were offered a five-year tax holiday. All in all, these structural and historical factors contributed to only two Rwandan-owned manufacturing firms emerging in the 1960s (Gathani & Stoelinga, 2013,

[43] Here, private enterprises include firms with public shareholding, so long as their management is not left to civil servants.
[44] Rwandex, known today as the Rwandan Trading Company (RTC)
[45] These were the Société des Mines d'étain du Rwanda, the Société Minière de Kigali, and the Compagnie Géologique et Minière du Rwanda.

pp. 9–10).[46] Established in 1965, the first of these two firms (Amagerwa) operated in the export-import sector before producing construction materials. The second manufacturing firm (Rwanda Paints) was established in 1968. Both enterprises still exist today.

Rwanda's first Five-Year Plan (1966–1970) marked a shift in the government's growth strategy, with the government now aiming to establish and grow more indigenous-owned firms in manufacturing and agribusiness, especially in coffee, tea, pyrethrum, and textiles (Gathani and Stoelinga, 2013, p. 10). With this goal in mind, the Banque Rwandaise de Développement (commonly known as the Development Bank of Rwanda or BRD) was established as a Limited Liability Company (LLC) in 1967 with a "broad mandate to encourage the creation and development of productive enterprises in Rwanda through the provision of long-and-medium-term loans and guarantees and equity participations" (The World Bank, 1979a, p. 10). Like BIDI, BRD's share capital was composed of two tiers, with all shareholders having the same rights and privileges. The first tier (or 'A' tier) consisted of at least 55 percent of BRD's share capital and was reserved for government and public sector agencies, while the second tier (or 'B' tier) was open to private and foreign shareholders, such as CCCE and the German Investment Corporation (Deutsche Entwicklungsgesellschaft) (The World Bank, 1979b, p. 8).[47]

To summarise, the birth of NDBs in Côte d'Ivoire and Rwanda stemmed from the desire of each country after independence to provide financial support to indigenous enterprises, which were underserved by banks during the colonial period. While some of these NDBs were wholly state-owned, others had a combination of public, private, domestic, and foreign shareholders.

3.3. From BIDI and CAA to BNI

BIDI and CAA became the primary source of long-term financing for Côte d'Ivoire's manufacturing sector, which grew at around 9.1 percent per year during Côte d'Ivoire's economic miracle in the 1960s and 1970s (Kelsall and Booth, 2013, p. 32). For instance,

[46] Established in 1965, the first of these two firms (Amagerwa) operated in the export-import sector before producing construction materials. The second manufacturing firm (Rwanda Paints) was established in 1968. Both enterprises still exist today.

[47] In 1979, the breakdown of BRD's share capital was as follows: 62.5 percent for the public sector, 15.8 percent for the domestic private sector, and 21.7 percent for foreign shareholders.

60 percent of BIDI's financing in those decades went to newly created enterprises, with about 40 percent of these firms being majority-owned by Ivorians. By 1981, BIDI had invested in 499 ventures (The World Bank, 1985, p. 16). Of these firms, 16 percent were in food processing, 11 percent in chemicals, 10 percent in textiles, and 21 percent in transport and services. The bulk of BIDI's financial support took the form of credit lines, most of which were long-term (44 percent and 43 percent of BIDI's loans were medium- and long-term, respectively). Short-term loans accounted for 10 percent of BIDI's commitments, while the remaining 3 percent of the bank's investments were made through the purchase equity positions (*Ibid.*).

Two examples of major firms that benefited from BIDI funding were a pineapple processing firm (SALCI)[48] and a textile firm (SOTEXI).[49]

The 1960s and 1970s saw Côte d'Ivoire grow to become one of the world's largest pineapple exports and the European Economic Community's (EEC) principal pineapple provider, covering approximately 78 percent of the bloc's imports in 1972 (Guyot *et al.*, 1974, p. 95). SALCI, which mainly exported canned pineapples to France, sought to double production to lower costs through economies of scale and increase its reach in other EEC countries, in which the business was able to meet 23 percent of the trading bloc's demand (*Ibid.*). To this end, BIDI assisted SALCI by granting the firm a long-term loan to modernise its factory (Harlander and Mezger, 1971, p. 297) and solidify is status as the most important pineapple canning company in Africa (Guyot *et al.*, 1974).[50] In the textile sector, BIDI had a 15 percent equity stake in SOTEXI, which manufactured cotton threads and dyed cotton fabric for the domestic market. Alongside the state, which had a 20 percent equity stake in SOTEXI, and foreign shareholders, BIDI's involvement in SOTEXI helped it purchase machinery from Japan and become "the most modern textile firm in Africa, and one of the most modern in the World" (Harlander and Mezger, 1971, p. 298).[51] Besides providing financial support to both import substituting and export-

[48] Société des Ananas de Côte d'Ivoire
[49] Société Industrielle Textile de la Côte d'Ivoire
[50] SALCI started canning pineapples in 1947 as a French-owned firm (Société Alsacienne de Côte d'Ivoire). Ivoirian participation in the enterprise came after the country's independence in 1960.
[51] SOTEXI had a capacity of 12,500 tons of cotton per annum. In comparison, the standard textile plant in the United States had a yearly capacity of 10,000 tons of cotton (Nyong'o, 1978, p. 16).

oriented enterprises, BIDI undertook feasibility studies for possible ventures, such as the manufacturing of charcoal from wood and the freeze-drying of coffee (The World Bank, 1985, p. 4).

BIDI was able to nurture Ivorian capital and be in good financial health. Indeed, BIDI consistently registered net annual profits in the 1960s and 1970s and paid dividends to its shareholders. BIDI's ability to achieve its developmental mandate and be financially sustainable was due to its portfolio, which was "exemplary, with only 2.2 % of outstanding loans being affected by arrears in 1975" (*Ibid.*, p. 1). The bank was also described as "without doubt … *the most efficient development financing institution in the Francophone area south of the Sahara*" (Harlander and Mezger, 1971, p. 304).

CAA's role when it was established was threefold. Specifically, the bank was tasked with the management of public debt, the management of deposits from SOEs, and the management of special funds. The management of deposits was particularly important to the financing of enterprises, since these deposits were either lent to SOEs, or used to refinance other NDBs, such as BIDI. To prevent the transfer of resources from enterprises to the government, CAA had legal statutes forbidding it to use SOE deposits to service public debt (Caisse Autonome d'Amortissement (Côte d'Ivoire), 1997, p. 81). The SOEs that deposited funds at CAA and borrowed from the bank operated in many sectors, including agricultural and infrastructure development, housing, petrochemicals, and textiles. Other state-owned assets at CAA include funds owned by ministries, as well as special funds for economic and social development projects, which were usually co-financed by the Ivorian government, bilateral donors, and IFIs (*Ibid.*, pp. 8-17).

BIDI and CAA started struggling in the 1980s. For example, BIDI saw its net profits almost halve between 1980 and 1981 (The World Bank, 1985, p. 16), while CAA's deposits shrank by almost two thirds between 1989 and 1990. These declining revenues were driven by rising NPLs, which were as high as 90 percent that decade (The World Bank, 1997, pp. 20-21).

BIDI's changing fortunes in the 1980s was driven by two major factors. The first factor was the slowdown of the Ivorian economy following the crash in global commodity prices in the late 1970s that adversely affected the income of enterprises, which made it difficult for these firms to repay their loans. BIDI nevertheless played an important countercyclical role through extending loans to enterprises that would have, otherwise, not survived the economic crisis. By "taking on this high risk, loss-making role, the Ivorian state may appear to have acted in an unbusinesslike manner, but its activities were necessary to the continued rise of the Ivoirien [*sic*] business class" (Rapley, 1993, p. 136).

Rising NPLs and declining profits at BIDI in the 1980s can also be attributed to bank staff abusing Cote d'Ivoire's regulatory environment. At the time, the Central Bank of West African States (BCEAO), which supervises Côte d'Ivoire's financial sector, allowed any bank to use up to 20 percent of its equity to issue loans to its staff to offer them mortgage benefits, for example. However, the lack of restrictions on the end use of these funds also incentivised their mobilization to finance businesses connected to BIDI staff, which represents a conflict of interest (The World Bank, 1985, p. 3). Some of BIDI's appraisal reports also lacked in-depth market analysis, which led the bank to finance projects that were not economically viable (*Ibid.*, p. 20).

BIDI's enterprise loan appraisal capabilities were further compromised by the bank's decision to change its business model in the late 1970s. The reason behind BIDI's business model change can be traced back to 1975, when BCEAO decided to abolish the *de jure* distinctions between development and commercial banks. These distinctions had been established at independence to minimise the risk of asset-liability mismatches associated with universal banking. Over time, BCEAO's desire to encourage commercial banks to provide longer-term loans to enterprises pushed the central bank to change its regulations. For NDBs such as BIDI, BCEAO's reforms meant it now had to compete with commercial banks for market share. BIDI consequently decided to diversify its activities by accepting customer deposits and engaging in short-term lending (*Ibid.*, p. 15). However, the creation of BIDI's retail banking arm led to asset-liability mismatches, which adversely affected the bank's operations (*Ibid.*, p. 4). Together, these variables contributed to BIDI's liquidation in 1989 (The World Bank, 1997, p. 18).

Parallels can be drawn between BIDI's struggles and CAA's. Because the 1980s economic crisis hampered the performance of paraparty, SOEs with deposits at CAA or loans with the bank were, at best, forced to dip into their reserves or, at worst, unable to payback their debt (*Ibid.*, p. 21). CAA' s loam appraisal, monitoring, and evaluation procedures were also deemed lacking. For example, some projects were not subject to vetting, with loans to select enterprises being issued at the government's behest. CAA was sometimes even ordered by certain ministries to extend credit lines to certain firms, despite the bank warning that these borrowers were very likely to default on their loans.[52] Other organizational issues that plagued the bank included the absence of a Credit Committee, which gave CAA's director general discretionary powers over loan approvals (Caisse Autonome d'Amortissement (Côte d'Ivoire), 1997, pp. 27-30).

The 1980s economic crisis also pushed CAA to violate its statues. During Côte d'Ivoire's miracle years, the government relied heavily on external borrowing to finance public investment projects. However, the economic slowdown of the 1980s, combined with the rise in global interest rates meant the Ivorian government had fewer resources to service its mounting foreign debt. To avoid default, the Ivorian government forced CAA to bypass its rules and use funds deposited by SOEs to help pay the state's loans. This support took the form of long-term credit lines to the Ivorian treasury at a three percent interest rate, compared to an 11 percent interest rate for loans to other borrowers (*Ibid.*, p. 32).

Yet, unlike BIDI and Côte d'Ivoire's other NDBs, CAA was not liquidated.[53] The bank was recapitalised in 1994 and had debt due to it provisioned or securitised by the state, and saw its staff cut by 42 percent between 1991 and 1995. (African Development Bank, 1995, pp. 9-10; The World Bank, 1997, pp. 39-40). CAA's rescue was likely due to its status as a body which managed public debt. The bank did play a frontline role during the 1990s structural adjustment by issuing bonds to service the public sector's arrears to commercial banks. CAA also took on the debt of liquidated NDBs, such as BNDA (The World Bank, 1997, p. 20).

Debates on CAA's future role took place during the bank's bailout. Three main options were considered. The first option was to have CAA retain its focus on development banking by attracting deposits from SOEs that had survived structural adjustment, as well as deposits from privately-owned firms. The second option was for CAA to lend and provide refinancing services (the extension or rollover of credit lines) to public and private enterprises, either by relying solely on deposits, or through co-financing with private investors. Hopes that capital markets would develop in the country and in West Africa also opened the possibility for CAA to manage investments on behalf of enterprises. The

[52] Some loans files did not contain essential documents, such as loan agreements and the financial statements of firms.
[53] CCI and BNDA were liquidated in 1989 and 1991, respectively.

third option available to CAA was to expand its client base beyond SOEs and large privately-owned firms by targeting SMEs, which tend to be underserved by commercial banks (Caisse Autonome d'Amortissement (Côte d'Ivoire), 1997, pp. 92-101).

CAA eventually became a universal bank. The bank still works with SOEs and manages special funds provided by the state and the IFIs in areas such as housing, territorial development, environmental protection, water and sanitation, and in industrial and commercial companies. In 1998, CAA added private enterprises, including SMEs, to its customer base. The bank then started serving households in 2004 and changed its name to the Banque Nationale d'Investissement (BNI) to reflect its "triple function of investment, refinancing, and advisory" (Banque Nationale d'Investissement, 2017, p. 7). 2004 also saw the creation of the first of BNI's two subsidiaries, BNI Finances, which is an asset management company "aimed to support BNI's investment and advisory banking businesses" (*Ibid.*). The bank's second subsidiary, BNI Gestion, was established in 2008 "to function as a specialized institution for assets management and to launch and manage funds by collecting savings from investors (including private individuals) and then investing the amounts on their behalf" (*Ibid.*). In 2017, BNI launched 'Excellence 2021,' which is the bank's most recent roadmap. Specifically, Excellence 2021 focuses on the expansion of BNI's retail network, the digitalization of its products and services, and the reorganization of its credit granting and monitoring processes (Banque Nationale d'Investissement, 2018, p. 6). BNI's commercialization also paved the way to its partial privatization in 2019, when the Ivorian government sold 19.6 percent of its 100 percent stake in the bank to the pensions fund for private-sector workers, Caisse Nationale de Prévoyance Sociale (CNPS), for 4.66 billion CFA francs—increasing BNI's capital from 20.5 billion CFA francs to 25.3 billion CFA francs (Mieu, 2019).

All in all, the track record of Côte d'Ivoire's main NDBs is mixed. On the one hand, BIDI and CAA played a key role in promoting economic development by providing financial support to Ivorian enterprises during Côte d'Ivoire's miracle years and during the 1980s economic crisis. On the other hand, both banks were hampered by deficient loan appraisal mechanisms and excessive government interference.

3.4. The Management and Governance of NDBs in Côte d'Ivoire

The previous section of this chapter showed how the intertwining of politics and banking was a feature of NDBs in Côte d'Ivoire. Two forms of political interference stand out when looking at the history of Ivorian NDBs. The first form of political interference has government officials using NDBs to issue loans to enterprises that these officials or their connections control, with little regard for due diligence.

A high-profile case involving this form of political interference implicated Emmanuel Dioulo. Once the mayor of Abidjan (Côte d'Ivoire's economic capital) and a prominent member of parliament, Dioulo was forced into exile in the 1980s to avoid prosecution following his cocoa and coffee exporting firm's inability to pay the $78.9 million it owed BNDA, which largely contributed to the bank's insolvency (Daddieh, 2016).[54] The second form political interference takes involves the government illegally using NDB funds to finance public spending, as was shown with the relationship between the Ivorian state and CAA during the 1980s economic crisis.

Financial scandals persisted following the liquidation of BIDI and BNDA. After the closing of these NDBs, the Banque de l'Habitat de Côte d'Ivoire (BHCI) for housing and the Banque pour le Financement de l'Agriculture (BFA) for rural SMEs were created in 1993 and 2004, respectively. However, BFA was liquidated in 2014 due to the large accumulation of debt caused by non-performing loans and the embezzlement of deposits by the bank's former director general (we will turn to BHCI's fate later in this section) (Dosso, 2012; Mieu, 2014).

BNI was also embroiled in corruption scandals. In 2007, it's deputy director general was fired for the embezzlement of 2.1 million euros from the Belgian Development Agency that were managed by the bank. Five other BNI executives, including the head of the bank's treasury department were arrested and prosecuted for

[54] At the time, Emmanuel Dioulo was seen as a potential heir to Côte d'Ivoire's president since independence, Félix Houphouët-Boigny. However, the scale of Dioulo's embezzlement was so large, that his parliamentary immunity was lifted for him to be prosecuted, which prompted him to flee Côte d'Ivoire. While abroad, Dioulo threatened to expose other officials who were involved in similar scandals, which suggests that corruption in Ivorian NDBs was widespread. He was later pardoned by Houphouët-Boigny and allowed to return from exile, but his political career never recovered from the fallout caused by the affair.

the misappropriation of funds. The Ivorian government later pledged to reimburse the stolen money to "preserve the quality of relations between Belgium and Côte d'Ivoire" (AFP Infos Mondiales, 2007).

The propensity of Côte d'Ivoire's NDBs to fall prey to corruption has discouraged Ivorian authorities from founding new ones with full state ownership since 2004. When asked about plans to set up a new agricultural development bank, Côte d'Ivoire's finance minister said the government intends for the future bank to have both public and private shareholders. This desire to have a privatised NDB stems from the minister's belief that BNDA and BFA's failure was due to their status as banks with the state as the only actor involved in their establishment, governance, and operation (F.B., 2019).

However, the case of BIDI suggests that private shareholding is not a panacea for all the issues that NDBs may face. Although half of BIDI's shares were in the hands of public sector bodies in 1968, 80 percent of that half were owned by bilateral and multilateral actors, such as the IFC and the CCCE. Meanwhile, the Ivorian government only had a 21.1 percent stake in BIDI. The remaining 50 percent of BIDI's shares were mostly in the hand of private foreign-owned banks, with only 7.1 percent of the bank's shares in hands of private Ivorian investors (Harlander and Mezger, 1971, pp. 272-273). This domination of private shareholders shaped the orientation of the BIDI's lending policies, with the bank prioritizing profitability over national development promotion. While Ivorian enterprises benefited from BIDI loans, the bank's majority foreign-ownership was seen by some scholars as determinantal to the growth of an indigenous entrepreneurial elite:

> The Bank is in the hands of mainly foreign capital owners, its borrowing of foreign origin, and its clients are largely non-Ivorians. As a result, the income, employment, and growth effects of BIDI's investment revert for the most part to the capital exporting countries … Moreover, the profits from BIDI's financing operations flow principally to non-Ivorians who in this way accumulate capital, whereas the Ivorians participate only minimally. (*Ibid.*, p. 304)

The domination of private interests at BIDI was also shown to have some negative effects on the bank's loan appraisal procedure. In its 1985 report on BIDI, the World Bank noted that BIDI's loan appraisal reports had weak market analyses and economic analyses. Because these sections provide lenders with valuable information on the financial viability and developmental impact of potential project proposals, the World Bank suggested that BIDI strengthen both market analyses and economic analyses in future appraisal reports. However, BIDI refused to implement the World Bank's recommendation because its other creditors and shareholders found no issue with how the bank appraised projects (The World Bank, 1985, p. 7). Additionally, the World Bank was a relatively minor actor at BIDI, with the IFC only holding 7.1 percent of BIDI shares. The World Bank was also one of BIDI's smaller creditors. In contrast, Chase Manhattan and Lazard Brothers, who were BIDI's main promoters, had an 8.9 percent and a 20.9 percent stake in BIDI, respectively, and provided substantial financial support to the bank (Harlander and Mezger, 1971, pp. 272-273; The World Bank, 1985, p. 6). Although the World Bank's recommendations would have benefited BIDI, the bank's refusal to implement them shows how a public-private ownership structure where the dominant private-sector shareholders have misaligned priorities may hinder the ability of an NDB to fulfil its mandate.

At BHCI, scandals that rocked the bank in the late 2010s indicate that privatization also does not necessarily root out corruption. In 2017, the state sold 51.6 percent of its stake in BHCI to Canadian bank Westbridge Mortgage. The new majority shareholder had pledged to shore up BHCI following the accumulation of up NPLs totalling 26 billion CFA francs, some of which were tied to politically connected individuals (7info, 2019). However, mismanagement did not disappear after BHCI's privatization. Indeed, the leadership brought in by Westbridge was flagged by the central bank for increasing their pay and approving billions of CFA francs in loans and investments without consulting BHCI's Board. The behaviour of the BHCI's new executives prompted the state to (re) nationalise the bank in 2019 (Konandi, 2019a, b).

Because BNI (previously CAA) is Côte d'Ivoire's oldest and only surviving NDB, the bank's governance structure and management is analysed in greater detail. Looking at the BNI's annual reports sine the 2010s suggests that bank's new corporate structure addresses some of the issues that affected CAA in the 1980s and BNI in the 2000s. As of 2018, BNI's Board of directors has 8 members and is chaired by a representative of the Ivorian president. Two members represent the ministry of economy and finance, while another member represents the prime minister's secretary of state in charge of the budget. The three remaining Board members are all representatives of the private sector. Board members also sit on five specialised committees: a strategic planning committee, an audit committee, a credit counselling committee, a compensation and selection committee, and a risk committee (Banque Nationale d'Investissement, 2018, pp. 8-9). The presence of the private sector actors among BNI's Board of directors allows for a broader range of interests to be represented at the bank compared to the CAA era, during which the bank solely served SOEs. At the managerial level, the general manager and their deputy, secretary general, and advisor, are assisted by executives leading each of the following departments: human resources, finances and accounting, credit, internal audit, compliance and internal control, risk management, legal advisory and litigation, corporate and financial institutions relations, retail and network, information systems, organization, operations, assets, logistics, and security and markets, marketing, and communication. BNI also has thirteen specialised committees: management, operations, credit, assets, and liabilities management, 2021 Excellence, off-strategic projects, human capital, collection/recovery, banking risk, business and marketing, information technology (IT), commitments, and treasury (Banque Nationale d'Investissement, 2019, pp. 11-13). This organizational structure addresses some of CAA's deficiencies (for example, the absence of a credit committee to review loan applications).

BNI's external audits also show that the bank has addressed some of the problems that Côte d'Ivoire's NDBs were criticised for in the past. For example, data on the number and value of credit lines issued to bank executives show that this financial support took the form of consumer loans and mortgages, rather than business loans.[55] The small size of the sample and the fact that this data has only been published since 2020 means any conclusions drawn from analysing this information are preliminary. It is, however, interesting to note that the loans granted to BNI executives were not systematically approved by the bank's Board of Directors. In 2020, only 11 of the 36 loans to BNI staff were greenlit by the Board of Directors that year. Additionally, most of the loans approved by the Board in 2020 concerned debt restructuring and debt refinancing. Although some consumer loans (including auto and equipment loans) and mortgages were also approved by the Board of directors, others were not. For instance, a 50 million CFA francs mortgage

[55] BNI executives being shown to use their benefits for consumer loans and mortgages does not mean that they are unable to finance their enterprises with the bank's funds. This can indirectly be achieved by having business partners not employed by BNI apply for loans at the bank.

was given to a department head with the Board's approval, while the director general of BNI Finances was discretionarily given a 100 million CFA francs mortgage (Banque Nationale d'Investissement, 2020, p. 84). The efforts made by BNI's executive to improve the bank's organization were, nevertheless, sufficient to garner government accolades. In 2021, BNI won the prize for the best SOE out of the 55 that were considered that year. It also ranked first in terms of financial performance compared to other SOEs in the commercial sector and third in terms of governance quality (Konan, 2021b).

The reforms to BNI's governance in the 2010s did not make the bank immune to corruption scandals. For example, an ongoing high-profile case of embezzlement at BNI made investor Oumar Diawara file a lawsuit against the bank for the violation of his right to property. The origins of this affair can be traced to 2014. That year, Fatoumata Sakandé-Cissé, the then director general of BNI Gestion was looking for new investment opportunities for the bank's customers. To achieve that goal, Sakandé-Cissé decided to take advantage of Abidjan's construction boom by establishing a real estate company, Perl Invest, in 2015, which acquired plots of land in and around the capital. This purchase was done using funds from BNI Gestion's depositors, who are mostly civil servants. The creation of Perl Invest was also done with the approval of BNI's then director general, Eugène Kassi N'Da.[56] However, prudential regulations at the time prevented asset managers from investing in real estate. To avoid being sanctioned by regulatory authorities, Sakandé-Cissé and BNI Gestion arranged a 15 billion CFA francs refinancing agreement with a retail bank to replenish the accounts of BNI Gestion's depositors. Sakandé-Cissé then sold Perl Invest to Mr. Diawara, who only had to pay one billion CFA francs.[57] Initially, the debt from BNI Gestion's refinancing agreement with the retail bank was meant to be transferred over to Perl Invest. However, Sakandé-Cissé chose to reimburse the loan using BNI Gestion's funds shortly before the sale of Perl Invest in July 2017, which effectively led to a 15 billion CFA francs hole in the bank's balance sheet (Clémençot, 2022).

An appraisal report commissioned by Mr. Diawara to value his new assets revealed the extent of the scandal at BNI Gestion. For example, Mr. Diawara found out the size of

[56] N'Da also presided over BNI Gestion's Board of Directors
[57] Perl Invest was valued at 16 billion CFA francs when Mr. Diawara purchased the company.

the land lots was under 50 hectares, which was far smaller than the 90 hectares he thought he had purchased. Worse, the prices of these parcels were inflated to conceal cash given to various individuals, including friends of bank executives,[58] when Sakandé-Cissé bought the plots of land, some of whom claim that they are still owed money.[59] The fact that up to eight billion CFA francs was employed for illicit purposes is likely why Sakandé-Cissé chose to pay back the refinancing loan, since NDBs can rely on treasury transfers to cover losses. Moreover, Sakandé-Cissé probably assumed that her close ties to prominent members of the ruling coalition would help her avoid disciplinary action. Unfortunately, the scale of the embezzlement, which almost bankrupt BNI Gestion, ended Sakandé-Cissé and N'Da's tenure at the bank. BNI Gestion also sued Sakandé-Cissé that year for fraud, misappropriation and misuse of corporate assets, breach of trust, and money laundering (the trial is still underway at the time of writing) (*Ibid.*).

This section has discussed the various features that characterise the governance of Côte d'Ivoire's NDBs. While corruption at these banks has contributed to their financial woes, partial privatization was shown to create other problems, without necessarily solving the ones associated with state ownership. More importantly, we saw that BNI has made some efforts in recent years to address the governance issues that plagued CAA and other Ivorian NDBs. Although these reforms are not fail-proof, BNI has demonstrated some degree of ability and willingness to punish executives who illicitly use the bank's resources.

3.5. BRD's Evolution

Just like Côte d'Ivoire's NDBs, BRD played an outsized role in providing long-term loans to indigenous enterprises in Rwanda. Specifically, BRD's status as an NDB made the bank a key player in the implementation of the Rwanda's second (1977–1981) and third (1982–1986) Five-Year Plans. Similarly to Rwanda's first Five-Year plan, the two subsequent ones aimed to grow the country's agricultural and industrial sectors for both export promotion and import substitution. At the time, BRD was the sole bank making medium-

[58] For instance, one beneficiary of these kickbacks used the one billion CFA francs they received to purchase a flat in Paris.
[59] These parcel purchases were notarised by N'Da's wife, which also represents a conflict of interest.

to-long enterprise loans in the country. As such, it was regarded by the IFIs as "the only institution in Rwanda with the expertise to undertake a proper overall evaluation of investment projects" (The World Bank, 1979a, p. 10). According to BRD, the bank between 1968 and 1987 "financed about 80 % of the country's medium- and long-term loan portfolio in the [*sic*] productive ventures" (Development Bank of Rwanda, 2022b).

Like BIDI and BNI, BRD's loan appraisal, monitoring, and evaluation capabilities made it the main recipient of grants and loans offered by bilateral and multilateral donors. For example, BRD managed four multimillion-dollar credit lines provided by the World Bank. The bulk of these funds were on-lent by BRD to firms needing foreign exchange to purchase capital goods. For instance, Rwanda's largest mineral exporter, Société des Mines du Rwanda (SOMIRWA),[60] used these credit lines to upgrade its facilities. Investments at SOMIRWA included the construction of a smelting unit, which helped the country locally process more of its main mineral commodities, cassiterite and wolframite, into to tin and tungsten, respectively (The World Bank, 1979a, pp. 3–4) (The World Bank, 1983, p. 16).[61] Another enterprise that benefited from BRD's funding was Rwanda's largest brewery, Brasseries et Limonaderies du Rwanda (BRALIRWA). BRALIRWA used a BRD loan to finance the installation of new production line to replace an older one, which was unable to meet the country's demand for beer and soft drinks (The World Bank, 1990, p. 25).

BRD in the 1970s and most of the 1980s was also known for its good financial performance. Indeed, BRD at the time was always profitable and was described by the World Bank as a "sound and creditworthy institution" (The World Bank, 1983, p. 14). An integral component of BRD's financial viability was its appraisal and monitoring work. For example, BRD staff were known for the quality of their economic and financial analyses in their appraisal reports, which the bank strove to continuously improve. Additionally, BRD staff actively monitored the projects they financed by visiting enterprises that borrowed from the bank two to three times a year (struggling firms received even more visits). Moreover, loan recipients were also required to submit quarterly reports and annual accounts to BRD (The World Bank, 1979b, p. 10). In terms

[60] SOMIRWA was created in 1973 after the merger of several companies (see footnote 6).
[61] Cassiterite and wolfram accounted for around 17 percent of Rwanda's merchandise exports between 1978 and 1981.

of governance, BRD's Board of Governors was described as largely independent and consistent with the bank's shareholding structure, with the majority (seven) of its 13 members representing public sector institutions (The World Bank, 1990, p. 6).

The credentials of BRD management and staff in the 1970s and 1980s was highly regarded, too. World Bank reports on BRD at the time note that most of the bank's professional staff had experience in government, business, and banking. While BRD's leadership was initially assisted by foreign consultants, the bank increasingly relied on in-house Rwandan staff (The World Bank, 1979b, p. 8; The World Bank, 1983, p. 12).[62] By the 1980s, external support for BRD staff mainly took the form of equipment purchases, such as computers, and training programs, which were funded by bilateral and multilateral donors (The World Bank, 1990, p. 6).[63] BRD's use of external audits for its accounts further highlights the bank's commitment to best practice standards of corporate governance. BRD's independent auditing of its accounts started in 1976 as a part of a loan agreement with the World Bank. BRD was also expected to submit quarterly reports to the World Bank, which included "financial statements, arrears and resources position statements, progress of operations and notes on major projects in difficulty" (The World Bank, 1983, p. 20).

Compared to the 1970s and to the early 1980s, BRD's operations and finances suffered in the late 1980s and the 1990s. As was the case with BIDI and CAA, the drop in world commodity prices in the late 1970s adversely affected businesses in BRD's portfolio, such as SOMIRWA. The bank's loan arrears outstanding for more than one month, for example, went from accounting for 4.6 percent of BRD's portfolio in 1983 to 12.9 percent in 1988. The economic crisis also undermined the ability of BRD staff to appraise and supervise projects in the following way. To assist ailing enterprises, the government pressured BRD to ramp up countercyclical lending. For instance, the monetary value of BRD's annual approvals increased by a factor of 3.4 between 1983 and 1988. The bulk of these loans were used to support agriculture and manufacturing firms, which were the most affected by the drop in commodity prices, while commitments to the service sector decreased. Specifically, agriculture and industry went from accounting for 53 percent of

[62] These foreign staff members usually came under the auspices of German bilateral assistance.
[63] Most of the technical assistance provided to BRD in the 1980s was provided by the Belgian government and the United Nations Development Programme (UNDP).

the outstanding portfolio in 1983 to 88 percent in 1988. However, the limited human resources available to BRD meant this increased impetus to lend resulted in a deterioration of the bank's operational effectiveness (The World Bank, 1990) (The World Bank Group, 1994).[64]

The advent of the 1994 Rwandan genocide dealt another blow to BRD. Indeed, the collapse of the Rwandan state and economy during the genocide made it impossible for the bank to operate. BRD subsequently did play an important role in Rwanda's post-genocide reconstruction by contributing to the modernization and rehabilitation of infrastructure. Yet, the fact that more than 50 percent of BRD's NPLs in 2014 could be traced to losses incurred during the genocide due to most clients either being killed or in exile highlights the conflict's lasting impact on the bank's finances (Development Bank of Rwanda, 2022b; World Investment News, 2002).

The post-genocide years saw BRD tweak its business model. In 2005, the bank was mandated to become "the most profitable bank at the service of poverty reduction" (Development Bank of Rwanda, 2022b). To accomplish its mission, BRD chose to diversify the products it offers to enterprises by opening a microfinance department in 2002 and a leasing unit in 2007. The aim of making BRD Rwanda's financial flagship also led to the bank's purchase in 2011 of Rwanda's state-owned housing bank, the Banque de l'Habitat du Rwanda (BHR). Because BHR was involved in retail activities, its acquisition by BRD made BRD a universal bank, with BHR becoming BRD Commercial. Alongside loans and equity investments, BRD in the early 2010s started providing advisory services and fund management services through two subsidiaries, BRD Advisory Services (BAS) and the BRD Development Fund (BDF) (both subsidiaries merged in 2011 under the BDF name).

However, some of these changes were short-lived. In 2014, BRD sold BRD Commercial, which at the time accounted for 31 percent of BRD's business, to a privately-owned retail bank called Atlas Mara. BRD's decision to sell its commercial banking arm

[64] Although BRD had data on loan arrears of more than one month, the bank was unable to give information on their precise age of these arrears. The World Bank report on BRD notes that the bank used to provide this information regularly, which indicates a deterioration in BRD's operational capabilities. While BRD's operations improved in the early 1990s, the World Bank still encouraged BRD to restructure or privatise, as was done with CAA in Côte d'Ivoire. However, these plans were delayed due to political instability, which culminated in 1994 with a genocide.

was done to "refocus its lending to private sectors, communities, SMEs and respond better to … [Rwanda's] priority development needs" (*Ibid.*). Indeed, BRD's 2018–2024 strategic plan states the bank's vision "to be an innovative provider of development finance for socio-economic impact" and its mission to be "a trusted strategic partner for Rwanda's development that offers financial solutions for enhanced value to our stakeholders" (Development Bank of Rwanda, 2022a). The language used to describe BRD's current mandate is a departure from the language used in its 2005 mandate, where the emphasis on profits was more in line with the objectives of a commercial bank or a universal bank.

Specifically, BRD's 2018–2024 strategic plan outlines how the bank will operate as a 'pure' NDB to help the government achieve its National Strategy for Transformation and become a middle-income country by 2035 and a high-income country by 2050 (Development Bank of Rwanda, 2018, p. 12). To reach these goals, BRD is committed to enhancing agricultural productivity and reducing post-harvest losses. The bank aims as well to support "projects related to the development of export value chains, [and] promote quality certification and accreditation by providing training that meet international standards for service providers" (*Ibid.*, p. 14). Specifically, BRD plans on investing USD 316 million between 2018 and 2024, with most of these funds dedicated to issuing subsidised loans to enterprises involved in agriculture and manufacturing exports (*Ibid.*, p. 43), as explained below.[65]

In agriculture, BRD plans to spend USD 39.44 million between 2018 and 2024. The estimated breakdown of BRD's disbursements in agriculture by area is as follows: 35 percent in on-lending to microfinance institutions and savings and credit cooperatives, 30 percent for agriculture and veterinary trade finance, 25 percent for agro-processing, five percent for mechanization, and five percent for technical assistance (*Ibid.*, pp. 24-25).

In exports, BRD plans to spend USD 135.61 million between 2018 and 2024. These funds will be allocated to manufacturing industries (construction materials, textiles and

[65] BRD's other three priority sectors are energy, education, and housing. In energy, BRD's is mainly committed to financing a renewable energy accessibility program. In education, the bank primarily manages government student loans and bursaries. In housing, BRD is tasked with managing the state's Affordable Housing Fund, most of which is used to provide low-cost credit lines to real estate developers.

garments, leather processing, pharmaceuticals, automobile assembling, packaging materials, and soap and detergents), the hospitality sector (hotels and high-end restaurants, tourist attractions and conservation business), mining and quarrying, and agriculture exports (coffee, tea, horticulture, and livestock). The planned breakdown of BRD's spending in exports by area is as follows:92 percent for agriculture exports, six percent for manufacturing industries, one percent for the hospitality sector, and one percent for technical assistance (*Ibid*., pp. 32-33).

To aid BRD, the Rwandan government in 2019 announced BRD's recapitalization through fiscal transfers amounting around 23 billion Rwandan francs over three years (Bizimungu, 2019). BRD's shareholders also decided to increase the bank's share capital from 57 billion Rwandan francs to 150 billion Rwandan francs. As of 2020, the state had a 97 percent stake in BRD via its Sovereign Wealth Fund (the Agaciro Development Fund) with a 65.9 percent share and its social security agency (the Rwanda Social Security Board) with a 32.1 percent share. The remaining shares are held by the Belgian government and the Bank of Kigali (a majority state-owned Rwandan retail bank) (Development Bank of Rwanda, 2020, p. 12).

This section has provided an overview of BRD's history. Specifically, it demonstrated that BRD has always played an important role in helping the Rwandan government implement its national development plans. To fulfil its mission, BRD largely relied on the support of bilateral donors and the IFIs, who praised BRD's financial and operational soundness, with the bank's viability only really questioned during 1980s commodity crisis and the 1994 genocide. While it recently tried to adopt a universal banking model, BRD has refocused its efforts to better serve enterprises, especially ones in export-oriented agriculture.;

3.6. Management, Governance, and Development Banking in Rwanda

Like Côte d'Ivoire's NDBs, the governance of BRD has been under scrutiny from academics and policymakers. The previous section showed the positive view that the World Bank had of BRD's management in the 1970s and in the early 1980s. Although BRD's operations were criticised during the 1980s economic crisis, it can be argued that government interference was well intentioned, since it is unlikely that privately-owned banks would have provided Rwandan enterprises with countercyclical loans during a crisis.

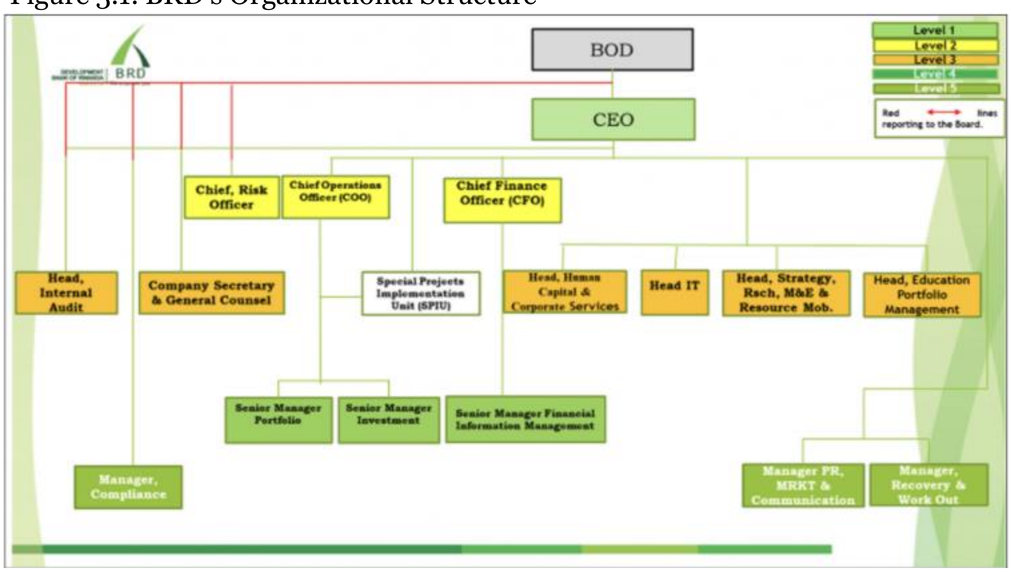
On the face of it, BRD's governance has been exemplary since the genocide. For example, the bank's organizational structure reflects best practices in terms of separation of ownership from supervision. Central to BRD's management is its Board of Directors, which appoints the CEO and the Bank's executive team. The Board is also "responsible for the overall administration of affairs and business of the Bank, including budget/financial planning process reviews, risk management and audit processes. It sets the Bank's vision, mission, and core values, as well as plays a pivotal role in establishing policies and procedures that reflect the highest standards of corporate governance" (*Ibid*., p. 13). To this end, each BRD Board Member must sit on at least three of the following five committees: an Audit Committee, a Credit Committee, a Risk Management Committee, an IT and Strategy Committee, and a Nomination and Remuneration Committee (*Ibid*., pp. 13-14).

Despite being majority-owned by the state, only half of the BRD's eight Board members as of 2020 are government representatives. One Board member is the corporate secretary of the Rwandan Energy Group, which is a government-owned holding company responsible for energy generation and distribution. Another Board member is the director of the Public Debt Unit at the Ministry of Finance and Economic Planning (MINECOFIN). The last two BRD Board members hailing from the public sector represent the Agaciro Development Fund the Rwanda Social Security Board, through which the Rwandan government owns the bank. Agaciro's representative is their Chief Investment Officer, and the Rwanda Social Security Board's representative is their Director of Planning and Research. The remaining four Board members, including the leadership, come from the private sector. The independent Chair of the Board is a Managing Partner at a pan-African venture capital firm, and was previously the Vice President of Infrastructure, Private Sector, and Regional Integration at the African Development Bank. The Deputy Vice Chairperson is the CEO of an SME consulting company. The remaining two Board members are also leaders in their respective sectors. One of them is the Managing Director of a local smallholders' speciality coffee company (RWASHOSCCO LTD), while the other manages the Rwandan subsidiary of Vivendi Group, the French mass media holding company (Kayumba, 2020b).The separation between ownership and supervision at BRD is also reflected in the bank's reporting structure. As shown in Figure 3.1, BRD's Head of Internal Audit, Compliance Manager, Company Secretary and General Counsel, and Chief Risk Officer report directly to the Board of Directors.

All in all, BRD's command hierarchy ensures that important information concerning the state of the bank is not channelled through a single person (the CEO), who is more likely to be corruptible than a management system with checks and balances. For BRD, the bank's organizational structure shows that it "remains committed to implementing the best practice standards of corporate governance ... Through the Board, the Bank has put in place effective systems and controls to ensure that the high standards of governance are maintained at all levels" (Development Bank of Rwanda, 2019, p. 15).

BRD's corporate governance has garnered praise from other African NDBs. In 2016, the bank was recognised as one of the best performing development finance institutions in Africa by the Association of African Development Finance Institutions. Out of the 46 Development Finance Institutions that were evaluated, BRD was among the top ten banks in the areas in areas of governance, finance, and operational standards (Development Bank of Rwanda, 2016).

Figure 3.1. BRD's Organizational Structure



Source: (Development Bank of Rwanda, 2022a)

While BRD has drawn positive attention for its adoption of best practice governance standards, the bank has also faced criticisms since the rise to power of Rwandan president Paul Kagame in 2000. Namely, BRD's detractors since the genocide focus on the relationship between the bank and the business conglomerates linked to the ruling party, the Rwandan Patriotic Front (RPF), and the military.[66]

The scandals involving BRD CEOs in the past 20 years hint at the bank's governance issues. Since 2000, BRD has had over six CEOs. More important than the turnover record is the fact that most of these CEOs are either in jail, in exile, or dead (Himbara, 2018a). For instance, BRD CEO from 2013 to 2017, Alex Kanyankole, was tried and sentenced to six years in prison for issuing discretionary loans totalling approximately USD 15 million in exchange of kickbacks (Ntirenganya, 2019a).[67] More alarming was the murder in 2012 of 2002–2007 BRD CEO, Théogène Turatsinze, while he was exiled in Mozambique. The US Department of State's Bureau of Democracy, Human Rights, and Labor reported the following about Turatsinze's death:

> Mozambique police found former Rwandan Development Board [*sic*] Managing Director Theogene Turatsinze floating dead and tied with ropes in a lake two days after he was reported missing. Mozambique police initially indicated Rwandan government involvement in the killing before contacting the government and changing its characterization to a common crime. Rwandan government officials publicly condemned the killing and denied involvement. Domestic political observers commented that Turatsinze had access to politically sensitive financial information related to certain Rwandan government insiders. The killing remained unsolved at year's end. (US Department of State, 2013)

Turatsinze's departure from BRD was supposedly caused by his refusal to finance projects sponsored by the ruling elite. Meanwhile, Turatsinze's replacement at BRD, Jack Kayonga, approved some of these projects, including the construction of Kigali City Tower, which is the city's tallest building. The fact that Kayonga is now the executive chairman of Crystal Ventures Limited, which is an RPF-owned conglomerate, further suggests that there exists a revolving door between the country's parastatals and party-owned enterprises (Himbara, 2018b).

Theogene Turatsinze's mysterious and tragic death aside, the turnover at the head of BRD points to President Kagame and the Government of Rwanda's hard-line anti-corruption stance. Indeed, "corruption is quite uncommon in Rwanda's public service at

[66] Many members of Rwanda's army come from RPF's armed wing, which won the 1990–1994 Civil War and helped end the 1994 genocide (Mann and Berry, 2016).
[67] Kanyankole was also ordered to pay around USD 24,000 in fines.

any level, and corruption with impunity is largely absent" (Booth and Golooba-Mutebi, 2012, p. 392). The understanding in Rwandan society is that acts of corruption in the state apparatus will be sanctioned is such that "new appointees to permanent secretary or parastatal management positions are teased with the question, 'Have you got your pink [i.e., convict's] uniform ready?'" (*Ibid.*, p. 393). The Government of Rwanda's focus on integrity and accountability in the public sector is also reflected in the signature by staff in government ministries and agencies of performance contracts, with officials who fail to meet their targets being publicly shamed (*Ibid.*, p. 392; Mann and Berry, 2016, p. 132).

The vulnerability of elites in Rwanda's bureaucracy is particularly salient at BRD, which has been called "the most dangerous place to work" in the country (Himbara, 2018a). BRD's reputation stems from the bank's propensity to support companies that are linked to Rwandan business elites. After the genocide, the damage done to the private sector meant that much of the post-conflict rebuilding effort was conducted by party-owned enterprises. For example, Crystal Ventures[68] started out as a Production Unit of the RPF's armed wing during the 1990–1994 Civil War using contributions form RPF supporters, especially ones from the Rwandan diaspora (Booth and Golooba-Mutebi, 2012, p. 388), most of whom were in Eastern and Central Africa, Europe, and North America (Reed, 1996). At the end of the war, Crystal Ventures established or had shares in business in "metals training, road construction, housing estates, building materials, fruit processing, mobile telephony, and printing, as well as furniture imports and security services" (Booth and Golooba-Mutebi, 2012, p. 388).[69] The first-mover status of these conglomerates, combined with the revolving door between parastatals and party-owned enterprises, contributes to characterization of these business empires as beneficiaries of undue favouritism when it comes to receiving BRD loans (Behuria, 2020b, pp. 13-14). Undue favouritism does not only expose the actors involved to disciplinary action—it may also lead to financial issues for BRD if it makes the bank fund unviable projects. Furthermore, undue favouritism vis-à-vis party-owned enterprises will divert resources

[68] Formerly called Tri-Star Investments
[69] For instance, a Tri-Star/ Crystal Venture company received all road building contracts financed by UNDP and the European Union after the genocide (Mann and Berry, 2016, p. 131)

that could be used to scale up SMEs, which the Rwandan government and BRD have pledged to support.[70]

3.7. Conclusion

This chapter analysed the relationship between NDBs and the state in Côte d'Ivoire and Rwanda. At independence, the propensity of foreign banks to fund foreign firms made NDBs a compelling tool to nurture indigenous enterprises. Indeed, the experience of Côte d'Ivoire's and Rwanda's NDBs in the 1960s and 1970s was largely positive, given their outsized role in providing loans to local businesses, particularity in agriculture and manufacturing. Contra the mainstream narrative, the financial and operational performance of these banks was, according to bilateral and multilateral partners, also satisfactory.

The positive track record of Côte d'Ivoire and Rwanda's NDBs does not mean that they are problem-free. Throughout this chapter, we saw how these banks sometimes struggle in terms of loan appraisal, monitoring, and evaluation, especially due to political influence. However, 'political influence' is not necessarily a bad thing since it can sometimes serve the society better than market forces. On the one hand, the political influence that forces NDBs to finance unviable projects is difficult to warrant. On the other hand, the state-led push to have NDBs lend to enterprises during the economic crisis of the late 1980s and the early 1990s was a justifiable response to largely exogenous price shocks. While these countercyclical loans strained the operational capabilities of NDBs in both countries, they provided businesses with a lifeline that they would have been unlikely to secure from privately-owned banks.

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[70] According to (Gökgür, 2012, p. 25), the purchase of BHR by BRD in 2011 is the result of collusion between government, party-owned enterprises, and state-owned banks. BRD's acquisition of BHR was apparently imposed to BRD by President Kagame's office. This transaction was supposedly ordered because BHR was in a dire financial situation due to NPLs from credit lines extended to civil servants and party-owned enterprises. For example, Gökgür claims that BHR had an agreement with army-run Horizon Group, which is one of Rwanda's largest conglomerates. Yet, an independent audit of BHR's finances that Gökgür references reveals that the bank did not receive any principal or interest payments from Horizon. Despite Gökgür's claims, no additional evidence was found to corroborate them.

Looking at NDBs in both countries also revealed the importance of institutional checks and balances, such as having individuals representing both the public and the private sector on these banks' board of governors. Moreover, the governance concerns Rwanda and Côte d'Ivoire's NDBs face would have been difficult to identify without consulting their annual reports and independent audits. The very existence of these documents is a sign of good governance, or at least the proof that corruption is checked.

Alongside showing that corporate governance can be improved under state ownership, this chapter argued that the privatization of NDBs may not solve the issues that affect these banks.[71] In Côte d'Ivoire, the case of BHCI points to the fact that private ownership does not imply the absence of corruption. Another important observation this chapter makes is that mixed public-private ownership can be counterproductive for NDBs. For example, BIDI's experience indicates that shareholders from the private sector have incentives and priorities that clash with those of shareholders from the public sector, which makes it difficult for NDBs with mixed ownership to be developmental. The desirability of private sector actors in an NDB's supervision, as shown with BRD, therefore contrasts with the dangers of having an NDB with sizeable private ownership, as was the case with BIDI. Similarly, BIDI's and BRD's experience with universal banking suggests that mixing commercial and development banking can adversely affect an NDB's operations and detract from the bank's mission. With BNI choosing to adopt a universal banking model, the next three chapters will explore how BNI's trajectory compares to BRD's, which decided to focus solely on enterprise financing.

[71] The many financial sector scandals in the West involving companies, such as Enron and individuals, such Arthur Andersen and Bernie Madoff, show that privately-owned financial institutions are not immune from corruption.

Chapter 4—National Development Banks and Financial Sector Actors in Côte d'Ivoire and Rwanda

4.1. Introduction

As their task environment suggests, NDBs do not operate in a vacuum. Besides their links to government, the activities of NDBs are influenced by other actors, such as financial market participants. This chapter focuses on the place NDBs in Côte d'Ivoire and Rwanda's NDB have in their respective financial systems by examining their relationship to monetary authorities, competitor banks, the IFIs, rating agencies, and capital markets. The evidence presented in this chapter highlights the fundraising difficulties that African NDBs face. Specifically, NDBs in Côte d'Ivoire and Rwanda operate in an environment where the subordinate status of their countries in the international financial and monetary system means that they are often unable to cheaply mobilise long-term funding. Moreover, the adoption of increasingly stringent macroprudential policies disincentivises NDBs in both countries to use the money they secure to support enterprises in sectors, such as manufacturing, that drive economic development.

4.2. The Evolving Presence of NDBs in Côte d'Ivoire and Rwanda's Financial Systems

In addition to both having NDBs, one of the characteristics that Côte d'Ivoire and Rwanda share is their bank-dominated financial system. Like in many African countries, financial markets in Côte d'Ivoire and Rwanda have, in the absence of robust capital markets, been dominated by the banking sector. Though pensions funds and insurance companies in both countries have grown in importance since the 1980s (Lane, 1989; The World Bank, 1991)[72], they are still significantly smaller than banks. In 2018, for example, banks, insurance, pension funds, and microfinance institutions in Côte d'Ivoire respectively had an 81, 10, 7, and 2 percent share of financial sector assets. Though banks in Rwanda are less dominant than in Côte d'Ivoire, they still account for over two-thirds (65.5 percent)

[72] For example, Chapter 3 mentions Côte d'Ivoire's pensions fund for private-sector workers buying a 19.6 percent stake in BNI.

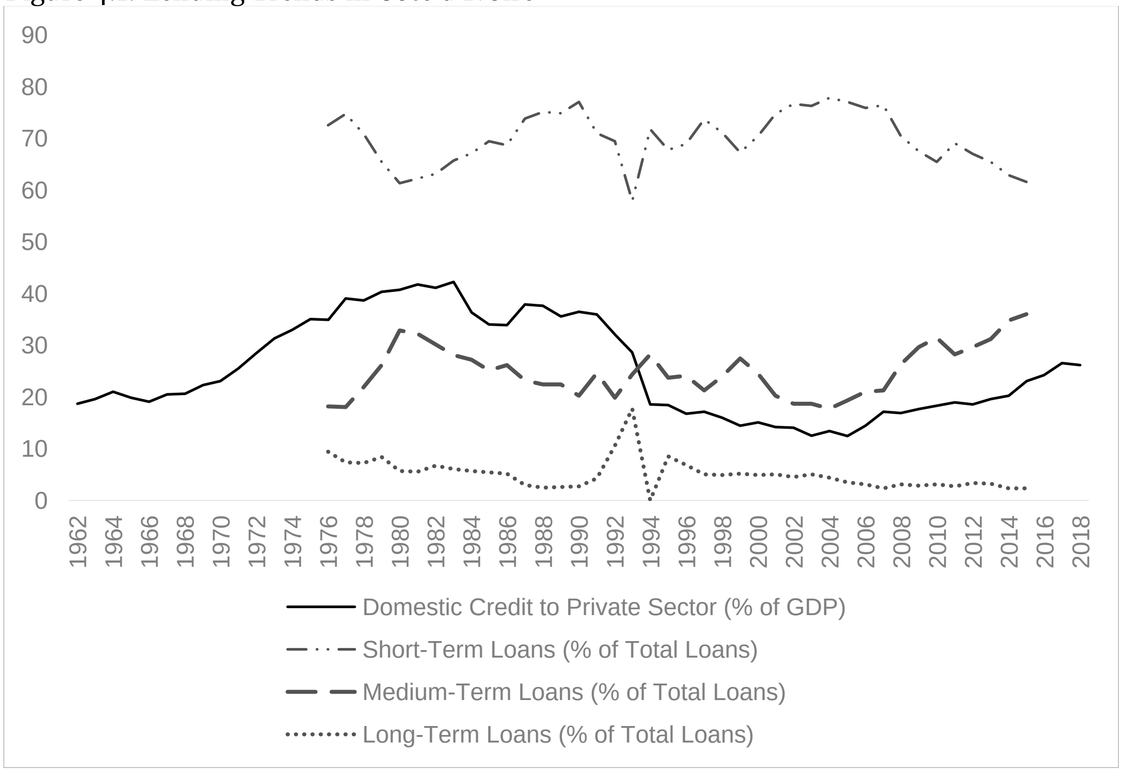
of the financial sector's assets, followed by the national pension fund with a 17.4 percent share, insurance with a 9.8 percent share, and microfinance institutions with a 6.6 percent share (The World Bank, 2018, p. 13).

What place do NDBs have in these bank-dominated financial systems? In Côte d'Ivoire, NDBs have waxed and waned relative to commercial banks. During Côte d'Ivoire's miracle years in the 1960s and 1970s, BNI and BIDI were the main sources of financing for the country's manufacturing sector, as discussed in Chapter 3. The importance of NDBs in the country was such that they had a 21.4 percent share of total banking assets in 1987 (Lane, 1989, p. 17). However, the closure of NDBs, such as BIDI, following structural adjustment led to their share of total banking assets decreasing to about six percent in 2017, of which BNI has a 5 percent share (Kapital Afrik, 2018).[73]

Côte d'Ivoire's financial sector is therefore dominated by commercial banks, which have a track record of being majority-owned by foreigners. From independence in 1960 until the 1980s, the top four commercial banks operating in Côte d'Ivoire were majority-owned by French banking groups and accounted for about 90 percent of the country's commercial banking assets and 60 percent of total banking assets (Lane, 1989; The World Bank, 1997). Starting in the 2000s, the importance of French banks declined with the arrival of Pan-African banking conglomerates, such as Ecobank and Atlantic Bank Group (Diop, 2015; Kapital Afrik, 2018). Yet, growing competition in the banking sector failed to close the financing gap left by the hollowing out of the country's NDBs, as shown in Figure 4.1:

[73] BHCI has the remaining one percent share.

Figure 4.1. Lending Trends in Côte d'Ivoire[74]



Source: World Development Indicators; Central Bank of West African States

The inability of Côte d'Ivoire's commercial banks to close this financing gap can be explained by looking at how they operate. Previous chapters outlined how the heavy reliance of most commercial banks on sight and short-term customer deposits makes these banks issue shorter-term personal loans rather than long-term business loans. Even if banks can address asset-liability mismatches by issuing long-term bonds, the pressure to satisfy shareholders by delivering quarterly profits means that these funds will not be used to support investments in sectors, such as manufacturing, that have long gestations periods and where repayment is generally contingent on the borrower's ability to turn a profit, which is not guaranteed. When mobilised, long-term funds are, rather, used to finance easily collateralised investments, such as real estate, or to purchase assets known to provide reliable returns, such as government securities. For example, banks operating in Côte d'Ivoire spend between 10 and 15 percent of their assets on the purchase of government bonds (African Development Bank Group, 2019, p. 24) compared to a 9

[74] The spike in long-term loans in 1993 and 1995 was a result of central bank refinancing and loans issued by the World Bank, the IMF, and the African Development Bank in response to Côte d'Ivoire's debt crisis.

percent world average (Gennaioli *et al.*, 2018). Moreover, the fact that most banks operating in Côte d'Ivoire have historically been dominated by foreign interests limits the Ivoirian government's ability to compel them to promote structural transformation. As discussed in Chapter 2, Banque Nationale de Paris, Société Générale, and Crédit Lyonnais played key roles during France's 'Trente Glorieuses.' Meanwhile, their Ivorian subsidiaries[75] (along with the local branches of Pan-African banks) provide little support to domestic manufacturers. Instead, these banks prioritise households or large businesses, which are usually also foreign owned.[76]

BNI (previously the Caisse Autonome d'Amortissement or CAA) used to commit most of its resources to supporting sectors, such as manufacturing, that drive structural transformation, as discussed in Chapter 3. However, its lending patterns following its restructuring in 2007 have been like that of other commercial banks. As shown in Figure 4.2, BNI's loan disbursements by sector in the 2010s reveals that the share of total credit issued to banking and real estate, individuals, and trade and commerce significantly outweighs the share of credit issued to manufacturing, agriculture, and construction (infrastructure).

Unlike NDBs in Côte d'Ivoire, BRD has for most of its existence operated in a financial environment where most banks had the state as a majority shareholder. At independence in 1964, commercial banks, which were primarily Belgian owned, were reluctant to lend to domestic firms. For instance, only 20 percent of all credit issued in the 1960s was given to the private sector, with the remaining share of credit being given to the state, including SOEs. The fact that a portion of this credit allocation likely went to foreign firms means that in effect, less than 20 percent of credit lines were actually given to Rwandan-owned firms in the private sector. However, these ratios were reversed by

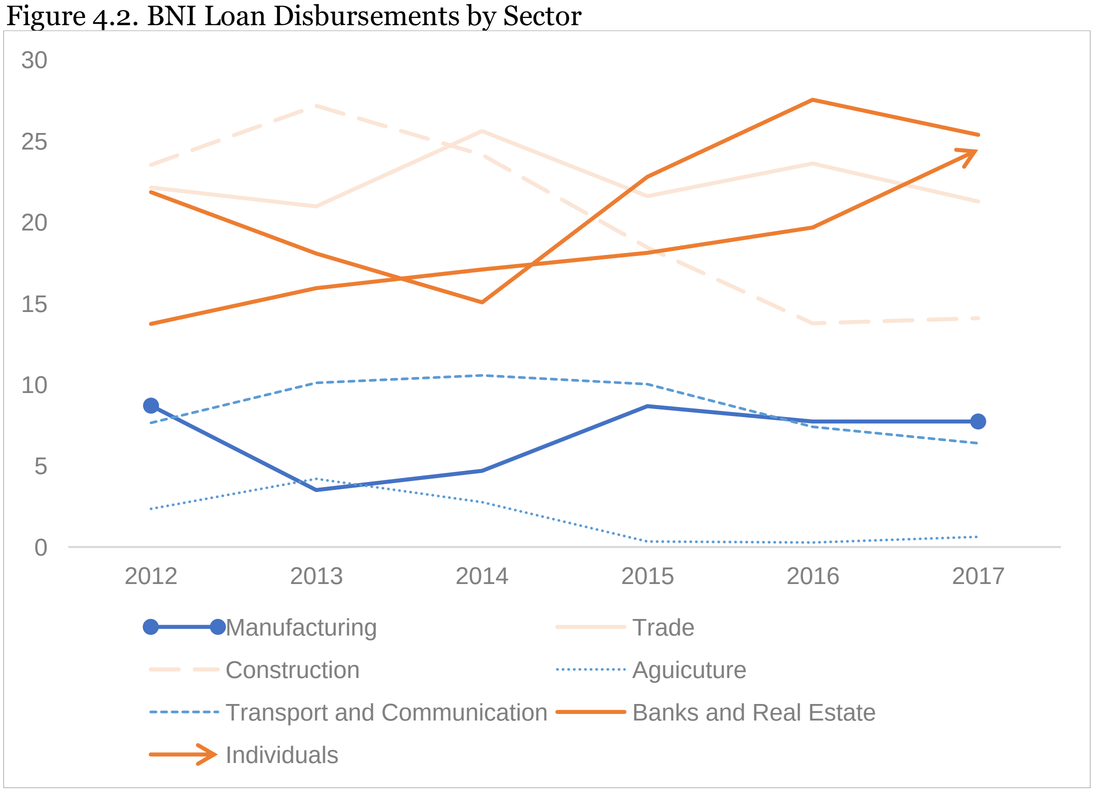
[75] These banks were the Banque Internationale pour l'Afrique de l'Ouest (BIAO-CI), Banque Internationale pour le Commerce et l'Industrie de la Côte d'Ivoire (BICICI), Société Générale de Banques en Côte d'Ivoire (SGBCI), and Société Ivoirienne de Banque (SIB). BICICI, SGBCI, and SIB were the respective subsidiaries of Banque Nationale de Paris, Société Générale, and Crédit Lyonnais, while BIAO was French owned before the Ivorian government purchased 35 percent of its shares in 1980. BICICI and SGBCI are still majority-owned by their parent corporations. Meanwhile, SIB's largest shareholder is now Morocco-based pan African banking group Attijariwafa. BIAO now trades under the name NSIA and is majority-owned by the Ivorian-based pan African banking conglomerate NSIA Group.

[76] Personal communications with a member of a professional association in manufacturing, and staff from two international banks, including a Pan-African one.

1977, with 80 percent of bank credit issued to the private sector and 20 percent to the government (Tchundjang Pouemi, 2020). This growth in the private sector's share of credit occurred alongside the gradual increase in government control over the banking sector. By 1989, only one commercial bank (it had a 6.6 percent share in financial sector assets) was not wholly or majority-owned by the state (The World Bank, 1991).[77]

The consequences of state ownership of financial firms, especially banks, are complex. On the one hand, state ownership of the financial sector may allow banks to be more in touch with the needs of the domestic economy compared to foreign-owned banks. On the other hand, state domination of the banking sector does not guarantee that commercial banks will support structural transformation. Thus, despite only having an 8.1 percent share of total assets in the financial sector in 1989, BRD acted as the main provider of long-term funds for Rwanda's industrial sector and held over 70 percent of outstanding long-term credit in the country (*Ibid.*).

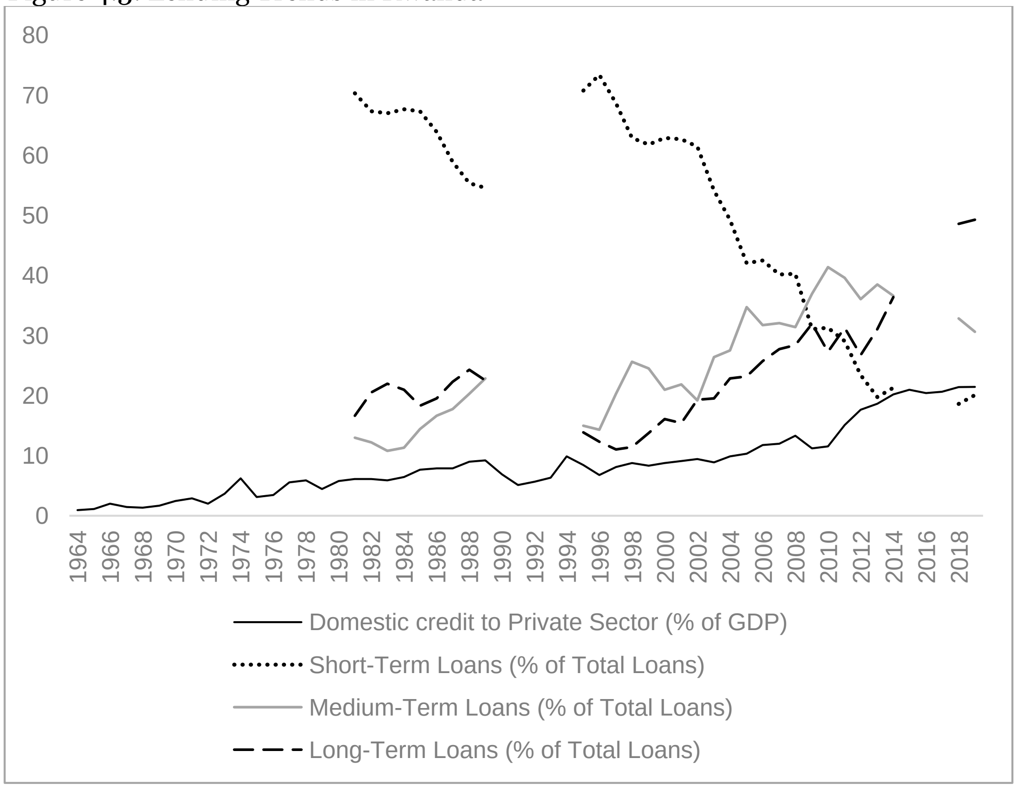
Figure 4.2. BNI Loan Disbursements by Sector



Source: (Banque Nationale d'Investissement, 2017)

[77] This was the Banque Continentale Africaine du Rwanda, which was majority-owned by Banque Continentale du Luxembourg—a subsidiary at the time of French Investment Bank Banque de Paris et des Pays-Bas (Paribas).

Figure 4.3. Lending Trends in Rwanda



Source: Author's calculation using data from (The World Bank, 1991), the World Development Indicators, and Rwanda's National Bank

As shown in Figure 4.3, Rwanda enjoyed a steadier increase in the share of loans that are medium-to-long-term when compared to Côte d'Ivoire. Specifically, medium-to-long-term loans now account for 80 percent of the total share of outstanding credit in Rwanda, compared to 30 percent in 1980. Commercial banks have gradually doubled their share of medium and long-term in the late 1980s (Development Bank of Rwanda, 2016a) following the passing of a law in 1987 allowing banks to no longer be specialised in either shorter-term retail banking or longer-term investment or development banking (The World Bank, 1990). However, Rwanda's commercial banks haven't leveraged their ability to issue longer-term credit lines to finance sectors that are generally associated with structural transformation, such as manufacturing. For example, Bank of Kigali, which with an estimated 30 percent share of financial sector assets is Rwanda's largest commercial bank, had 45 percent of its loan portfolio in construction and hotels and an additional 40 percent in the commerce and transport sectors in 2016 (Behuria, 2020a). Bank of Kigali's focus on real estate and services contrasts with that of BRD, which with around 10 percent share of Rwanda's financial sector assets, issued an estimated 40 percent of the sector's medium- and long-term loans in the 2010s (de Luna-Martinez and Vicente, 2012; Development Bank of Rwanda, 2017, 2019).[78] Moreover, BRD in 2016 had the bulk (82 percent) of its outstanding loans committed to sectors that drive structural transformation (39 percent in exports and manufacturing, 26 percent in housing and infrastructure, and 17 percent in agriculture), when compared to the Bank of Kigali (Development Bank of Rwanda, 2016a).

BRD is not only noteworthy due do its status as Rwanda's only NDB and the country's main medium-to-long-term financier to sectors that drive structural transformation; it is also one of the few banks left under state ownership. Rwanda experienced a wave of bank privatizations with the collapse of the country's financial sector during the genocide. The liberalization of the financial sector following the conflict was ushered by the creation of new commercial banks and the recapitalization of existing ones by local investors with close ties to the ruling party (the Rwandan Patriotic Front or RPF). However, the liberalization of the financial sector was followed by a rise in non-performing loans (NPLs), which went from 10 percent in 1993 to 60 percent in 1999. This worsening performance of Rwanda's banking sector was attributed to the propensity of elites who owned banks to privilege their personal ties to loan recipients over the economic viability of the projects being financed. The drive against corruption associated with the arrival to power in 2000 of President Kagame consequently led to the recapitalizing of struggling banks by increasingly resorting to foreign investors (mostly Pan-African banks), which were viewed as more neutral when it came to domestic politics. Alongside BRD, Bank of Kigali is now the only other bank in Rwanda with the state as a majority shareholder (Behuria, 2020b).[79]

This section examined the place of NDBs in Côte d'Ivoire and Rwanda's financial systems. Specifically, it showed how these NDBs played an outsized role in their bank-dominated financial systems. The changing banking landscape in Côte d'Ivoire and Rwanda has not eroded the importance of NDBs as agents of economic development in both countries. Indeed, among the banks discussed in this chapter that operate in Côte

[78] As of 2019, these loans have an average maturity of eight years.
[79] Through Rwanda's sovereign wealth fund (Agaciro) and the country's social security agency, the Rwanda Social Security Board.

d'Ivoire and Rwanda (including state-owned commercial banks), NDBs are the most willing to provide long-term financing to the sectors that drive structural transformation.

4.3. Financing BRD, BIDI, and BNI

Besides capital contributions by their shareholders, BNI and BRD borrow money to operate. Because NDBs typically issue medium-to-long-term loans, they are better off raising funds of similar maturities to match their assets with their liabilities. Additionally, the fact that enterprises may import capital goods means that some of the loans that NDBs provide should, preferably, be issued in international reserve currencies, such as the USD. To reduce lending costs, NDBs either receive grants from their government and bilateral and multilateral donors or borrow at concessional rates.

To supplement capital contributions from its shareholders, BRD has historically raised funds by selling bonds, which were purchased by the country's state-owned commercial banks, such as the Bank of Kigali. Meanwhile, foreign exchange came from grants and concessional loans[80] from regional organizations, such as the Arab League, bilateral aid agencies, such as the Swiss Fund, foreign development banks, such as KfW, and IFIs, such as the World Bank (The World Bank, 1979b, 1983, 1990).

Currently, BRD's borrowings in local currency come from the country's social security agency, the Rwandan Social Security Board, in the form of term deposits. The Rwandan Ministry of Finance and Economic Planning (MINECOFIN) and KfW have also provided resources in Rwandan francs. For example, loans given by the MINECOFIN are to be used to finance five tea-growing projects, while KfW lent BRD money to promote the expansion of export-oriented SMEs (Development Bank of Rwanda, 2019).

BRD's foreign exchange borrowings are in USD. These funds are usually provided by regional financial institutions, such as the African Export-Import Bank, the European Investment Bank, and the African Development Bank (AfDB) at concessional rates, with medium-term maturities (*Ibid.*). For example, 20 percent of BRD's borrowings in 2015 were due in a year or less, 49 percent were due in 1 to 5 years, and 31 percent were due in over 5 years, with the longest-term borrowings due in about 13 years (Development Bank

[80] Loans issued in foreign currency in the 1960s, 1970s, and early 1980s had interest rates ranging from 0.75 percent to 6 percent.

of Rwanda, 2015). In comparison, the range of maturity dates for BRD's borrowings in the 1980s was 11 to 50 years (The World Bank, 1983), which suggests that long-term lenders are more short-termist than they were in the past. According to a former BRD CEO, the lack of longer-term borrowing is one of the main challenges the bank faces, as it is forced to finance longer-term projects with short-to-medium-term funds (Mwai, 2016).

Special funds and grants endow BRD with additional resources to support enterprises. Like borrowings, special funds and grants are provided by multilaterals, such as UNDP and foreign NDBs, such as KfW. The Rwandan government, through agencies, such as MINECOFIN and the National Agricultural Export Development Board (NAEB), also provide BRD with special funds and grants. These special funds and grants are better than loans because they do not need to be repaid. However, they offer significantly smaller amounts of money than what BRD gets from borrowing. For example, the value of special funds and grants BRD had at its disposal in 2019 totalled about USD 8.7 million and USD 2.6 million, respectively, compared to the USD 237 million in reported borrowing (Development Bank of Rwanda, 2019).

The World Bank has played an important and changing role in financing BRD's operations. The IFI started extending credit lines to BRD in the 1980s. During that decade, BRD's World Bank borrowings were used to finance 61 projects (32 in agriculture and agro-industry, 14 in manufacturing, 5 in tourism-related activities, 8 in services, and 2 in other areas) (The World Bank, 1990). Compared to the 1980s, the World Bank's current relationship with BRD is one where both banks collaborate on projects that are less associated with structural transformation. For instance, BRD is slated to manage a USD 150 million USD World Bank fund geared toward providing middle-class Rwandans with affordable, long-term mortgage loans (Development Bank of Rwanda, 2019; The World Bank, 2018).

Alongside institutional borrowing, BRD briefly accepted deposits when it a had commercial arm. At their peak in 2015, customer deposits accounted for about 41 percent of BRD's liabilities, compared to 36 percent for borrowings, 14 percent for special funds, and 0.6 percent for grants (Development Bank of Rwanda, 2015). Though they provided BRD with an additional source of funding, the short-term nature of BRD's customer deposits (81 percent of term deposits in 2015 had maturities of a year or less) meant that their use to issue long-term loans would create asset-liability mismatches (*Ibid.*). These asset-liability mismatches that are associated with universal banking factored into BRD's decision to sell its commercial arm, stop taking deposits, and refocus its efforts on development banking.

Like BRD, BIDI mobilised long-term resources by borrowing from foreign NDBs, (such as KfW) bilateral donors, (such as the United States Agency for International Development (USAID)), and shareholders (such as Chase Manhattan and the World Bank). These creditors sometimes allowed BIDI to use interest payments it owed them to supply a special fund, which was employed to finance pre-feasibility and feasibility studies for projects that the bank planned to support. The fund also served to provide loans at little-to-no interest to SMEs that were unable to access credit from commercial banks. Following the central bank's decision to end the *de jure* separation between commercial and development banks in 1975, BIDI started accepting deposits from individual customers to finance shorter-term consumer loans from 1980 to 1989, when the bank was liquidated (The World Bank, 1985, 1997).[81]

BIDI's mode of financing contrasts with that of BNI. When it was first established as CAA in 1959, BNI secured the bulk of its resources by taking deposits from parastatals. For example, CAA in 1990 attracted 54 billion and CFA francs in deposits from public sector bodies and lent 67 billion CFA francs to them, usually in the form of short-to-medium term credit. This resource base shrank by 60 percent between 1989 and 1990, as SOEs struggled during Côte d'Ivoire's debt crises withdrew more money from their accounts than they deposited (The World Bank, 1997). CAA raised the remainder of its funds by issuing 10-year bonds biannually on the West African stock exchange, which is based in Abidjan. These bonds were typically sold to insurance companies and institutional investors, who, following government directives, were required to purchase CAA's debenture (Lane, 1989).

When CAA became a universal bank in the early 2000s and changed its name to BNI, the bank diversified its sources of financing. While public sector deposits still accounted for about 52 percent BNI's resources in 2018, non-state actors such as individuals and private enterprises accounted for the remaining 48 percent share

[81] Chapter 3 addresses these events in greater detail.

(Banque Nationale d'Investissement, 2018).[82] Eighty-three percent of these deposits in 2017 and 2018 were short-term, while medium-term and long-term deposits accounted for a 15 percent and 1 percent share of total deposits, respectively. The tenor of these liabilities is reflected in BNI's loan book. Between 2014 and 2018, approximately 73 percent of BNI's loans were short-term, 23 percent were medium-term, and 1 percent were long-term. Besides attracting deposits, BNI raised funds by securitizing some of its assets, which it sells to the government (Banque Nationale d'Investissement, 2017, 2018) BNI's loan maturities are now even more short-termist than the rest of Côte d'Ivoire banking sector. Central bank data from 2014 and 2015, for example, show that banks operating in Côte d'Ivoire issued, on average, 61.5 percent of short-term loans, 36.5 percent of medium-term loans, and 2 percent of long-term loans.[83]

BNI also manages special funds, which in Côte d'Ivoire are called National Funds. In its 2017 annual report, BNI states that "National Funds have enabled the State to build socio-economic housing in both rural and urban areas, to finance income-generating investments in local communities, to provide the rural environment with drinking water supply, [and] to support the development of the tourism, cinema and environment sector" (Banque Nationale d'Investissement, 2017, p. 25). These funds are financed through a variety of means, including state budget allocations, special taxes, institutional grants, loans, donations, and financial investment revenue. Just like BRD's special funds and grants, BNI's National Funds are small when compared the bank's other sources of financing. For instance, National Funds only accounted for about 1 percent of BNI's resources in 2018 (Banque Nationale d'Investissement, 2018).

This section discussed how NDBs in Côte d'Ivoire and Rwanda fundraise. Alongside capital contributions from their shareholders, NDBs in both countries rely on concessional loans and grants from multilateral and bilateral donors to operate. Donor-issued loans and grants are crucial for NDBs, since they provide these banks with the bulk of their foreign-exchange-denominated long-term financing. However, some funders, such as the World Bank, have since the 1990s been providing shorter-term loans and have been less willing to support sectors that are known to drive structural transformation.

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[82] Of the 48 percent of non-state depositors, 25 percent came from private enterprises and 23 from individuals.
[83] https://edenpub.bceao.int

4.4. The Role of Central Banks and Monetary Policy

Section 4.3 showed that NDBs in Côte d'Ivoire and Rwanda have a difficult time mobilizing long-term funding to lend to sectors that drive structural transformation–a problem that has become more severe since the 1990s.

However, Chapter 2 highlighted that asset-liability miss-matches can be alleviated by central banks via emergency (re)financing facilities. Chapter 2 also examined how central banks in countries during their high-growth phase, such as Japan from the 1950s to the 1980s, leveraged their control over money supply to promote structural transformation via directed credit schemes. These observations raise the question: what is the relationship between central banks, structural transformation, and banks (particularly NDBs) in Rwanda and Côte d'Ivoire?

In Rwanda, the relationship between the central bank and BRD has changed significantly since the 1960s. Before Rwanda established its central bank in 1964, the country was in a monetary union with Congo and Burundi under Belgium's colonial rule (Tchundjang Pouemi, 2020, p. 174; The African Center for Economic Transformation, 2022, p. 7). When Rwanda gained independence, its central bank implemented a variety of measures to assist BRD and enterprises. Specifically, Rwanda's central bank (the National Bank of Rwanda, Banque Nationale du Rwanda, or BNR) "principal responsibility … was to contribute to economic growth by orienting the flow of money, savings, and investment towards key sectors of the economy" (The World Bank, 1991, p. 9). For example, BNR in the 1960s, 1970s, and 1980s gave BRD funds in local currency by on-lending money borrowed from multilateral and bilateral entities such as the Arab League and Switzerland (The World Bank, 1979b). The central back also provided BRD with foreign currency resources by on-lending money borrowed from IFIs such as the IMF. Alongside on-lending, BNR acted as a lender of last resort by supplying BRD with emergency loans and refinancing facilities when the NDB faced a liquidity shortfall in the late 1980s (The World Bank, 1990).

Besides providing BRD with funds, BNR established an interest rate structure to promote investment in (1) production, transformation, stocking and marketing of agriculture, livestock, and crafts; (2) exports; (3) tourism; (4) strategic petroleum stocks; (5) productive investments generating employment, with a minimum value added of 20 percent, especially those involving the transformation of natural resources; (6) international transport companies; (7) education and; (8) public housing, especially collective buildings.[84] For example, BNR in the 1970s set the interest rate ceiling at which commercial banks could lend to manufacturing enterprises to purchase capital goods to 11 percent. Interest rate ceilings for export credits were even lower, with lending rates for coffee and tea not able to be higher than 5 and 4 percent, respectively. Meanwhile, the maximum rate at which BRD could lend for loans with medium-to-long-term maturities ranged from 5.5 to 9 percent, depending on the priority sector. (The World Bank, 1979b). Priority sectors were also not subject to BNR's credit ceilings, which capped the amount of loans that banks could issue to non-priority sectors (The World Bank, 1991). Additionally, banks in Rwanda could use BNR's refinancing facilities at preferential rates for borrowings, which they on-lent to priority sectors.[85]

Financial sector reforms starting in the late 1980s made BNR shift from playing an active role in Rwanda's economy to assuming a more regulatory function. The push for change in Rwanda's financial sector was motivated by reports published by the IFIs, which claimed that the system BNR had put place since independence was not operating as designed. For example, the World Bank's 1991 *Rwanda Financial Sector Review* showed that commercial banks routinely misclassified credit to non-priority areas as loans to priority sectors, to benefit from cheap refinancing at BNR and to bypass credit ceilings. Commercial banks interviewed for the report also argued that capping interest rates at relatively low levels meant they could not make risky, but potentially lucrative loans to SMEs by charging a premium (*Ibid*.). To ensure a more transparent allocation of credit and to increase bank profits, BNR removed credit controls, liberalised interest rates, and switched from a fixed to a flexible exchange rate regime in the 1990s (Behuria, 2020b). BNR's mission statement now mentions that it "strives to become a world class Central Bank that contributes to the economic growth and development by using robust monetary policy tools to maintain stable market prices" (National Bank of Rwanda, 2019, p. 8). BNR's move away from directly supporting the public sector is reflected in its current relationship with BRD. For instance, looking at BRD's annual reports since 2008

[84] The list or priority sectors was reduced to the first four categories in 1989.
[85] Interest rates ceilings were adjusted over the years to account for inflation and make sure that BRD would have positive real rates of return.

reveals that BNR rarely on-lends to BRD, nor does the central bank refinance BRD's borrowings. Apart from being a place where BRD holds cash reserves in Rwandan francs, US dollars, and euros, BNR mainly serves as a monitoring body to which BRD reports to show its adherence to national prudential regulations (Development Bank of Rwanda, 2015, 2019).

Unlike Rwanda, Côte d'Ivoire stayed in the monetary union that it had joined when it was a French colony. Created by France in 1945 for its overseas African territories, the CFA franc is a currency that is currently used by 14 states (including non-former French colonies) across two zones in West and Central Africa. In the West African zone, the CFA franc is issued by the Central Bank of West African States (BCEAO) for use in Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo, and Guinea Bissau, who together form the West African Economic and Monetary Union (WAEMU).[86] In Central Africa, the CFA franc is issued by the Bank of Central African States (BEAC) and is legal tender in Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon, who are part of Economic and Monetary Community of Central African States (CEMAC). Although the West and Central African CFA franc are separate currencies,[87] both monetary zones are guided by the same general principles. These are "(1) a fixed parity against the euro (previously the French franc), adjustable if needed, but only after consultation with Paris and the unanimous decision of all members within each monetary area; (2) [unlimited] convertibility of the CFA franc into the euro (the French franc before 1999);[88] (3) the guaranteeing of such convertibility by France through each regional central bank holding an operating account with the French Treasury[89] in Paris; (4) free capital mobility between the two CFA zones and France; and (5) the sharing of foreign exchange reserves of each monetary area" (Taylor, 2019, p. 15).

The CFA franc, which has long been the subject of heated debates academic and policy debates for decades, deserves special attention due to the uniqueness of the

[86] Côte d'Ivoire economy is the largest in the WAEMU (it accounts for approximately 40 percent of the zone's GDP) (Fanny and Sylla, 2018, p. 44).
[87] For instance, the BCEAO and BEAC have different policy rates (Alby, 2018). Additionally, both West and Central African CFA francs are since 1993 cannot be used interchangeably across zones (Fanny and Sylla, 2018).
[88] 1 euro = 655.957 CFA francs
[89] The French Treasury is attached to the Ministry of Finance and is different from the country's independent central bank, the Banque de France.

currency's arrangements (Amin, 1967; Engberg, 1973; Fanny and Sylla, 2018; Martin, 1986; van de Walle, 1991).[90] On the one hand, proponents of the CFA franc argue that the currency's peg to the euro reduces systemic risk by limiting inflation (Banque de France, 2017; Devarajan and Rodrik, 1991; Yehoue, 2006). On the other hand, it can also be argued that the CFA franc hampers credit creation, as explained below.

Critiques of the CFA franc system usually centre around each zone's central bank's operating accounts at the French Treasury, which essentially function as a currency exchange facility.[91] According to the agreement between CFA franc countries and France since 2005, 50 percent of each zone's foreign exchange earnings are stored and managed in an operating account to cover at least 20 percent of each zone's sight liabilities (see the lower statutory limit in Figure 4.4).[92] Between 1960 and 1973, all foreign exchange earnings of CFA franc countries had to be placed in an operating account. The deposit requirement was then reduced to 65 percent of foreign exchange earnings between 1973 and 2005 (Koddenbrock and Sylla, 2019). Because of these currency arrangements, funds from large foreign exchange earners, such as export-oriented SOEs, were used more to safeguard France's convertibility guarantee than to enable banks to issue loans.

The mechanisms that buttress the CFA franc also made the "intertwining of politics and state banking" (Lane, 1989, p. 18 #224464), discussed in Chapter 3, more, rather than less, likely. Specifically, states using the CFA franc such as Côte d'Ivoire had access to limited central bank refinancing, as BCEAO and BEAC capped the amount of credit it could extend to member states to 20 percent of government revenues in the preceding

[90] France's unlimited convertibility guarantee means that BCEAO does not need to have a 100 percent coverage ratio, as other currency boards do (Wilson, 2021).
[91] Let's suppose, for instance, that an Ivorian manufacturer wants to buy a machine from the United States in dollars. To accomplish this task, the manufacturer will go to their local bank, which will transfer the CFA franc equivalent of the equipment's US dollar price to BCEAO. BCEAO will then have the corresponding amount in euros debited from its operations account. The next steps involve the conversion of euros to dollars on the Paris foreign exchange market to pay the machine's seller. Conversely, let's say that the same Ivorian manufacturer exports goods and is paid in US dollars. For them to withdraw money in Côte d'Ivoire, the company's US dollar earnings must first be converted to euros at the Paris foreign exchange market before being deposited in BCEAO's operating account. BCEAO will then provide the equivalent amount in CFA francs to the manufacturer's bank (Fanny and Sylla, 2018).
[92] BCEAO closed its operating account with the French treasury in 2021. Although the end use of these resources were not fully known at the time of publication, preliminary reports suggest that BCEAO is lending the bulk of these reserves to Global North countries (Agence Ecofin, 2022).

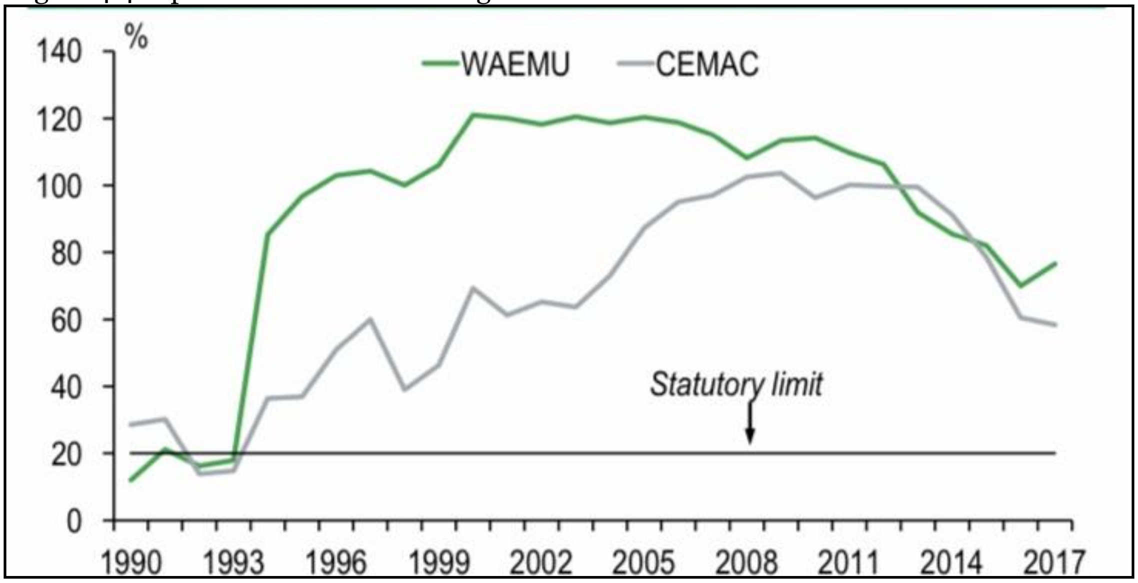
year, to encourage fiscal discipline and curb inflation.[93] Without substantial help from their lender of last resort during the 1980s debt crisis, governments using the CFA franc were incentivised to pluck the low-hanging fruit by forcefully taking funds from their NDBs (Lane, 1989; The World Bank, 1997). France did assist WAEMU and CEMAC countries by honouring its convertibility guarantee as BCEAO and BEAC's operating accounts were running on empty. However, this bailout was followed by a devaluation of both CFA francs by 50 percent in 1994 to boost exports and replenish each monetary zone's operating account, far in excess of the statutory limit, as shown in Figure 4.4. Indeed, in a monetary system like the CFA franc where policy autonomy is limited, the change in domestic credit supply is shown to be less than the change in foreign exchange reserves (Dufrénot, 2009). This relationship exists because a growth in domestic credit that outpaces the growth in foreign exchange reserves is expected to boost the demand for imports to a degree that may weaken the position of the operating account and, consequently, jeopardise the credibility of the currency's peg.

The economic rationale presented above for prioritizing excess reserves is complemented by a sociological one, which focuses on central bankers in the CFA franc zones as a technocratic stratum embedded with the IFIs (Koddenbrock and Sylla, 2019). For example, most BCEAO staff are certified at the Centre Ouest Africain de Formation et d'Études Bancaires (COFEB) in Dakar, Senegal by French experts, who themselves are trained by IMF staff. BCEAO's international orientation is also seen through the existence of revolving doors for high-level technocrats between WAEMU finance ministries, BCEAO, and the IFIs.[94] The vast accumulation of foreign exchange reserves is therefore a way for BCEAO staff to defend their status as 'modern' central bankers, who are known to hedge against macroeconomic risk by prioritizing price stability over economic development (Nubukpo, 2010).

[93] Since 2001, governments in WAMU can no longer receive credit from the central bank and must, instead, fundraise on capital markets (Banque de France, 2016).

[94] For instance, Côte d'Ivoire's president since 2011 (Alassane Ouattara) was, prior to becoming the head of state, working in various managerial roles at BCEAO and the IMF between the 1960s and the 1990s as well as in government, where he served as Prime Minister and Minister of Finance from 1990 to 1993 (Présidence de la République de Côte d'Ivoire, 2011).

Figure 4.4. Operation Account Coverage Rates



Source: (Alby, 2018)

Other changes to BCEAO's policies since the 1990s have affected the extent to which banks are willing and able to support industries that drive structural transformation. Before the debt crisis of the late 1980s and early 1990s, BCEAO used a range of instruments to incentivise banks to support the sectors that drive structural transformation. For instance, BCEAO, which refinanced about 40 percent of credit issued by banks in the 1980s, provided rediscounting facilities for the financial sector of up to ten years' maturity (The World Bank, 1985). Specifically, 90 percent of the value of medium-to-long term loans to priority sectors, such as infrastructure, were eligible for central bank refinancing, compared to 50 percent for non-priority investments (Lane, 1989). BCEAO also had a system of sectoral coefficients, which assigned a floor to the share of bank credits that needed to be allocated to priority sectors, such as agriculture and industry. In the 1980s, the floor for agriculture (including fishing) and industry (manufacturing) averaged 6 percent and 36 percent, respectively. Conversely, BCEAO set a ceiling on the share of loans banks could issue to non-priority sectors, such as property and services, which in the 1980s hovered around 10 percent for property and 22 percent for services (*Ibid.*). As in Rwanda, the 1990s saw the removal of sectoral credit allocations and credit ceilings in BCEAO to liberalise financial markets. BCEAO also significantly reduced its long-term refinancing facilities to decrease lending risk (*Ibid.*; The World Bank, 1997). In addition to being short-term, current refinancing facilities exist to help banks purchase government securities (African Development Bank Group, 2019), which further reduces the amount of funds available to the private sector.[95]

This section analysed the relationship between NDBs and central banks in Côte d'Ivoire and Rwanda. The evidence presented above highlights a shift from BNR and BCEAO actively promoting structural transformation via directed credit schemes and long-term refinancing facilities to assuming a more regulatory role, which focuses on safeguarding price stability. This section's analysis of the CFA franc system also shows how the currency's unique arrangements hinder credit creation.

4.5. The Pressures, Promise, and Pitfalls of Regulatory Compliance

The ability and the willingness of NDBs in Côte d'Ivoire and Rwanda to accomplish their mission is further affected by their adherence to an international prudential regime. In Rwanda, the central bank's decision to, by 2018, adopt a Basel II and III-inspired regulatory framework was motivated by the government's ambition to make Kigali one of Africa's financial sector hubs (Behuria, 2018). For example, BRD needs to satisfy BNR's requirements for key prudential metrics, including maintaining a 15 percent minimum capital adequacy ratio (CAR) and 100 minimum liquidity ratio. As shown in Figure 4.5, BRD's prudential standing has been excellent overall.[96] The bank's ability to comply with BNR's regulations makes sense when considering the three advantages NDBs have over commercial banks vis-à-vis regulatory compliance. Firstly, NDBs usually have lower liquidity risks relative to commercial banks due to the former's propensity to benefit from treasury transfers and state guarantees, while the latter relies more on customer deposits. In 2018, BRD benefited from such transfers, which helped the bank bring its CAR back in line with BNR's minimum requirement (The World Bank, 2018). Secondly, the longer loan terms NDBs tend to issue do not imply greater risk since borrowing and lending should, ideally, both be long-term to match assets with liabilities. Lastly, longer loan

[95] BCEAO has set up a refinancing facility for bank loans to SMEs in 2018. However, information on the outcomes of this policy was not available as of 2021 (African Development Bank Group, 2019; Banque Centrale des États de l'Afrique de l'Ouest, 2018).

[96] BRD's high levels of CAR for more than a decade can be explained by the fact that BNR has since 2011 required banks to have a minimum CAR of 15 percent (Behuria, 2020b), which is higher than the 12.5 percent minimum CAR the Bank for International Settlements recommends.

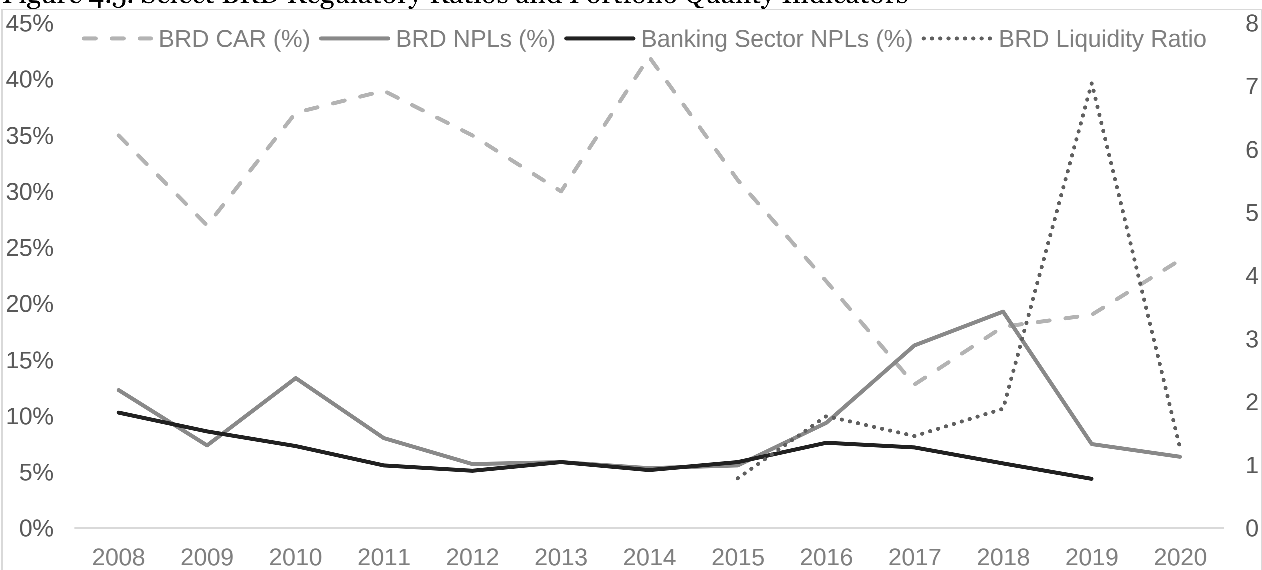
maturities give more room for NDBs to reschedule payments, which makes them less vulnerable to sudden crises (de Castro, 2018).[97] However, BNR's head of research believes that BRD should be exempt from full regulatory compliance (The African Center for Economic Transformation, 2022, p. 19). Indeed, although BRD can meet BNR's prudential requirements, being held to the same standard as commercial banks still reduces the policy space available to BRD to finance long-term projects in risky sectors.

The capability of NDBs to adhere to international banking standards and fulfil their mission is further shown by looking at Fitch's report on BRD. In 2020, BRD became the first and only Rwandan financial institution to be evaluated by an international rating agency (Fitch), which awarded the bank a B+ long-term default rating, with a stable outlook. In their report, Fitch highlights how BRD's "unique business model would be difficult to replicate by other domestic financial institutions" (Fitch Ratings, 2020). Unlike other Rwandan banks, BRD's status as an NDB means it can access government funding should the bank's finances sour, which reduces default risk. Conversely, Fitch penalises BRD for its unhedged foreign currency borrowing and the Rwandan state's limited ability to cover the bank if it incurs foreign exchange losses. Indeed, BRD's reliance on fiscal support is such that the bank's default rating is strongly linked to Rwanda's sovereign rating.[98] Fitch's report also emphasises BRD's ameliorating asset quality. As shown in Figure 4.5, BRD's NPL ratio converged to Rwanda's sector average in the mid 2010s, during which BRD's commercial activities meant its loan book was more in line with Rwanda's other banks than in previous years. BRD's NPL ratio then jumped between 2016 and 2018 due to multiple struggling projects, before declining again following loan restructuring and write-offs and debt recovery efforts (Development Bank of Rwanda, 2018). For BRD officials, Fitch's report rewards the bank's prudential compliance and improving financial performance (see Figure 4.6), which will bolster investor confidence and allow BRD to diversity its capital base (Bizimungu, 2020; Kagire, 2020). However, it is unlikely that Fitch's rating will significantly reduce BRD's borrowing costs and attract non-institutional lenders. Although a B+ score is not a sign

[97] A recent econometric study on banks in Africa shows that medium-term and long-term loans are associated with lower non-performing loan ratios and higher returns on assets compared to short-term loans (Ndikumana *et al.*, 2021).
[98] Rwanda's long-term default rating was the same as BRD's in 2020 and 2021.

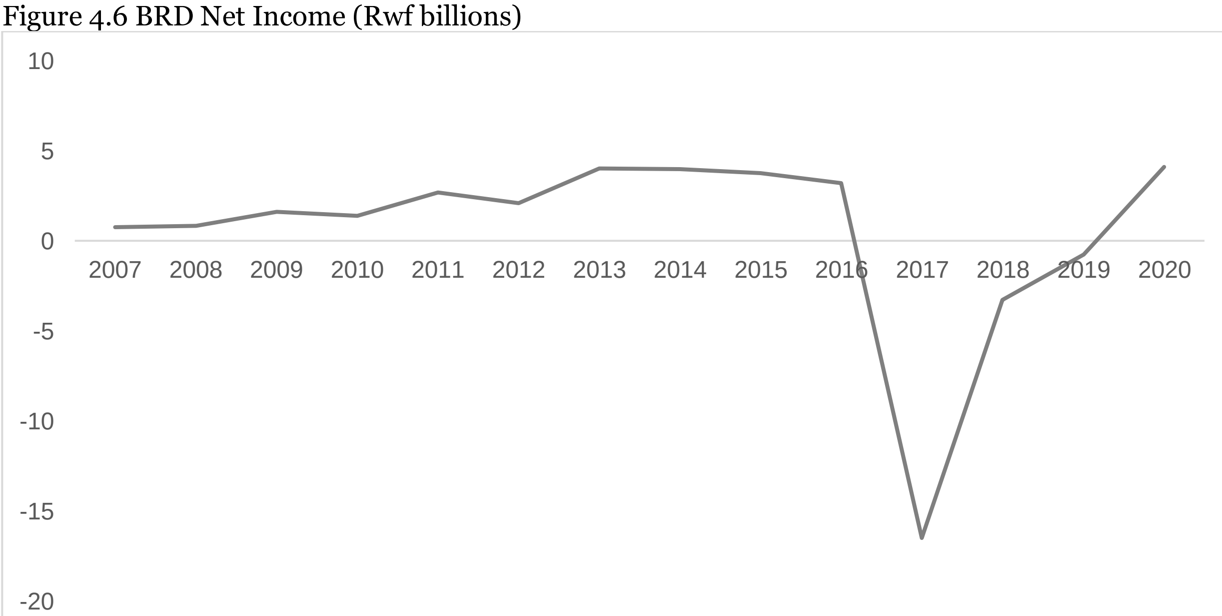
of imminent default, investments in B-grade banks are still regarded as 'highly speculative': "'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment" (Fitch Ratings, 2021).

Figure 4.5. Select BRD Regulatory Ratios and Portfolio Quality Indicators



Source: BRD and BNR Annual Reports

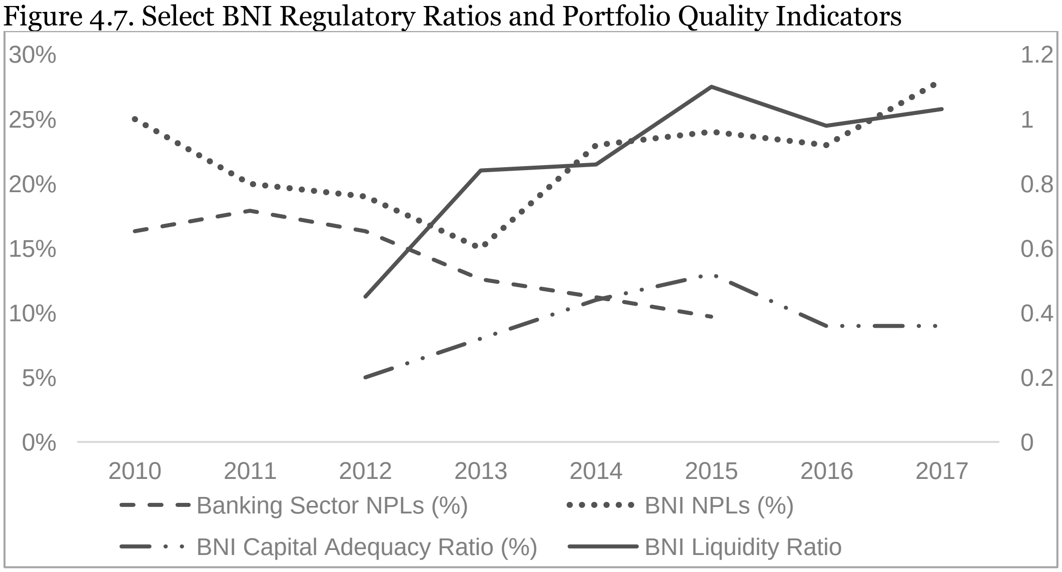
Figure 4.6 BRD Net Income (Rwf billions)



Source: BRD Annual Reports

In Côte d'Ivoire, the push to follow the latest international prudential standards started in the late-2000s. In response to the Ivorian government's request for IMF assistance following the country's 2002-07 civil war, the IFI required a further restructuring of Côte d'Ivoire's financial sector. Namely, the IMF advised ailing state-owned banks such as BNI to improve their liquidity position, which was achieved by prioritizing retail operations to increase customer deposits (International Monetary Fund, 2008). Amplifying this reform drive was BCEAO's decision in 2016 to have banks in the WAEMU adopt by 2022 more stringent regulatory measures derived from Basel II and III. Banks in WAEMU will, for example, be subject to a liquidity ratio threshold increasing from 75 percent to 100 percent. Banks in the region will also see their minimum required capital adequacy ratio go up from 9 percent to 11.5 percent (Illy *et al.*, 2020) (Jones, 2020)[99] Interviews conducted by Illy and Ouedraogo show that BCEAO's decision to have banks adopt the latest Basel standards were done in concert with the IMF, but without input from banks operating in WAEMU: "'They (the BCEAO) invited us to tell us what they decided, it was not a consultation'; 'they do what they want '" (Illy *et al.*, 2020, p. 187). Although foreign-owned banks do not seem to have influenced the decision to transition to Basel II and III, they—unlike BNI—benefit from the experience of their parent companies, many of which already comply with these regulations.

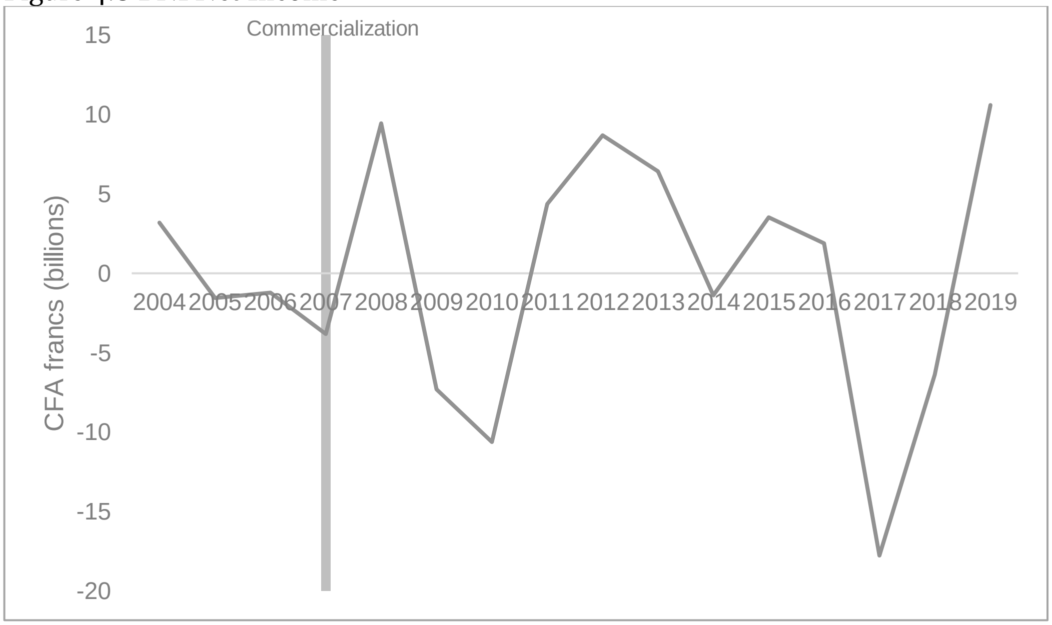
Figure 4.7. Select BNI Regulatory Ratios and Portfolio Quality Indicators



Source: BNI Activity Report, 2017; African Financial Sector Database

[99] This new capital adequacy ratio includes a 2.5 percent capital buffer.

Figure 4.8 BNI Net Income



Source: BNI Activity Reports, 2004-2019

BNI's efforts to satisfy BCEAO's new regulations are producing mixed results. As Figure 4.7 shows, commercialization has, on the one hand, positively impacted the bank's liquidity coverage (Banque Nationale d'Investissement, 2017). On the other hand, BNI's CAR and net profits (see Figure 4.8) haven't benefited as much from the bank's growing focus on retail operations. More concerning than BNI's CAR and net profits are the bank's NPLs, which have risen since 2013 and stood at almost 28 percent in 2017. BNI's NPLs are significantly higher than the six percent average NPL rate for commercial banks operating in Côte d'Ivoire between 2013 and 2019 (Ndikumana *et al.*, 2021, p. 24). BNI's annual reports suggest that the bank has prioritised the expansion of its retail network at the expense of investments in enterprise loan appraisal, monitoring, and evaluation structures. For example, BNI's enterprise loans are usually disbursed in full, instead of being done in tranches, subject to the progress of the funded project, which helps limit loan failure (Banque Nationale d'Investissement, 2018, p. 41). BNI's increasing commercial orientation is also enabled by the fact that NDBs in the WAEMU have to fully comply with Basel II and III, meaning there is no incentive for BNI to pursue long-term enterprise financing.

4.6. Conclusion

This chapter showed how NDBs in Côte d'Ivoire and Rwanda are important financial market participants through their outsized role in promoting economic development when compared to commercial banks, including state-owned ones.

Still, various structural constraints make it increasingly difficult for NDBs in Côte d'Ivoire and Rwanda to accomplish their mission. For instance, Rwanda's struggle to secure long-term US dollar resources and the CFA franc arrangements demonstrate how international financial and monetary asymmetries limit the policy space available to Côte d'Ivoire and Rwanda's NDBs. Although they are encouraged to fundraise on capital markets, the prohibitive cost of doing so means NDBs in both countries rely heavily on bilateral and multilateral donors. However, these actors have, since the 1990s, been less disposed to finance sectors that are associated with structural transformation. BCEAO's and BNR's IMF-driven shift from directed credit to inflation-targeting further hinders the ability and the willingness of Ivorian and Rwandan NDBs to support the structural transformation of their national economies. Additionally, the adoption of Basel II and III may push BNI and BRD to de-risk their balance sheets, which goes against the promotional role that these banks have historically played.

Yet, the challenges that Côte d'Ivoire and Rwanda's NDBs face do not preclude them from attempting to be developmental. Looking at both this chapter and at the previous one reveals how the relationship between NDBs and other financial market participants can sometimes benefit these banks. For instance, the growing importance of international prudential regulation means the accounts of Ivorian and Rwandan NDBs are, more than ever, scrutinised by auditors, credit rating agencies, and their respective central banks, which helps prevent financial mismanagement. Even the potentially negative effects of Basel II and III's implementation on NDBs can be addressed through policy choices, such as granting these banks a special legal status that allows them to be regulated differently than commercial banks. Indeed, BNI and BRD's financial performance and prudential track record since the mid-2000s are influenced by how each country positions its NDB. In Rwanda, the government's desire to have BRD (re) focus on enterprise finance is yielding encouraging results, while BNI's commercialization is generating mixed outcomes.

Chapter 5—Banks, Government, and Enterprises in Côte d'Ivoire

5.1. Introduction

This thesis has, thus far, provided an in-depth analysis of the relationship between NDBs, state authorities, and financial market participants in Côte d'Ivoire and Rwanda. The next two chapters will further develop our understanding of the task environment of NDBs in both countries by looking at how they interact with non-financial firms, starting with those in Côte d'Ivoire.

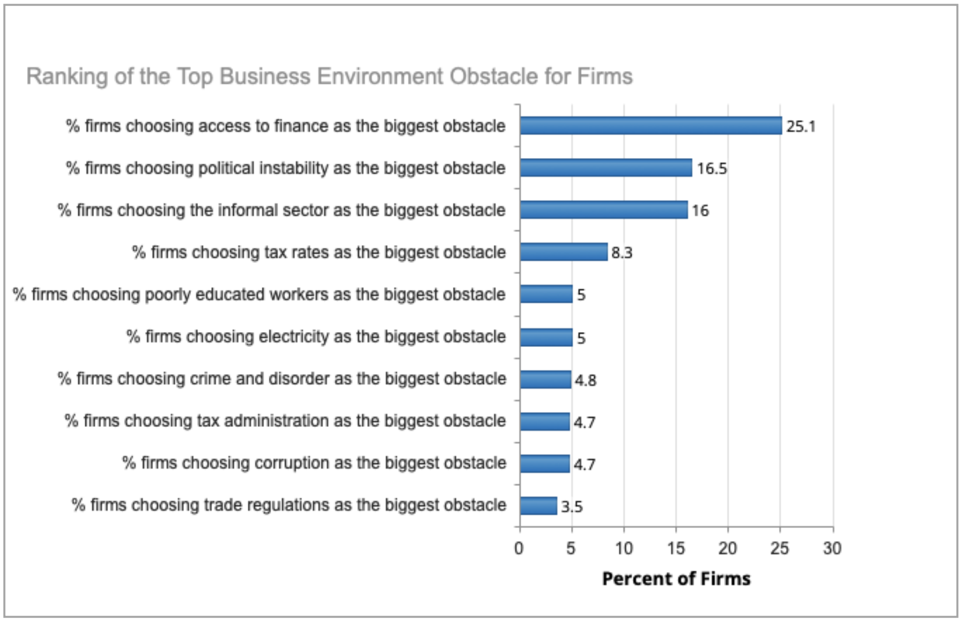
The present chapter starts by providing an overview of current bank-enterprise relations in Côte d'Ivoire. It then proceeds by examining the relationship between banks, including BNI, and enterprises in greater detail through industry case studies covering agro-processing in the cocoa, cashew, and textile industries. The evidence presented in this chapter shows that BNI does lend to Ivorian agro-processors. However, the bank's ability and willingness to support these enterprises are limited by its universal banking business model. This chapter also highlights that the financial and economic impact of bank loans secured by Ivorian agro-processors are negatively affected by the absence of complementary industrial policy measures from Côte d'Ivoire's government.

5.2. Current Bank-Enterprise Relations in Côte d'Ivoire

As mentioned in the introduction to this thesis, enterprises operating in Sub-Saharan African are the more likely to mention access to finance as a major constraint to their growth, compared to enterprises in other developing regions.

In Côte d'Ivoire, over a quarter of enterprises identified access to finance as their biggest environment obstacle when surveyed in 2016-17, as shown in Figure 5.1. Additionally, the fact that only 14.9 percent of investments among the 361 Ivorian firms surveyed are financed by banks suggests that there is a gap between the demand for credit and its supply in the country. While 66.6 percent of Ivorian enterprises surveyed by the World Bank needed a loan, only 23.6 percent of them used banks to finance investments. Moreover, only 18.7 percent of firms surveyed had a bank loan or line of credit. The World Bank's data also indicates that SMEs are more likely to be affected by the lack of financing that larger ones.[100] For instance, 14.2 percent of small enterprises surveyed had a bank loan or line of credit, compared to 33 percent for medium enterprises and 46.6 percent for large ones. Similarly, up to twice as many large enterprises (34.1 percent) reported using banks to finance investments compared to small enterprises (16. 3 percent) and medium ones (28.5 percent). Overall, 74.9 percent of small firms surveyed identified access to finance as a major constraint, compared to 57.1 percent of medium-sized enterprises and 55.1 percent of large ones.[101]

Figure 5.1. The Top Business Environment Obstacles for Firms in Côte d'Ivoire



Source: World Bank Enterprise Surveys[102]

[100] The World Bank defines a small enterprise as one with 5–19 employees, a medium enterprise as one with 20–99 employees, and a large enterprise as one with more than 100 employees. The breakdown of enterprises by size in the Bank's 2016-17 survey is as follows: small (196), medium (112), large (53).

[101] The World Bank Enterprise Surveys also provides data for enterprises divide into other subgroups, including by sector (manufacturing, retail services, other services), exporter type (whether direct exports are 10 percent of more or sales or not), and ownership type (whether firms have 10 percent or more foreign ownership or not). While the thesis focuses on manufacturing, export-oriented enterprises and discusses the differences in access to financing between foreign-owned firms and locally owned ones, I decide to not employ data disaggregated by these subgroups for two reasons. First, the ten percent threshold the World Bank sets to determine foreign ownership and export orientation is inconsistent with the majority (more than 50 percent) threshold employed in previous chapters. Second, the usefulness of enterprise survey data is limited because the size and the ownership structure of sector-disaggregated firms are unknown.

[102] https://www.enterprisesurveys.org/en/data/exploreeconomies/2016/cote-divoire#2

Results from surveys conducted by the Côte d'Ivoire-based consulting and investment firm, Entrepreneurial Solutions Partners (ESP), corroborates the World Bank's survey. Specifically, surveys done by ESP in 2014, 2016, and 2018[103] show that 80 percent of SMEs[104] identify access to finance as the first obstacle to growth, followed by the cost of financing (measured by interest rates and collateral).[105] ESP's surveys also reveal why banks tend to charge Ivorian firms high interest rates. For banks, the high interest rates they charge when lending to enterprises stem from their need to price risk, since firms looking for loans tend to have a thin credit record or lack one altogether. Additionally, banks claim that many firms do not disclose accurate information regarding their financial health, which leads to incorrect cash flow calculations, further increasing lending risk. Because of the high interest rates and high collateral requirements that banks demand, most enterprises who need financing don't bother going to banks for loans. For example, between one third and one half of the firms surveyed by ESP that needed loans decided to not seek them out from banks, with only half of those applying for bank loans being approved (Entrepreneurial Solution Partners, 2018; Fanny-Tognisso and Roux, 2017).

Because of the propensity of privately owned banks to support larger enterprises, which usually have majority foreign ownership, the Ivorian government is using BNI to help scale up locally owned SMEs. To nurture potential 'national champions,' BNI is promoting its flagship lending program, the SME-BNI credit facility.

As its name suggests, this facility can be used by BNI's enterprise customers that are at least two years old when applying for this loan. Enterprises using the SME-BNI credit facility can borrow up to 200 million CFA francs over five years at the maximum interest rate of 6.5 percent. This rate is significantly below BNI's 10 percent base rate, which is already among the lowest rate offered in the Ivorian market.[106] To offer such competitive rates, BNI uses cost-sharing mechanisms accounting for up to 50 percent of

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[103] The number of firms surveyed was 2819 in 2014, 4212 in 2016, and 4920 in 2018.
[104] SMEs of ESP are defined as firms with a gross income that does not exceed one billion CFA francs. This definition is consistent with the one used by Côte d'Ivoire's National Institute of Statistics and BCEAO.
[105] According to the World Bank Enterprise Surveys, 85. 7 percent of enterprise loans require collateral, which amounts to about 156.8 percent of the total loan value.
[106]https://www.bceao.int/sites/default/files/2021-10/Conditions%20de%20banque%20juin%202021%20-%20Conditions%20débitrices.pdf

a loan's value. Namely, borrowers are expected to contribute at least 20 percent of the total loan value, with the remaining amount covered by Côte d'Ivoire's Guarantee Fund for SMEs.[107][108]

BNI also played a key role in providing countercyclical support to Ivorian enterprises during the COVID-19 pandemic by managing a Support Fund, which was exclusive to SMEs.[109] Because this fund is financed using resources from government, individuals, companies, and bilateral and multilateral donors, enterprises don't need to have an account at BNI to access these funds (Assi, Amédée, 2020; International Monetary Fund, 2020).[110]

This section used survey data to highlight why Ivorian firms, especially SMEs, struggle when it comes to accessing to credit. This section also looked at how the Ivorian government, through BNI, aims to provide both procyclical and countercyclical support to local SMEs. The next part of this chapter will explore how these enterprise-bank dynamics play out in three of Côte d'Ivoire's main exporting industries.

5.3. Industry Case Studies

5.3.1 Cocoa

As Côte d'Ivoire's chief export, cocoa is key to the Ivorian government's plans for economic development. Côte d'Ivoire is the world's largest cocoa producer, accounting for about 40 percent of the global cocoa supply. Cocoa also accounts for around 14 percent of Côte d'Ivoire's GDP and provides income for around 20 percent of the country's population. Currently, about 30 percent of Côte d'Ivoire's cocoa beans are processed locally to make cocoa butter, cocoa paste, cocoa power, and chocolate.[111] To increase revenues for actors in the cocoa industry, the government wants the share of cocoa that is

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[107] The SME-BNI credit facility and the Guarantee Fund for SMEs requires separate applications.
[108] https://www.bni.ci/produits-services/entreprises-professionnels/formules-financement/198-credits-pme-bni
[109] SMEs using BNI's credit facility cannot apply for the Support Fund.
[110] BNI manages three other COVID-19 emergency funds alongside the SME Support Fund. These are the Large Enterprise Support Fund, the Solidarity and Humanitarian Support Fund targeting individuals and households, and the Informal Sector Support Fund.
[111] The current rate of cocoa processing in Côte d'Ivoire is a step up from what the country was achieving in the past. For instance, only about 13 percent of Côte d'Ivoire's cocoa production in 1989 was processed locally (Tuho, 1992, p. 49).

processed locally to reach 100 percent by 2030. In the cocoa value chain, farmers only receive between three and eight percent of profits from chocolate sales. Cocoa processors that grind cocoa to make cocoa powder and cocoa paste capture around seven to eight percent of profits, while chocolate makers get between 20 and 30 percent (Nieburg, 2014; Réveillard, 2022).

Most efforts to process and export cocoa in Côte d'Ivoire are made by six multinationals (Cargill, Touton, Olam, Barry Callebaut, Sucden, and Ecom). The inability of indigenous enterprises in the cocoa industry to compete with foreign-owned ones is currently due to the growing importance of certified sustainable cocoa in the industry's value chain.[112] Although it accounts for only about 50 percent of raw cocoa produced in Côte d'Ivoire, certified sustainable beans command about a 20 percent premium over ordinary ones. However, few Ivorian enterprises can purchase certified sustainable cocoa because chocolate makers, such as Mars and Cadbury, almost exclusively partner with their Ivorian subsidiaries or other multinationals based in Côte d'Ivoire. Specifically, chocolate companies are known to entrust their subsidiaries and intermediaries with the payment of premiums for certified sustainable cocoa, instead of remunerating farmers directly. These partnerships allow multinationals to account for almost 99 percent of sustainably certified cocoa bean purchases. Moreover, Ivorian businesses that process and export cocoa struggle to buy even ordinary cocoa beans, since cocoa farmers usually bundle their sale with certified sustainable beans ones to increase their income. The difficulties faced by Ivorian enterprises to source cocoa is compounded by the fact that multinationals operating in the country have been known to stockpile excess cocoa beans in the hopes of securing additional export contracts (Cargill, 2021; Gecit, 2020; Konan, 2021a).

Indigenous enterprises that purchase and process cocoa beans also fail to thrive. As explained by Ivorians involved in the cocoa industry, the collaboration between

[112]Sustainable cocoa broadly refers to cocoa produced with a stated view to improve farmers' livelihoods through productivity increases and community development. Productivity increases are mainly achieved using industrially produced fertilisers and plant sprays to increase cocoa output and farmers' income, *ceteris paribus*. Community development centres around rooting out child labour from cocoa production and empowering female farmers, notably via increased access to primary education. For a critical appraisal of cocoa sustainability programs in West Africa, see (Odijie, 2018).

chocolate companies and the multinationals buying cocoa in Côte d'Ivoire means buying cocoa from Ivorian firms is the last resort for chocolate companies. Additionally, the fact that multinationals have cocoa processing plants closer to their main consumer markets in Europe, Asia, and North America makes them less likely to process cocoa in Côte d'Ivoire or to buy from indigenous cocoa processors (Ya, 2021). Because they struggle to purchase enough cocoa beans to honour their export contracts or process at a scale that makes them competitive with multinationals, many Ivorian firms buying and processing cocoa beans are floundering financially or are forced to close (about 50 percent of indigenous enterprises exporting raw or processed cocoa beans failed since 2017) (Le Figaro, 2021).

Besides promoting Côte d'Ivoire's structural transformation, supporting indigenous cocoa processors will drive competition among cocoa bean purchasers, which should help drive cocoa bean prices up and thus increase revenue for cocoa farmers and their families. Increasing the revenue of cocoa farmers is key to the survival of Côte d'Ivoire's cocoa industry for two reasons. First, the children of Côte d'Ivoire's cocoa producers will be more willing to take over family farms due to the reduction in the precarity currently associated with cocoa production, and agriculture more broadly. Second, the increase in revenue for cocoa farmers would make it easier for them to invest in productivity-enhancing technologies. Low productivity tends to promote extensive, rather than intensive, farming, which, in the case of cocoa, causes deforestation.[113] Deforestation, in turn, contributes to climate change, which is shown to make Côte d'Ivoire less viable for cocoa production (d'Enghien, 2022; Ruf *et al.*, 2020).

Interviews with Ivorian entrepreneurs in the cocoa industry highlight how financing can help them develop their activities. The president of a cooperative with around 100 members using cocoa beans to make pastries, soap, oil, and chocolate, stated that much of their production is artisanal.[114] When asked about difficulties they encountered, the president mentioned the need to purchase refrigerators and freezers to store cakes and machinery, as manually grinding cocoa beans is "tiring". During the

[113] Côte d'Ivoire has lost 80 percent of its forest cover since independence, mainly due to extensive agriculture, including cocoa production.
[114] For example, members of the cooperative grind roasted cocoa beans using a mortar and pestle. The paste they obtain from grinding is then heated up to extract oil.

interviews, the cooperative, which was created in 2019, had not yet applied for a bank loan due to being recently established and being unaware of the procedure to apply for one. Instead, they opened a savings account where they deposit their profits. However, the prospect of getting a bank loan was enticing, with the president saying that the cooperative would have "everything to gain" with access to credit. For instance, a bank loan would allow the cooperative to scale up operations by buying more cocoa beans. Access to credit will also enable the cooperative to diversify into the manufacturing of cocoa-based cosmetics (Farm Radio International, 2021).

An interview with Axel-Emmanuel Gabou—one of Côte d'Ivoire's up-and-coming chocolate makers—further highlights the lack of interest banks have in lending to indigenous cocoa processors.[115] Mr. Gabou decided to quit his job at a Pan-African bank and get into the chocolate-making sector in 2010 when he realised that he could not find any Ivorian-made chocolates in supermarkets, despite the country being the world's leading cocoa producer and exporter.[116] Interestingly, the idea of securing a loan to start his business was not seriously considered, despite Mr. Gabou's ties to the financial sector. Indeed, Mr. Gabou's experience, both as a banker and as an entrepreneur, showed him that banks operating in Côte d'Ivoire were seldom willing to invest in lumpy projects with potentially long gestation periods, such as chocolate manufacturing. Associated with the financial risk involved with such investments is, according to Mr. Gabou, that fact that banks "really understand nothing" about the idiosyncrasies of chocolate-making.[117] Instead of relying on banks, initial funding for Mr. Gabou's chocolate-making business, Le Chocolatier Ivoirien, came from personal savings. The lack of external financing did not stop the enterprise from rapidly expanding. The firm's chocolates are now sold worldwide in locations ranging from supermarkets to airlines and high-end hotels. Mr. Gabou was also named Côte d'Ivoire's entrepreneur of the year in 2015 (Réveillard, 2022). Yet, this increased fame was not sufficient to have banks, or the state support his growth

[115] This interview was conducted in June 2022

[116] Côte d'Ivoire during its miracle years had indigenous, majority state-owned cocoa processers making cocoa powder, cocoa butter, and chocolate. However, most of these enterprises were sold in the 1980s and 1990s to foreign-owned companies following structural adjustment (Contamin and Fauré, 1990; Rapley, 1993).

[117] One account of Mr. Gabou's meeting with a bank included a loan officer questioning the importance of cocoa processing, despite having two boxes of almost empty chocolate powder on his desk.

through the provision of loans. Banks and government ministries do, however, purchase his chocolates through corporate deals. Instead of banks, Mr. Gabou is trying to secure the funds required to scale up his business from private equity funds.[118]

BNI has steadily increased its support to Ivorian enterprises in the cocoa industry. Since the 2001-2002 harvest season, BNI's loan disbursements to cooperatives and other enterprises in the industry increased by a factor of seven, going from approximately 14 billion CFA francs twenty years ago to 100 billion CFA francs during the 2020-2021 harvest season. A sizeable portion of this increase in financing occurred in the past three harvest seasons, with disbursements doubling from 50 billion CFA francs in 2018-2019 to 100 billion CFA francs in 2020-2021. Because only enterprises with an account at BNI, which any incorporated firm can open, are able to use this credit facility, access to these loans have drawn more enterprises in the cocoa industry to have an account at the bank (Abidjan.net, 2021; Soro, 2021).[119]

Despite BNI's efforts, the bank's ability and willingness to support Côte d'Ivoire's cocoa industry are constrained by its universal banking business model. While BNI has considerably increased its commitments to companies in Côte d'Ivoire's cocoa industry, loans to the agriculture and manufacturing sectors only represent less than ten percent of the bank's disbursements, which reflects BNI's focus on its retail customers.[120] Additionally, BNI's reliance on short-term deposits means it is risky for the bank to issue longer-term credit lines, which cocoa processors need to build factories and purchase machines.

This section has shown that many Ivorian cocoa processors are unable to secure loans to purchase cocoa beans and machines due to banks perceiving cocoa processing as risky. Although BNI has stepped up its efforts to support Ivorian firms in the cocoa industry, the volume of the bank's loans, which reflects its commercial focus, does not allow indigenous processors to challenge the multinationals that dominate the sector.

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118 For example, his company received USD 100,000 in 2020 from the Jack Ma Foundation.
119 BNI in 2021 had 19 clients operating in the cocoa industry, up from 10 during the 2018-2019 harvest season.
120 See Chapters 3 and 4

5.3.2 Cashews

Alongside cocoa, cashews are one of Côte d'Ivoire's most important exports. From being a small actor in the industry two decades ago, Côte d'Ivoire is now the world's largest cashew producer, accounting for about 20 percent of the nut's global supply. However, only ten percent of the country's raw cashew nuts are processed locally. Cashew processing, which involves drying, shelling, peeling, grading, and packaging the kernel, can command up to a 750 percent premium over the sale of raw cashews (Aboa, 2022; Bassett *et al.*, 2018; Olodo, 2021; Tessmann, 2019). In line with Côte d'Ivoire's objective to industrialise its economy and nurture national champions, the government's ambition is to have at least 50 percent of raw cashew nuts processed domestically by the mid-2020s.[121]

As of 2021, only around ten percent of cashews harvested in Côte d'Ivoire are being processed locally. The bulk (75 percent) of this cashew processing is done by foreign-owned enterprises(Aboa, 2021), which have access to better technology and more raw nuts than their Ivorian counterparts (Aboa, 2021)(Tessmann, 2019).[122] While two Ivorian SOEs existed in the 1970s and 1980s (one for the collection and marketing of raw cashew nuts and one for their processing), cashew production played a minor role during Côte d'Ivoire's miracle years in the 1960s and the 1970s. The liberalization and the privatization of the Ivorian cashew industry in the 1990s following the Structural Adjustment Program (SAP) coincided with a growing interest by Côte d'Ivoire's government in the nut's harvest, processing, and export in the country (Bassett *et al.*, 2018). However, Côte d'Ivoire's cashew processors were too new and too small to challenge larger and more established ones, most of which are based in South and Southeast Asia. For example, wholly owned foreign-owned cashew processors, such as Singapore-based Olam, benefit from an international network of suppliers with different

[121] Vietnam and India account for around 53 and 28 percent of processed cashews worldwide compared to 2.6 percent for Côte d'Ivoire.

[122] Many Ivorian-owned processors still shell and sort cashews manually, which leads to lower productivity compared to machine-based processing. For example, a cashew sheller can handle 25 kilograms of cashews per hour compared to ten kilograms manually. Machines also boast much higher yields, with only about three percent of cashews destroyed during shelling compared to around 50 percent when cashews are shelled by hand (Jeune Afrique, 2018).

harvest seasons, which allows them to source raw nuts year-round. These foreign companies are also reported to be unwilling to share their knowledge with Ivorian processors (Bassett *et al.*, 2018; Tessmann, 2019).

Unlike Olam, Ivorian cashew processors solely rely on local suppliers, who harvest the nut only for two to three months a year (from mid-February to late May). Ivorian cashew processors aiming to continuously operate therefore have a few weeks to purchase their annual supply of raw nuts. Such a large-scale purchase in a relatively narrow time window requires significant amounts of working capital, which banks operating in Côte d'Ivoire have been unwilling to offer to indigenous cashew processors. Another issue associated with having to purchase a year's worth of raw nuts in a two-to-three-months period is that of storage, since poor storage conditions can adversely affect the quality of cashew kernels and thus their prices (Kone, 2010).

Meanwhile, foreign-owned enterprises involved in cashew processing have preferential access to credit in countries where they are registered at lower rates than what Ivorian banks provide. For instance, cashew processors headquartered in Asia can secure credit at the Singapore Interbank Offered Rate (SIBOR). In the late 2000s, enterprises that could borrow at the SIBOR were charged between four and seven percent interest, compared to 12 percent at BNI (*Ibid.*, p. 59). Access to cheaper loans abroad allows foreign-owned cashew processors to purchase raw nuts in Côte d'Ivoire at a volume and prices that local enterprises can seldom match (Aboa, 2021; Tessmann, 2019).[123]

Because of the financial firepower of foreign-owned cashew processors, Ivorian enterprises in the industry cannot purchase raw nuts at a scale that makes their business profitable. Of the 20 Ivorian cashew processors registered in 2021, only four are operating in 2022 and are doing so at a loss. Of the 16 cashew processors that are currently closed, half are bankrupt, while the other half are unable to function due to broken or outdated machinery (Aboa, 2022).

State authorities in Côte d'Ivoire have implemented several policies to assist cashew processors. These include the duty-free import of machinery and spare parts used in cashew processing, tax credits when setting up or modernizing factories, export

[123] Attempting to price-match or outbid foreign raw cashew nut buyers is also not a viable option, as it further increases production costs for Ivorian cashew processors.

premiums for processed cashews, and export taxes for raw cashew nuts. BNI is also slated to open an advanced payment facility and an overdraft facility to help cashew processors purchase raw nuts (Abidjan.net, 2022). Part of these policies are funded through the Project to Promote the Competitiveness of the Cashew Value Chain (PPCA). Launched in 2018, PPCA is set to run until 2023 with a USD 236.11 million budget. About 76 percent of the PPCA's budget is financed by the World Bank, with another 14 percent financed by the private sector. The remaining 10 percent of the PPCA's budget is provided by the state through the Cotton and Cashew Council, which is the public agency that regulates the cotton and the cashew industries. The support to Ivorian cashew processors offered through PPCA is mainly done by PPCA on-lending to banks which will, in turn, provide cashew processors with shorter-term working capital and longer-term loans to purchase processing machines. This risk-sharing scheme is accompanied by capacity building initiatives between PPCA and partner banks to better educate these banks on the particularities of cashew processing to better appraise, monitor, and evaluate loans to cashew processors (Projet de Promotion de la Chaine de Valeur de l'Anacarde, 2019).

Yet, some Ivorian cashew processors claim that these policies, at best, just help them break even (Réveillard, 2021). Additionally, local cashew processors suggest that the credit guarantees do little to encourage banks to lend because they are still too unfamiliar with the idiosyncrasies of cashew processing (CommodAfrica, 2019; Radiodiffusion télévision ivoirienne, 2018).[124] When asked why they are reluctant to provide loans to local cashew processors, banks operating in Côte d'Ivoire mention the high likelihood of borrowers failing to repay their debt, since the inability of most cashew processors to operate at full capacity hurts their finances (Radiodiffusion télévision ivoirienne, 2018). The lack of financing options from banks, even with state guarantees, is what pushes some Ivorian cashew processors who can afford to self-finance investments to do so (Ciyow and Gourlay, 2022; Kone, 2010).

One of the few Ivorian cashew processors to thrive in recent years is Foods' Co. Established in 2018, Foods' Co. started as a cashew farmers' cooperative. The firm then opened a processing plant in January 2020 to export processed nuts and produce cashew

[124] Côte d'Ivoire, with the help of bilateral and multilateral donors is planning a USD 20 million aid plan.
for the cashew industry, which includes a credit guarantee fund (Aboa, 2022).

snacks and cooking paste for the domestic market. In 2020, the company was named Côte d'Ivoire's best agro-industry enterprise, alongside winning various continental accolades. The company is also one of the few cashew processors operating in Côte d'Ivoire to export its products to the US (CommodAfrica, 2022). Foods' Co.'s founder and director attributes the business's meteoric rise to his professional background. Specifically, the director of Foods' Co. benefited from spending over 30 years in the agro-industry, having served as an operations manager for several multinationals, including UNILEVER, Colgate Palmolive, and Olam. Foods' Co.'s director has also been involved in the design and execution of agro-industrial projects both in Côte d'Ivoire and abroad. The network and resources acquired throughout his career enable him to save enough money and secure the loans from privately-owned banks that were needed to create Foods' Co. (Foods' Co. S.A., 2022).

CILAGRI-CAJOU is another Ivorian cashew processing enterprise that is operating at international standards. Created in 2016, CILAGRI opened its cashew processing unit in 2019, which is one of the largest by capacity in the country (CILAGRI-CAJOU, 2022; CommodAfrica, 2022).[125] Like Foods' Co, CILAGRI-CAJOU is also certified to export cashews to the US. Despite the CILAGRI-CAJOU's accomplishments, supply-side issues are hampering its growth. As is the case for most Ivorian cashew processors, the lack of adequate supply of raw nuts means that CILAGRI-CAJOU's machines are not functioning at fully capacity. Some machines have been turned off, while others are only processing eight hours a day, when they are expected to run continuously.

For some experts of the cashew value chain, Ivorian processors, such as CILAGRI-CAJOU, have underestimated the working capital required to operate in the sector. Specifically, Ivorian cashew processors are blamed for investing too much in factories with capacities that are far greater than the raw cashews they can source.[126] Put differently, the focus of Ivorian cashew processors on capacity over supply means they

[125] CILAGRI-CAJOU's 30,000 tons of annual processing capacity is the largest of the nine cashew processors that are currently certified to export to the US. Together, these nine enterprises account for around half of the total volume of cashews processed in Côte d'Ivoire.

[126] For instance, CILAGRI-CAJOU only aimed to secure 15,000 tons for 2022, despite its 30,000 tons annual processing capacity. Yet, the firm during the 2022 cashew harvest was only able to purchase 500 tons of raw nuts by March, making reaching the 15,000-ton target by late May unlikely (Ciyow and Gourlay, 2022).

lack the working capital to buy enough raw nuts to be profitable, which in turn makes it more difficult for them to obtain bank loans. In response to a plea of Ivorian cashew processors for more financial support from government, an individual with close ties to the Cotton and Cashew Council described these enterprises as "spoiled brats"(*Ibid.*).

The term 'spoiled brat' that is used to describe Ivorian processors seems excessive, however, considering that the grievances voiced by these businesses are legitimate, especially given the government's desire to nurture national champions. Furthermore, the evidence presented in this section suggests that downsizing will not necessarily improve the fortunes of local cashew processors, since foreign processors can crowd them out by being securing working capital at a lower cost. Without the government-sponsored preferential treatments, such as through supply guarantees or interest rate subsidies,[127] Ivorian cashew processors will struggle to compete with their foreign-owned counterparts.

This section showed that BNI provides financial support to Ivorian cashew processors and is looking to expand and diversify its offering to enterprises in the industry. However, the bank is unable to compete with the lower interest rates offered to foreign-owned cashew processors in international financial markets. These foreign-owned cashew processors use the cheaper loans that they can secure to buy the bulk of raw nuts produced in Côte d'Ivoire—leaving little space for indigenous processors to run their businesses profitably.

5.3.3. Cotton

Côte d'Ivoire's cashew and textile sectors experienced diverging trajectories for much of the country's history, as shown in Figure 5.2. Cotton and cashews are often compared to each other because both crops are mainly harvested in Northern Côte d'Ivoire.[128] From the 1960s to the 1990s, famers favoured cotton production over cashew production due to the higher price the former commanded in world markets.[129] This trend started to

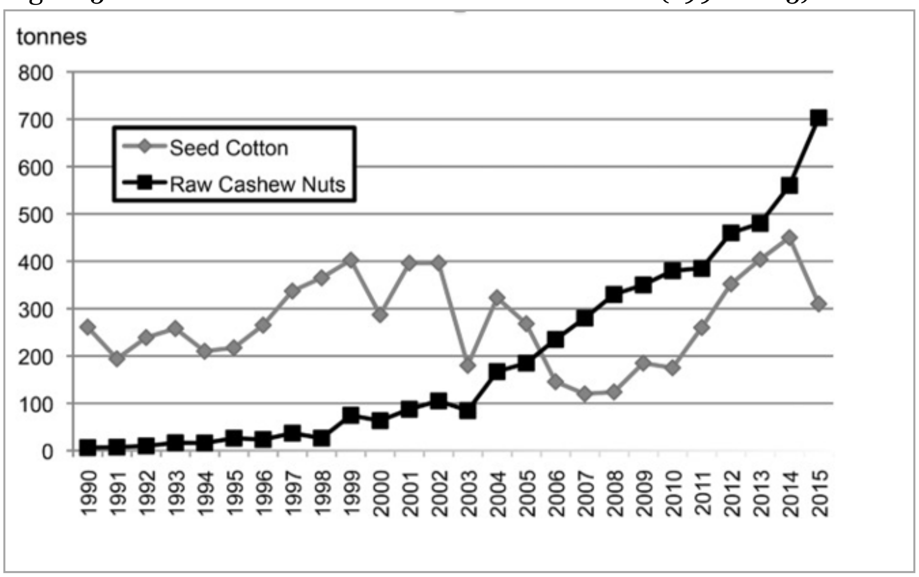
[127] These subsidies would be more targeted than the SME-BNI credit facility, which covers SMEs in all sectors.

[128] This motivated the regulation of both industries by the same agency (the Cotton and Cashew Council).

[129] Côte d'Ivoire's textile industry was the country's second most important in the 1960s, 1970s and 1980s in terms of manufacturing value added. For example, textiles accounted for around 21

reverse in the 1990s, as strong world demand for cashews drove up prices and incentivised the nut's harvest. Other factors explaining the declining cotton production was a civil war which divided the country in two in the 2000s, with the southern part of the country under government control and the northern part in rebel-held territory. Cotton and cashew producers suffered due to the heavy taxes on all agricultural commodities imposed by the rebels. However, cashew producers fared better due to usually being paid on the spot, while cotton farmers were usually paid three months after selling their crop.

Figure 5.2. Trends in Cashew and Cotton Production (1990-2015)



Source: (Bassett *et al.*, 2018)

Unlike Côte d'Ivoire's cashew industry, Côte d'Ivoire's textile industry boasted many domestic processors during the country's miracle years. These cotton processors, including Gonfreville, the Ivorian Cotton Company (COTIVO), and the Industrial Textile Union of Côte d'Ivoire (UTEXI)[130] were involved in cotton spinning, weaving, printing, and clothes manufacturing.[131] These enterprises used to be regulated by the Ivorian

percent of manufacturing value added in Côte d'Ivoire between 1975 and 1983. This statistic is the more impressive as agro-processing, which was the leading source of manufacturing value added, with a 23 percent share on average between 1975 and 1983, includes multiple products, such as cocoa, coffee, and pineapples (Tuho, 1992)

[130] UTEXI is an affiliate of SOTEXI (see Chapter 3).

[131] None of these textile companies were wholly Ivorian owned. For example, the Gonfreville textile mill was French owned from its founding in 1919/1920 until the 1970s, at which point

Company for the Development of Textile (CIDT), which was also the industry's marketing organization (Bassett, 2006). CIDT was partially privatised in the 1990s following structural adjustment and now specialises in the production and export of cotton lint (International Financial Corporation, 2022).[132]

Of all these firms, only COTIVO was based in Southern Côte d'Ivoire. Because around 20 percent of cotton production was purchased by local processors who were mostly located in Northern Côte d'Ivoire (Bassett, 2006; Tuho, 1992, p. 70), the country's partition during the civil war made it difficult for textile firms to purchase cotton, since many banks were no longer operating in rebel-occupied areas (Bassett *et al.*, 2018, p. 1231).[133] The country's partition also made it difficult for textile firms or cotton farmers in Northern Côte d'Ivoire to sell their goods abroad, since all of the country's ports are located in the south.[134] Disruptions caused by the civil war, combined with the growing popularity of cashews, meant Côte d'Ivoire's textile industry struggled in the 1990s and 2000s.

The end of Côte d'Ivoire's civil war in 2011 and the country's reunification revived interest in the Ivorian textile industry.[135] In 2012, UTEXI was purchased by Vassiriki Konaté. An Ivorian businessman and former director of insurance brokerage for one of the largest commercial banks in Côte d'Ivoire (Atlantic Bank),[136] Konaté leveraged his

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Ivorian capital (both public and private) were majority shareholders in Gonfreville and its affiliated firms. COTIVO and UTEXI-SOTEXI and were founded in the late 1960s and early 1970s with around 20 percent state ownership. State involvement in the establishment of these textile firms was a way for the Ivorian government attract foreign investors into export-oriented manufacturing (Mytelka, 1983; Nyong'o, 1978).

[132] The partial privatization of CIDT led to the creation of the Cotton and Cashew Regulatory Authority in 2002, which in 2013 was replaced by the Cotton and Cashew Council (Coulibaly, 2018).

[133] Most buyers of Ivorian raw cashew nuts were less impacted by the civil war since they secure financing from abroad, as discussed in Section 5.3.2.

[134] Ivorian cotton farmers who wanted to sell their harvest usually had to go through the country's two northern neighbors (Mali and Burkina Faso).

[135] As of 2019, cotton accounts for about 2.5 percent of Côte d'Ivoire's export revenue (https://atlas.cid.harvard.edu/explore?country=44&product=undefined&year=2013&productClass=HS&target=Product&partner=undefined&startYear=1995). While not as important to Côte d'Ivoire as cocoa and cashews, the country is still among the world's ten largest cotton exporters (https://www.statista.com/statistics/191895/leading-cotton-exporting-countries).

[136] This is the same bank that Mr. Gabou worked for.

proximity to the bank's CEO to secure a loan to buy UTEXI (Mieu, 2012).[137] To upgrade the factory, Konaté invested in the acquisition of cutting-edge machinery from Germany. After two years, UTEXI became profitable, which convinced another commercial bank to lend Konaté money to purchase COTIVO in 2015 (Afrik Soir, 2021; Jeune Afrique, 2015). Konaté's connections to influential financial market participants and early success with UTEXI made a third commercial bank provide Konaté with funds to establish a cashew processing enterprise.[138] In recognition of such efforts, Konaté was awarded by Côte d'Ivoire's government the 2016 prize for the best initiative to promote structural transformation in the country. However, the lack of raw materials (cotton bales) since then has made it impossible for the factory to operate at scale and be profitable, which forced UTEXI to reclose (Gecit, 2019).[139] While the state-funded rehabilitation and reopening of the Gonfreville textile factory is currently under way (Agence Ecofin, 2021), CIDT secured a loan from the IFC and the Global Agriculture and Food Security Program in 2022 to "upgrade its existing facilities and support the construction of a new state-of-the-art ginning plant" (International Financial Corporation, 2022). Although recent developments in Côte d'Ivoire's textile industry are encouraging, they are not evidence enough that the sector is reviving since the country's textile processors are significantly hampered by the lack of adequate raw cotton supply.

BNI's support to Ivorian cotton processors is compromised by the absence of other complementary measures from Côte d'Ivoire's government. In 2007, Alexandre Keita, a French-Ivorian businessman was approached by local authorities to take over a firm specialised in the trituration and refining of cottonseed oil (TRITURAF), mainly for the domestic market. Established in the 1970s during Côte d'Ivoire's miracle years with a 25 percent government stake, TRITURAF was fully privatised in 1984 (Contamin and Fauré, 1990; Olheol, 2013).[140] However, the political and economic crises that have affected Côte d'Ivoire since the 1990s has led to TRITURAF operating intermittingly under various foreign owners, including UNILEVER (Clémençot, 2016; Contamin and Fauré, 1990;

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[137] The bank CEO is also a business magnate and a politician who served as an MP and minister of agriculture (Assoko *et al.*, 2020; Mieu, 2013)
[138] References to this cashew processing form cannot be found, suggesting that it no longer exists.
[139] UTEXI only received around 15 percent of the cotton supply it needed to operate at full capacity.
[140] TRITURAF was one of the largest beneficiaries of BIDI loans in the early 1980s (The World Bank, 1985).

Olheol, 2013). For Mr. Keita, taking over the factory was contingent on the state guaranteeing that TRITURAF would receive enough cottonseed to be profitable. With the government and cottonseed producers pledging to provide TRITURAF sufficient supplies of raw materials, Mr. Keita proceeded to buy the business in 2009, which was renamed Olheol Industries Côte d'Ivoire. About half of the money required to purchase the factory's assets and acquire new ones were self-financed, with the other half mainly coming from BNI (Financial Afrik, 2019). Notwithstanding these investments, Olheol has been unable to operate profitably since it resumed production in 2013. Indeed, cottonseed suppliers, who have been used to selling their output to foreign buyers since the start of the 2002–2011 civil war, have not honoured their commitments to Olheol. Specifically, the average supply of cottonseed provided to Olheol from 2013 accounts for only 15 percent of its installed capacity and only about 30 percent of the amount need to break even (Clémençot, 2016; Financial Afrik, 2019). The inability of Olheol to secure enough cottonseed to operate at scale is the more striking since cottonseed production has steadily increased since the end of the civil war.[141] Moreover, the Ivorian government is legally mandated to support local processors in the cotton industry to acquire the necessary supply of raw materials (Ndayishimiye, 2019).[142] The failure of the state to fulfil its role has led to significant losses for Olheol and Mr. Keita, which jeopardises their capacity to payback BNI: "I was naïve. I should have stopped immediately, after two years without adequate supply. I [falsely] believed in the regulatory power of the state" (Rantrua, 2019).

This section showed that banks, including BNI, lend to Ivorian cotton processors. However, the advent of structural adjustment, the civil war, and the rise of the cashew industry has made it difficult for indigenous cotton processors to source enough raw materials for their factories. Olheol's woes demonstrate that government inaction also

[141] For instance, cottonseed production increased by 11.2 percent between the 2017-2018 harvest and the 2018-2019 harvest.

[142] Article 15 in Côte d'Ivoire's law on the commercialization of cottonseed stipulates that "enterprises involved in the processing in Côte d'Ivoire of cotton and cashew-based products are authorised to purchase raw materials in line with their processing capabilities". Additionally, Article 13 in Côte d'Ivoire's investment code states that "the freedom of access to raw materials or semi-finished goods on the national territory is guaranteed for any investor … should the need arise, the state will take the necessary measures to guarantee the freedom of access to raw materials".

accounts for the difficulties faced by Ivorian processors in the cotton industry that receive bank loans. In addition to making Olheol flounder, the Ivorian state's failure to honour its promise to Mr. Keita imperils BNI's finances due to the bank's exposure to his business venture.

5.4. Conclusion

This chapter analysed the relationship between banks, government, and enterprises in Côte d'Ivoire. The data presented by the World Bank Enterprises Surveys and ESP Partners shows that firms, especially SMEs, struggle to access credit from banks. When they can secure loans, the interest rates charged and the collateral required are often prohibitive, leading many companies to avoid banks altogether for their financing needs.

Evidence provided by both surveys is corroborated by industry case studies. Despite their differences, locally owned enterprises in Côte d'Ivoire's cocoa, cashews, and cotton processing sectors face similar structural hurdles. For example, most firms discussed in this chapter complain about multinationals crowding-out domestic enterprises when it comes to purchasing raw materials. While BNI provides financial support to Ivorian agro-processors, the bank's business model limits its ability and its willingness to do so for two main reasons, which were first discussed in Chapters 3 and 4. First, BNI's status as a universal bank and its increasing focus on retail customers is reflected in a very small portion of the bank's portfolio being dedicated to agriculture and manufacturing. Second, the increasing share of BNI's liabilities coming from demand or short-term deposits limits the ability of the bank to issue longer-term loans, which agro-processors trying to purchase machinery prefer over shorter-term credit lines. Alongside issues stemming from BNI's business model, the absence of complementary measures from the Ivorian government, such as interest rate subsidies and supply guarantees, limit the financial and economic impact of BNI's support.

This chapter also provided insights on how the few successful indigenous processing companies in the cocoa, cashew, and cotton industries fund their growth. A common trait between the enterprises profiled in the literature and through interviews is the importance of personal income and wealth. Indeed, the firm owners mentioned in this chapter either wholly self-financed their ventures or combined self-financing with bank loans. Another similarity between successful business owners in all three industries is their ability to leverage their network to obtain bank loans. For instance, having ties to prominent political or banking elites is a recurring theme among those that got loans for their enterprises. One more key factor in receiving loans is the presence of collateral. Specifically, most business owners featured in this chapter that secured credit lines from commercial banks took over old factories. These factories are all a legacy of Côte d’Ivoire’s miracle years, having benefited from government support directly or via NDBs. Put differently, commercial banks would have been unlikely to lend to these business owners had it not been for the entrepreneurial role played by the Ivorian state and its NDBs in the 1960s, 1970s, and 1980s.

Chapter 6—Banks, Government, and Enterprises in Rwanda

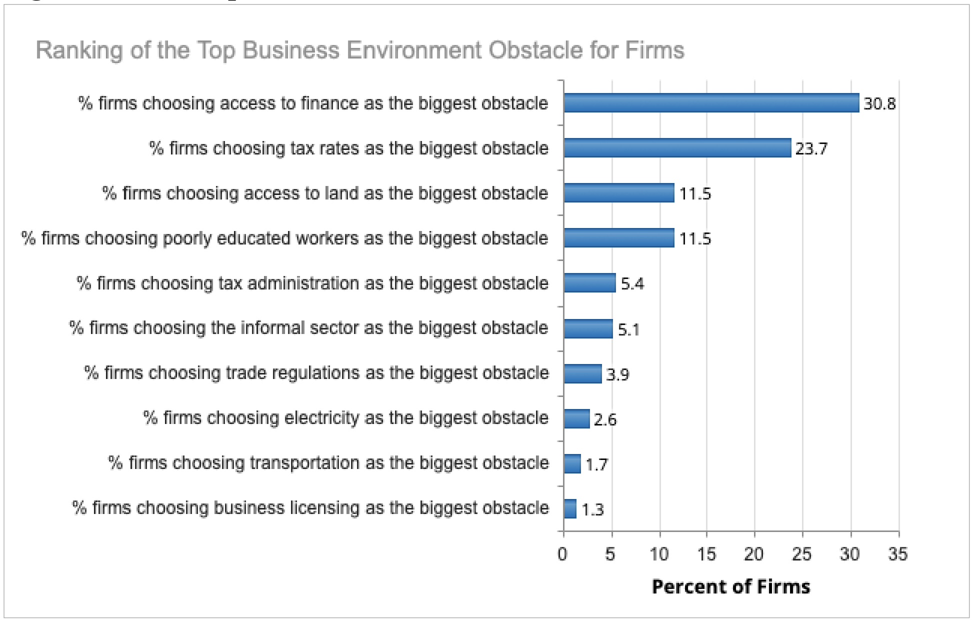
6.1. Introduction

This chapter echoes the previous one by examining the relationship between banks and businesses in Rwanda. The chapter starts by providing an overview of current bank-enterprise relations in the country using survey data. It then proceeds by outlining the steps taken by BRD to address Rwanda’s enterprise financing gap. The chapter follows with case studies of three of Rwanda’s key industries: coffee, tea, and pyrethrum. Rwanda’s limited production of agricultural raw materials due to the country’s small size means that agro-processors increasingly focus on speciality markets instead of the mass market to be internationally competitive. Rwandan agro-processing firms are, like Ivorian ones, threatened by the presence of foreign-owned companies. However, unlike Ivorian agro-processors, Rwandan ones benefit from a more supportive NDB through financing schemes, such as the Export Growth Fund.

6.2. Current Bank-Enterprise Relations in Rwanda

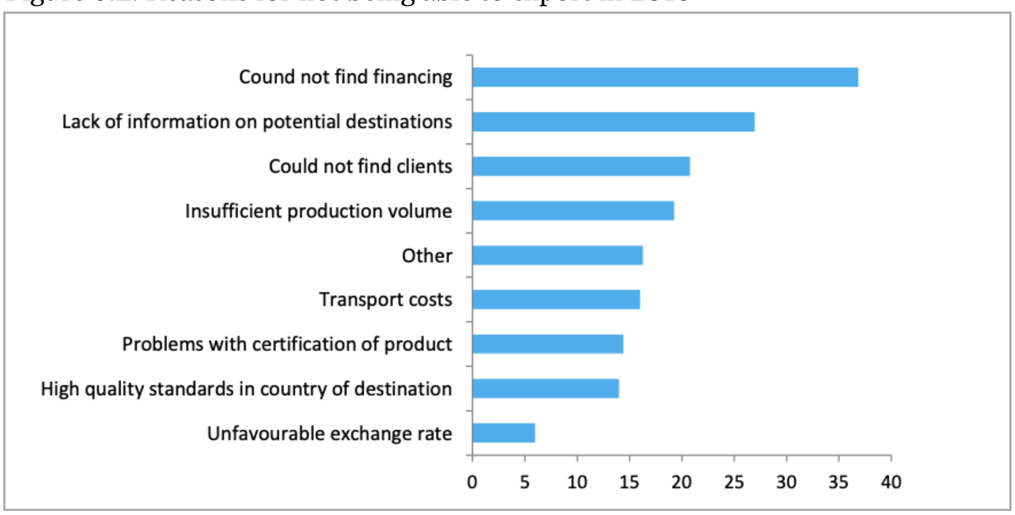
Similarly to enterprises in Côte d’Ivoire, Rwandan firms surveyed by the World Bank in 2019–2020 mention access to finance as the top business environment obstacle, as shown in Figure 6.1. Data from the World Bank Enterprise Surveys is consistent with Rwanda’s 2010 Industrial Survey, in which almost 40 percent of firms said the inability to find financing was the main reason why they could not export (See Figure 6.2).

Figure 6.1. The Top Business Environment Obstacles for Firms in Rwanda



Source: World Bank Enterprise Surveys[143]

Figure 6.2. Reasons for not being able to export in 2010



Source: (Kamarudeen and Söderbom, 2013)

Survey results from the World Bank further reveal that there are significant differences when it comes to access to finance between SMEs and large enterprises in Rwanda. Only around 5 percent of large enterprises surveyed identified access to finance as a major constraint, compared to 17 percent of small enterprises and 21 percent of medium-sized ones. The World Bank Enterprises Surveys also indicate that approximately 70 percent of

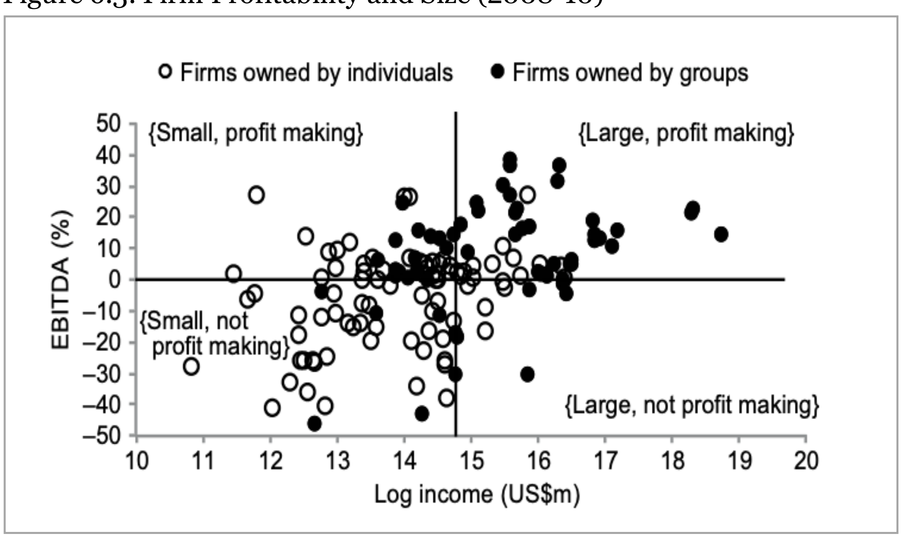
143 https://www.enterprisesurveys.org/en/data/exploreeconomies/2019/rwanda

the SMEs surveyed reported needing a loan compared to about 30 percent for large enterprises.

SMEs, too, struggle compared to large enterprises when it comes to loan approvals. Of the 360 enterprises operating in Rwanda that were surveyed, 15 percent and 45 percent of small enterprises and medium enterprises, respectively, got their loan applications rejected compared to zero percent of large enterprises. The relative ease with which large enterprises obtain loans is reflected in their higher use of banks to finance investments compared to SMEs. For instance, 33 percent of large enterprises reported relying on banks to finance investments compared to 9 percent for small enterprises and 14 percent for medium ones. However, bank loans still account for a minor share of the resources utilised by enterprises to finance investments. Specifically, banks only finance 11 percent of investments for large enterprises, nine percent for medium enterprises, and four percent for small enterprises (the remainder is financed internally).

Studies on Rwanda's manufacturing and agribusiness sectors show that firms owned by large groups tend to be more profitable than small firms owned by individuals, as shown in Figure 6.3. Specifically, large groups, which can be defined as "any holding group, investment group, or individual investor that has interests in more than three companies (revenues over US$1m) either domestically or internationally" (Gathani and Stoelinga, 2013, p. 41) are better equipped to deal with the supply and financing problems associated with manufacturing and agro-processing in Rwanda.

Figure 6.3. Firm Profitability and Size (2008-10)



Source: (*Ibid.*)

Over half of the firms surveyed reported operating at below 50 percent of their installed capacity, compared to around 70 percent in advanced economies. Low-capacity utilization among Rwandan manufacturing and agribusiness enterprises largely stems from the troubles these companies face in purchasing raw materials and intermediate inputs both domestically and abroad. Importing inputs is difficult due to high transportation costs, owing to Rwanda being landlocked and having poor roads to the nearest large ports of Mombasa (Kenya) and Dar es Salaam (Tanzania). Despite these supply issues, large firms can leverage their sizes to access inputs at lower prices than SMEs by buying them in bulk or by sourcing them from sister companies, if they are part of a conglomerate. Additionally, large businesses benefit from preferential access to bank loans due to generally having more collateral than SMEs. Access to loans is especially easier for foreign groups, which tend to have more credit history than locally-owned enterprises that were mostly set up post-genocide (Calabrese *et al.*, 2017; Gathani and Stoelinga, 2013).

The difference in the ability to access financing between SMEs and large enterprises is also outlined in Rwandan government's 2015 *National Export Strategy*. Most Rwandan exporters are large enterprises called million-dollar exporters (MDEs), which denotes their capacity to sell goods, usually commodities, worth at least USD one million each year. In 2014, only three percent of firms were MDEs but accounted for 84 percent of the country's total exports, as shown in Table 6.1. Better access to finance will help SMEs become MDEs through investments in technologies that lower production costs. Access to finance can also allow smaller firms to satisfy the quality standards required for export (Ministry of Trade and Industry, 2015).

Helping SMEs in Rwanda graduate to MDE status requires a more proactive banking sector. Rwandan commercial banks claim that businesses face no significant financing gap. However, banks downplaying the need for enterprise finance tend to only factor firms and projects that they are willing to support, which seldom include those in agriculture and agro-processing.[144] Meanwhile, many companies in manufacturing and

[144] For instance, only 1.5 percent of bank loans in 2017–2018 were issued to the agricultural sector. This is very low given that agriculture accounted for 33 percent of GDP and was responsible for 66 of employment in 2017–2018 (National Agricultural Export Development Board, 2019, p. 57).

agribusiness complain about the high interest rates and collateral demanded by commercial banks. Rwandan firms also decry the lack of lending products that are tailored their respective industries (Ministry of Trade and Industry, 2015).

Table 6.1. Decomposition of Million Dollar Exporters

	Number of Million $ Exporters			MDE Share of Sector Exports (2014)	MDE Export Value Growth 2008-2014	Sector Export Value Growth 2008-2015
	2008	2011	2014			
Coffee	10	8	12	86%	1%	1%
Tea	4	9	12	98%	9%	9%
Mineral	17	14	18	99%	13%	13%
Livestock, Hides & Skins	2	3	4	49%	12%	22%
Agro-Process & Manufacture	6	12	14	63%	39%	29%
Other[7]	3	8	4	43%	19%	22%
Total	**42**	**54**	**64**	**84%**	**13%**	**13%**
Total Number of Exporting Firms	**515**	**972**	**2025**			

Source: (*Ibid.*)

Several special funds were created since the 2000s to help BRD issue more enterprise loans. For instance, the Agricultural Guarantee Facility (AGF) was set up in 2005 by the Government of Rwanda and the Dutch Embassy in Kigali. It covered 30 percent of capital for short-term (seasonal) loans and 40–50 percent of the loss on capital on long-term loans. BRD was the AGF's most important partner bank, accounting for over 70 percent of loans issued under the scheme. The AGF is now part of Rwanda's Business Development Fund (BDF), which was established in 2011 and provides credit guarantees, grants, and investment advisory services to SMEs in all sectors (Andrews *et al.*, 2012; Business Development Fund, 2020; The Institute of Policy Analysis and Research (IPAR-Rwanda), 2018).

For another example, to support export-oriented SMEs, the Rwandan government and KfW opened an Export Growth Fund (EGF) in 2016. Managed by BRD, the EGF offers four financing windows: an investment catalyst fund, a matching grant fund for market entry-related costs, an export guarantee facility, and an industrial start-up facility (Development Bank of Rwanda, 2022; Karanja, 2017). The investment catalyst fund "encourage[s] private sector investment in export [-] oriented production in order to increase availability of goods and services for export" (Development Bank of Rwanda, 2022). This is achieved through BRD directly extending credit lines up to 1.5 billion

Rwandan francs with a 6.5 percent point interest rate subsidy over the 16–19 percent benchmark export finance rate commercial banks usually charge firms (Ministry of Trade and Industry, 2015). Even when on-lending to partner financial institutions, such as Bank of Kigali, the highest interest rate under the EGF scheme charged to borrowers is 12 percent for loans up to one billion Rwandan francs. The matching grant fund for market entry costs provides businesses a maximum of USD 100,000 to help them meet exporting-related expenses, including satisfying certain product certifications and quality standards. To qualify, Rwandan companies must have audited financial accounts in the previous financial year with "good projections for export revenues" (Development Bank of Rwanda, 2022). The export growth facility provides credit guarantees to commercial banks lending to export-oriented SMEs, covering up to 80 percent of working capital loans, such as pre-shipment and post-shipment finance. Finally, the industrial start-up facility offers a maximum of 1.5 billion Rwandan francs in loans to entrepreneurs establishing export-oriented or import-substitution businesses in new sectors (*Ibid.*).[145]

BRD's EGF is not only a boon for SMEs; it also greatly benefits the bank and partner financial institutions. For SMEs, access to EGF facilities helps them address the high interest rates and onerous collateral requirements that are associated with export finance. Additionally, the fact that access to EGF facilities is conditional on eligible enterprises providing BRD and partner financial institutions with certain requirements mean SMEs have 'skin in the game'. These guarantees include submitting a comprehensive business plan approved by the firm's management with "clear and measurable export targets" (Development Bank of Rwanda, 2022).[146] Applicants must also allow their export activities to be audited and facilitate regular inspections from a monitoring and evaluation team (*Ibid.*).[147] For BRD and partner financial institutions,

[145] The EGF has been replenished since its creation thanks to contributions from the Rwandan state, bilateral donors, and foreign NDBs. For instance, the German government, through KfW, replenished the EGF in 2020 and 2021 to give export-oriented SMEs affected by the COVID-19 pandemic with long-term refinancing lines (Kayumba, 2020a; Nkurunziza, 2021). The European Investment Bank and the Asian Infrastructure Investment Bank have also provided BRD with funds outside the EGF to help Rwandan enterprises recover from the pandemic (Asian Infrastructure Investment Bank, 2021; European Investment Bank, 2021).

[146] For newly established enterprises, projects financed through EGF facilities "must commit to increase export volume by 40% within three years of operations" (*Ibid.*).

[147] For example, firms must provide proof that export proceeds are repatriated to Rwanda.

EGF helps improve their understanding of export-related financing instruments through their appraisal, monitoring, and evaluation work (Development Bank of Rwanda, 2016b).

This section has provided an overview of current bank-enterprise relations in Rwanda. It started by analysing the World Bank survey data, which shows that Rwandan businesses, especially SMEs, identify access to finance as their top obstacle in their business environment. Evidence from the World Bank is corroborated by other studies and reports on Rwandan manufacturing and agribusiness firms.

To address this financing gap, the Rwandan government, through BRD, has established an Export Growth Fund. The impact of this Fund – and other scheme by BRD and other Rwandan banks that are meant to promote enterprise development – will be examined in the next sections of this chapter by looking at three of Rwanda's most important export-oriented industries.

6.3. Industry Case Studies

6.3.1 Coffee

Rwanda's coffee sector, which was largely state-run before the 1990s, is now home to dozens of private-owned processors and exporters. 148 Although coffee has historically been Rwanda's chief export,[149] the country provides less than one percent of global coffee supply.

Since the 2000s, the government of Rwanda has sought to increase revenue from coffee exports by promoting the production of fully washed coffee. In the ordinary (semi-washed) form of coffee processing in Rwanda, farmers harvest coffee cherries and de-pulp them using small manual machines or manually with rocks to scalp the outer layer/skin of the fruit. The remaining cherry is then dried, after which the mucilage (the fruit layer of the coffee cherry) is shaved through fermentation to reveal parchment coffee (the seed

[148] In the early post-independence period, the Rwandan state had full ownership of firms exporting the country's chief commodities, including coffee. As discussed in Chapters 3 and 4, the 1990s brought about a major shift in Rwanda's economic policies. The crash in global commodity prices that decade forced the Rwandan government to liberalise the coffee sector and privatise SOEs involved in manufacturing and agribusiness following structural adjustment (Behuria, 2015; Gathani and Stoelinga, 2013).
[149]https://atlas.cid.harvard.edu/explore?country=187&product=undefined&year=2016&productClass=HS&target=Product&partner=undefined&startYear=undefined

covered by a thinner protective paddy peel layer). In Rwanda's ordinary coffee production chain, farmers sell this parchment to local traders or exporters for further processing.

Unlike ordinary coffee, fully washed coffee is processed in washing stations owned by either farmer cooperatives or by coffee traders (over 60 percent of Rwanda's coffee washing stations are owned by cooperatives) (Development Bank of Rwanda, 2018). More specifically, fully washed coffee involves de-pulping coffee cherries at washing stations using larger, more sophisticated machines and are fermented in water to break down the mucilage. Any remaining mucilage is washed off the bean with water, hand sorted according to size and quality, and dried. The resulting parchment coffee is then sent to dry mills, which are usually owned by coffee traders, to remove the parchment and be left with an export-ready green coffee bean. Ordinary coffee's less standardised production methods produce beans that are heterogenous in quality. Though more complex and more expensive than ordinary processing, wet processing produce higher quality beans that can command an up to a 100 percent price premium over ordinary coffee (Agri-Logic, 2018; Behuria, 2019b).[150]

The share of fully washed coffee produced in Rwanda has increased from virtually 0 before the 2000s, to 35 percent in 2011/12, and 64 percent in 2018 (Agri-Logic, 2018, p. 13; National Agricultural Export Development Board, 2019, p. 93). Besides building more washing stations, increasing the share of Rwandan coffee that is fully washed requires addressing declining coffee cherry yields due to aging trees, which raises supply costs for coffee processors. Better supply of raw materials will also reduce production costs by improving the efficiency of coffee washing stations, which utilised on average 84 percent of their capacity (National Agricultural Export Development Board, 2019, p. 93). Rwanda is trying to produce more speciality (organic, single origin, etc.) coffee, which commands higher prices than fully washed conventional coffee blends (Agri-Logic, 2018).

Access to finance is one of the major constraints that Rwandan coffee processors face. Most Rwandan banks are reluctant to lend to indigenous coffee processors, who are usually small and medium-sized. Specifically, loans to the coffee sector are deemed risky,

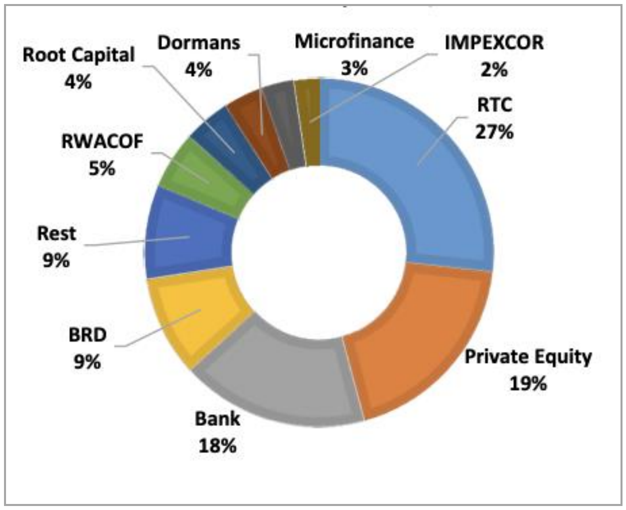
[150] For example, fully washed coffee accounted for about 60 percent of Rwanda's coffee production in 2016/17 and represented 75 percent of Rwanda's coffee earnings that season. In contrast, ordinary coffee had a 24 percent share of Rwanda's coffee production volume and a 17 percent share in the sector's earnings.

given the importance of exogenous factors, such as the fluctuation in global prices and the unpredictability of harvests due to changing climatic and environmental conditions. Additionally, the propensity for commercial banks to match assets to liabilities makes them issue more short-term working capital loans, rather than medium-to-long-term capital investment loans. To limit their exposure to risk, Rwandan banks charge higher interest rates compared to BRD[151] and privilege large and established firms that dominate the sector, which are mostly foreign-owned (Agri-Logic, 2018; Gathani and Stoelinga, 2013). Rwandan banks that lend to local coffee processors also tend to disburse credit lines in tranches to safeguard against financial mismanagement (Agri-Logic, 2018; USAID, 2009a). However, these loan instalments lead to many indigenous coffee processors running out of money during the nine-to-ten-month period that separate the purchase of raw cherries to their processing and their export (USAID, 2009a, p. 4).

Figure 6.4 presents additional information on the financing of Rwanda's coffee sector. As shown in the chart below, the bulk of Rwandan cooperatives who own coffee washing stations receive financing from foreign-owned coffee traders, such as the US-owned Rwanda Trading Company (RTC), Swiss-owned Rwacof, and Kenyan-owned Dormans (Gathani and Stoelinga, 2013).[152] The second-largest category of financial service providers for these cooperatives are private equity companies and private impact investors, such as Root Capital, followed by commercial banks (labelled in the figure as 'Bank'), and BRD. On the face of it, BRD is a minor player in the provision of financial services to cooperatives owning coffee washing stations. However, the fact 'Bank' and 'Private Equity' categories regroup multiple financial market participants suggest that BRD's importance is far greater than what the chart indicates at first sight. Moreover, the cooperatives receiving loans from RTC, Rwacof, and Dormans usually end up selling their cherries to these traders for further processing and for export, which limits the value captured by Rwandan-owned coffee firms. While recipients of BRD loans may also sell their cherries to RTC, Rwacof, and Dormans, they are less likely to do so than are cooperatives that are financed by these foreign-owned trading companies.

[151] BRD's average interest rate is 16.5 percent, while commercial banks charge up to 19 percent (Development Bank of Rwanda, 2018, p. 52).
[152] Impexcor is a Rwandan-owned coffee trading company (Impexcor Coffee, 2020).

Figure 6.4. The Distribution of Rwanda's Financial Service Providers, based on the number of Cooperatives Owning Coffee Washing Stations



Source: (Agri-Logic, 2018)

BRD has provided loans in both Rwandan francs and in US dollars via schemes, such as the EGF and the AGF. For example, credit guarantees offered through the AGF in the 2000s allowed coffee processors build coffee-washing stations, which increased from about 2 in 2002 to around 120 in 2008 (USAID, 2009a, p. vii) and over 300 today. In line with the Rwandan government's desire to promote the production fully washed coffee, BRD also no longer finances coffee processors and exporters who purchase semi-washed coffee (Agri-Logic, 2018, p. 13).

Rwanda Farmers Coffee Company (RFCC) is one of the locally owned enterprises that benefited from BRD's support. Established in 2009 out of a public-private partnership between the National Agricultural Export Development Board (NAEB), BRD,[153] and the Clinton Foundation,[154] RFCC inaugurated roasting and packing facilities in 2014 (Gorillas Coffee, 2022; Rutayisire *et al.*, 2017, p. 46). RFCC sells its coffee under the 'Gorilla's Coffee' brand and exports its products worldwide. By roasting its coffee, the enterprise claims it earns up to three times more than if it only sold non-roasted fully washed coffee. Initially, RFCC blended Rwandan coffee beans with those from Brazil, Costa Rica, Kenya, and Colombia. It, however, switched to exclusively sourcing Rwandan coffee beans with the funds from BRD's EGF. While its foreign sales in 2017 only

[153] BRD has a 25 percent stake in RFCC.
[154] Via the Clinton Development Initiative.

accounted for about 0.5 percent of the country’s coffee export earnings that year, Rwanda Farmers Coffee Company’s success shows that BRD can help local processors achieve their objectives (Nkurunziza, 2018).

However, BRD’s support to coffee processors is not without problems. As of 2009, for example, 18 percent of loans given to owners of coffee washing stations by three banks, including BRD, were in default (Behuria, 2015, p. 231).[155] Another statistic reveals that 40 percent of cooperatives owning coffee washing stations in the 2010s did not pay back their loans (Technical Assistance to Rwanda’s Ministry of Agriculture and Animal Resources, 2021, p. 41). Defaults among owners of coffee washing stations stem from various factors, such as non-existent or poorly kept accounting books, which complicates the loan appraisal process. As explained earlier in this section, delayed or segmented access to capital can also lead to inadequate production and solvency issues for owners of washing stations. In the event of loan failure, BRD has been able to recover some of its losses by auctioning the coffee washing stations owned by delinquent borrowers. More importantly, BRD, which admitted being too hands-off with coffee processors in the 2000s, is now committed to better supporting applicants by, for example, helping them develop their business plans (Behuria, 2015, p. 231).

Bilateral donors have also set up schemes to support Rwandan coffee processors. For instance, USAID partnered in the 2000s with two commercial banks, including Bank of Kigali, to establish a loan guarantee scheme. This credit guarantee facility covered up to 40 percent of investment capital loans and working capital loans issued to coffee processors. Investment capital loans (repayable in up to five years) were mostly used to build coffee washing stations, while the working capital loans (repayable in up to one year) were used to supply washing stations with cherries. Although the USAID’s credit guarantee facility encouraged partner banks to lend more to enterprises in the coffee sector than they previously had done, the behaviour of these banks after the scheme ended has been mixed. On the one hand, some enterprises that benefited from the credit guarantee facility accumulated enough assets to later secure non-guaranteed loans from commercial banks. On the other hand, partner banks rarely provide non-guaranteed loans to coffee processors who don’t have 100 percent collateral, which was the standard

[155] BRD made 43 percent of these loans to coffee washing stations.

requirement before the scheme was established. Indeed, partner banks did not develop in-house loan appraisal, monitoring, and evaluation mechanisms for credit lines to the coffee sector during the scheme, relying instead on USAID for technical support. Partner banks also chose to not create dedicated financial products for the coffee sector when their collaboration with USAID ended, which explains the reversion of these banks to pre-scheme lending practices (USAID, 2009a).

CAFERWA, which is one of the oldest Rwandan-owned coffee processors and exporters, used USAID's credit guarantee facility to develop its activities. Established in 1995, the company possesses five coffee washing stations (including Rwanda's largest washing station), a dry milling station, a roasting machine, and facilities to grade and pack coffee beans for export and for sale locally (CAFERWA, 2022). An interview with CAFERWA's Deputy Managing Director reveals that a critical juncture for the firm occurred in 2003, when they decided to produce speciality coffee. However, no bank in 2003 was willing to lend to CAFERWA due to the risks associated with agribusiness, except for BRD. CAFERWA used BRD's loan to start renovating their only coffee washing station. A subsequent loan obtained in 2006 from Bank of Kigali through the USAID-sponsored credit guarantee facility gave CAFERWA the resources to complete their washing station's renovation. The Bank of Kigali's loan also allowed CAFERWA to triple its permanent workforce from 10 to 30 (Shah, 2010; USAID, 2009b). Together, BRD and USAID helped CAFERWA accumulate enough capital to invest in more coffee washing stations and become one of Rwanda's leading speciality coffee exporters.

This section has analysed the relationship between banks and coffee processors in Rwanda. While BRD is not the only bank providing financial services to indigenous coffee processors, it plays an outsized role in granting them loans, especially longer-term ones that are used to build or renovate coffee washing stations. Another key takeaway is that commercial banks have been reluctant to support Rwandan coffee processors without the credit guarantees and the technical assistance provided by BRD and by bilateral donors, such as USAID. While BRD does have to deal with many coffee processors defaulting on their loans, the bank has demonstrated the ability and the willingness to address these defaults by updating its lending practices.

6.3.2 Tea

Tea is another one of Rwanda's leading cash crops. Like coffee, Rwanda's tea production accounts for less than one percent of global tea supply. The most common variant of tea made in Rwanda is CTC (crushed-tear-curl) black tea. CTC black tea is produced by farmers picking green tea leaves that are transported to a factory, where they are withered, crushed, rolled, and fermented, during which the leaves oxidise and turn black. The leaves are then dried using heat (fire) to stop the oxidation process. Rwanda also produces orthodox black tea. Unlike CTC black tea, orthodox black tea is made by withering, rolling, fermenting, and firing green leaves without crushing or tearing them (Behuria, 2015, p. 307).

Multilateral donors, via BRD, have provided important financial supports to develop Rwanda's tea sector. Tea was first introduced to Rwanda in the 1950s, during which production was limited to three factories. Buoyed by loans from IFIs, such as African Development and the IFC (African Development Bank Group, 1989; The World Bank, 1983), the Rwandan government built 8 factories in the 1970s and 1980s.

To attract new capital to the sector, Rwanda's tea factories were privatised in the 2000s. Most of Rwanda's tea factories are now majority-owned by domestic and foreign private sector investors, with the state and local cooperatives, who supply the factories, being minority stakeholders (Behuria, 2015; Gathani and Stoelinga, 2013).[156] Only one Rwandan tea factory is fully owned by a cooperative. The factory—Rwanda's oldest and largest in terms of capacity—was given to farmers in 2022 by a Scottish charity, the Wood Foundation, which purchased the plant from the Rwandan government in 2012 (Ntirenganya, 2022).[157]

To increase export revenues, Rwanda's National Agricultural Export Development Board (NAEB) is promoting diversification through the production of higher-value speciality teas, such as green tea. In contrast of black tea, green tea is made by pan-firing or steaming tea leaves to stop the oxidation process, which makes the leaves retain their colour (Tea How, 2019). Speciality teas like green tea can command a price premium of

[156] Cooperatives tend to have at least a 10 percent stake in the tea factories that they supply.
[157] The Wood Foundation initially had a 55 percent stake in the factory, with farmers owning the remaining 45 percent share.

at least 30 percent and can, sometimes, go for more than double the price of black tea (National Agricultural Export Development Board, 2019, p. 89). The price differential between green and black tea stems from the more delicate processing to prevent oxidation. The natural properties of tea are also better preserved in green tea due to how it is processed, which makes green tea a more attractive option than black tea for health-minded consumers (*Ibid*., p. 88; Tea How, 2019).[158]

However, only 0.07 percent of tea produced in Rwanda was speciality tea in 2018 (Taarifa, 2018), with only two of Rwanda's 18 tea factories currently producing speciality tea (National Agricultural Export Development Board, 2019c, d).[159]

Société Rwandaise du Thé (SORWATHE) owns one of the factories that produce green tea in Rwanda. Established in 1975, SORWATHE was Rwanda's only privately owned tea factory until the 2000s. The company was initially a joint venture between US-owned Tea Importers Inc., who had the majority (51 percent) stake in SORWATHE, while the Rwandan government had the remaining 49 percent stake.[160] SORWATHE started producing CTC black tea in 1978, green tea in 1996, orthodox tea in 2008, and received organic certification in 2012. Financing for SORWATHE's factory came from the IMF, BRD, the World Bank, the European Development Fund, and the Overseas Private Investment Corporation, which was a US development finance institution that helped American businesses establish themselves in emerging markets (Behuria, 2015; The World Bank Group, 1994; The World Bank, 1984).[161] BRD, through the EGF, also contributed to the construction of SORWATHE's first bespoke green tea factory (Development Bank of Rwanda, 2018; Taarifa, 2018).[162]

The other factory that produces high-value tea in Rwanda is owned by Rwandan Mountain Tea (RMT) (National Agricultural Export Development Board, 2019c). RMT is

[158] Tea is known for its antioxidant properties. Other benefits associated with tea consumption include improved brain function, increased fat burning, and a reduction in the risk of cardiovascular disease and type 2 diabetes.
[159] 4 percent of that year's production was orthodox black tea. The remainder of the tea that was produced was CTC black tea.
[160] As of 2015, Tea Importers owns 89.7 percent of SORWATHE, with the remaining 13.3 percent share owned by a local cooperative (Gathani *et al*., 2015).
[161] OPIC became the US International Development Finance Corporation in 2019.
[162] Before the construction of its bespoke green tea factory, SORWATHE's processing facilities produced green tea once a week.

Rwanda's largest locally owned tea company. It was established in 2006 by Egide Gatera—a prominent businessman with close ties to the ruling party, the Rwandan Patriotic Front (RPF). Mr. Gatera is also the majority shareholder of an investment group (Petrocom) that is active in the petroleum, construction, and livestock industries (Behuria, 2015). RMT acquired three factories in the mid-to late 2000s as a part of the Rwandan government's privatization policy and built its first new factory in 2014. In 2011, the group entered a 50-50 joint venture with an Indian tea company to create a consortium called Tea Group Investments, which acquired the majority stake in two more factories that were state-owned. In 2009, RMT set up a subsidiary that provides services, such as procurement, finance, and marketing to the tea estates it has stakes in. 2009 also saw RMT create a subsidiary that produces retail-ready tea for domestic consumption and for export around East Africa in which the Rwandan government, through NAEB, has a 40 percent minority stake (Gathani and Stoelinga, 2013).

Most of the factories that RMT acquired had to be upgraded. The financing for these capital investments came from a variety of sources, including loans from BRD and bilateral donors (Rutayisire *et al.*, 2017, p. 147). For example, BRD and the Belgian Investment Company for Developing Countries provided RMT with long-term loans to build two power plants for its factories (BIO, 2011; Rutayisire *et al.*, 2017, p. 35; The New Times, 2014).[163] RMT can also rely on Egide Gatera's wealth and ownership of other businesses to self-finance and cross-subsidise RMT (Behuria, 2015).

BRD also provides loans to tea cooperatives. The bank, which has funded all Rwandan tea cooperatives at least once, assists farmers with the purchase inputs, such as tea seedlings and fertiliser, to increase tea production (Development Bank of Rwanda, 2018). The resulting higher tea output, in turn, has helped processors, who often struggle to secure enough leaves to operate at full capacity.[164]

However, some of BRD's loans to cooperatives have been the subject of controversy in the past decade. One of these controversial loans involves a cooperative in Southern

[163] The electricity that is not used by RMT is fed into the national grid.
[164] For example, RMT only had around 60 percent capacity utilization in the early to mid 2010s. SORWATHE fared better than RMT, with around 80 percent capacity utilization. Both companies complained about the shortage of raw materials affecting their operations (Gathani and Stoelinga, 2013).

Rwanda, which was granted a ten-year credit line in 2010/2011 to grow tea (Rutayisire *et al.*, 2017, p. 145).[165] Yet, some members abandoned or sold their farms when they received the loan, which increased the repayment burden for those who stayed. According to the cooperative's president, members that chose to leave or sell their land did so following delays in the construction of a nearby tea processing factory. The factory, which is owned by another RPF-affiliated business magnate,[166] was slated to be ready for the cooperative's first tea harvest in 2013 but got completed in 2015 due to construction delays (Behuria, 2015, p. 341).[167] The fact that the factory only got completed in 2015 meant that for two years, farmers had to travel to sell their leaves. Because of the region's poor transport infrastructure, most leaves would deteriorate and fetch lower prices by the time the farmers reached the nearest factory, which was over 100 kilometres away. Additionally, the cooperative's president mentioned that the lack of funding for fertilisers led to lower-than-expected production, which made loan repayments even more difficult. While the delayed factory is the primary reason behind the cooperatives' struggles, BRD was also blamed for mistakes during the loan appraisal process. Specifically, the bank had overestimated the area of land the cooperative owned by around 40 percent, which generated inaccurate tea production forecasts.[168] To support the cooperative, BRD decided to extend the repayment period of the loan by 15 years. Meanwhile, NAEB has pledged to provide the cooperative with additional financing to purchase new tea seedlings and fertilisers (*Ibid.*; Hakizimana, 2019).

[165] Farmers in the region used to grow wheat and Irish potatoes. However, their soil did not suit these crops, which led to poor yields. Agronomists suggested that they switch to tea production, which is more compatible with their soil's chemistry. The cooperative used BRD's loan for bush clearing, ground leveling or terracing, and tea planting and harvesting.

[166] The factory's owner, Jean-Baptiste Mutangana, is a founding member of a prominent investment group, Rwanda Investment Group, which has BRD as a shareholder and is involved in energy generation, transmission, and distribution, alongside cement manufacturing (Behuria, 2015; Booth and Golooba-Mutebi, 2012; Gathani and Stoelinga, 2013). The Mutangana family has other interests in the tea sector, including another processing factory, which BRD helped finance (Rutayisire *et al.*, 2017, p. 57).

[167] Tea plants typically take around three years to mature.

[168] BRD estimated a total harvestable area of 1200 hectares. Yet, the cooperative owned 850 hectares (Ntirenganya, 2019b). One farmer from the cooperative claimed that he was recorded by the bank to having 21 hectares of tea, when he had 11 hectares (The Chronicles, 2019). According to the cooperative's president, BRD's incorrect measurements were caused by the bank initially using traditional measuring methods, such as a measuring wheel, instead of GPS, which is more accurate (Ntirenganya, 2019b).

Two other incidents involving BRD and tea cooperatives are documented in the Rwandan press. The first incident has to do with a cooperative that was given a loan without its members' and leadership's consent. According to a parliamentary probe on the case, BRD choose someone to sign the loan agreement on behalf of the cooperative after its head had refused to do so. The second incident involves a cooperative which claims that NAEB pressured it to take BRD loans. Worse, this cooperative never received 75 percent of the loan amount, which went missing (Kwizera, 2019; Ntirenganya, 2019b; The Chronicles, 2019).[169] These controversial loans highlight the benefits and drawbacks that come with the governance of Rwanda's public sector. On the one hand, the parliamentary probe on these cases and the sanctioning of Alex Kanyankole shows that Rwandan state officials can keep BRD accountable for its actions. On the other hand, the focus on quantifiable performance that prevails in Rwanda's public sector (Behuria, 2015, p. 122) can also be counterproductive (Behuria, 2018; Chemouni, 2017).[170] Indeed, the pressure for NAEB and BRD to meet predetermined production and lending targets[171] likely explains why NAEB compelled farmers to accept BRD's loan and why BRD accepted whoever was willing to sign the agreement.

This section has analysed the relationship between banks, government, and tea producers in Rwanda. As with coffee, BRD played an outsized role in financing Rwanda's tea sector. The bank, with the support of multilateral and bilateral donors, has contributed to the construction and the upgrading of tea factories and has provided funds to farmers for green tea production. The controversy surrounding some of BRD's loans to tea cooperatives shows that the culture that prevails in Rwanda's public sector, which explains the bank's positive track record, also explains some of its operational shortcomings.

[169] This incident contributed to the sacking, arrest, and conviction of the BRD's then CEO, Alex Kanyankole, whose tenure at the bank was mired in scandal, as discussed in Chapter 3.
[170] See Chapter 3
[171] For example. NAEB's *2019–2024 Strategic Plan* includes doubling Rwanda's tea production to account for 3 percent of global tea output compared to less than one percent in 2018. NAEB also ambitions to have non-CTC black tea reach 20 percent of Rwanda's tea export volume compared to about 4 percent in 2018.

6.3.3. Pyrethrum

After coffee and tea, pyrethrum is Rwanda's third most important traditional agricultural export. Introduced to Rwanda in the 1930s, pyrethrum is a daisy-like flower that features in the production of organic insecticides. Specifically, the pyrethrum flower is dried, ground, and passed through extractors to create pyrethrum liquid and its by-products, which are sent to the US, Europe, and Asia for further processing. The refined extracts of pyrethrum liquid are used to make aerosol insecticides and speciality veterinary and pharmaceutical goods.[172] Pyrethrum liquid by-products, such as oleoresins, are used to make mosquito coils, while pyrethrum marc (the remains of the flower after extraction) is employed in the formulation of powder insecticides.

Unlike in the case of international coffee and tea markets, Rwanda is a major player in the international pyrethrum market (the country has a 15 percent share of global pyrethrum exports). NAEB expects the demand for pyrethrum to grow in the coming years, since pyrethrum's status as a natural (plant-based) pesticide makes it desirable in the eyes of increasingly environmentally and health-conscious consumers (Behuria, 2015; Gathani and Stoelinga, 2013; National Agricultural Export Development Board, 2019).[173]

Horizon Sopyrwa is the only enterprise in Rwanda that processes and exports pyrethrum. Sopyrwa was established in 1972 as a pyrethrum processing factory (Usinex) in North-western Rwanda[174] by the Rwandan government with support from the United Nations Industrial Development Organization (UNIDO). In 1978, Usinex was merged with a planters' association that provided flowers to the factory to form Opyrwa (Office du Pyrethrum du Rwanda). In 2000, the Rwandan government sold Opyrwa to local investors in the aftermath of the genocide, during which the factory was pillaged and the farms were abandoned. Following its privatization, Opyrwa's new owners renamed it Sopyrwa (Behuria, 2015; Gathani and Stoelinga, 2013).

[172] Rwanda is the second-largest larger exporter of pyrethrum extract after Australia.
[173] The other main pyrethrum exporters are Kenya, Uganda, Australia, Papua New Guinea, and China.
[174] Northwestern Rwanda's volcanic soils, high altitudes, cool temperatures, and good rainfall distribution are best suited for pyrethrum production (National Agricultural Export Development Board, 2019, p. 96).

Sopyrwa struggled during much of the 2000s. Because of financial mismanagement, the company was unable to pay farmers, who consequently stopped producing pyrethrum. Financial mismanagement also led to a lack of investment in seed stock and factory maintenance. These issues resulted in a considerable decline in Sopyrwa's pyrethrum output, which prevented the firm from honouring its contracts with foreign customers, such as SC Johnson (Behuria, 2015, p. 185).[175]

Sopyrwa eventually filed for bankruptcy in 2008 and was sold to Horizon Group.[176] Horizon Group, which has strong ties to Rwanda's military,[177] is one of the country's major investment groups, with business interests in the construction sector and in logistics. Renamed Horizon Sopyrwa, the pyrethrum processing company benefited from Horizon Group's management and financial support (Times Reporter, 2011). For example, Horizon Group invested in research and development to increase pyrethrum yields. Horizon Group also encouraged farmers to grow more pyrethrum by advising those who weren't organised in a cooperative to do so.[178] Together, these developments led to Horizon Sopyrwa tripling its output between 2009 and 2011, while capacity utilization climbed from 6 percent to 29 percent. To improve pyrethrum processing, Horizon Group purchased state-of-the art dryers that raised the quality of the pyrethrins (the chemical compounds found in pyrethrum that has insecticidal properties). In 2011, Horizon Group formed a joint venture with a British agrochemical company, AgroPharm, to create AgroPharm Africa, which manufactures pesticides in Rwanda for local consumption (Behuria, 2015; Gathani and Stoelinga, 2013; Mugisha, 2011).[179]

BRD also contributed to Horizon Sopyrwa's turnaround. The bank has a 4 percent equity stake in Horizon Sopyrwa and provided the company with a loan in 2009. Horizon

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[175] Sopyrwa's pyrethrum production declined from 1350 metric tons of dried flowers in 2004 to 209 metric tons in 2008.
[176] Horizon Group pursued legal action against one of Sopyrwa's previous owners, Paul Muvunyi, who was accused of embezzlement and tax evasion while heading Sopyrwa (Rwamapera, 2019; Taarifa, 2020).
[177] Through Horizon's two shareholders, the Military Medical Insurance and Credit Savings Society Zigama, which is a microfinance bank for military officers in Rwanda's army.
[178] The formation of cooperatives contributes to the rise in pyrethrum production by taking out middlemen, who farmers that don't belong to cooperatives pay to supply their flowers to Sopyrwa. The removal of these middlemen increases farmer revenue, which makes pyrethrum production more attractive.
[179] AgroPharm owns 51 percent of shares in AgroPharm Africa, while Horizon has the remaining 49 percent of shares.

Sopyrwa used this loan to pay for operating expenses, recruit new employees, including agronomists, and conduct marketing campaigns to promote the production of pyrethrum (Development Bank of Rwanda, 2021, p. 92; Rutayisire *et al.*, 2017, p. 59).

This section has discussed Rwanda's pyrethrum sector. As with coffee and tea, BRD and its international partners played an important role in the promotion of pyrethrum processing. Additionally, Horizon Group's successful takeover of Sopyrwa shows that Rwanda's party and military-owned investment groups can positively impact economic development.

6.4. Conclusion

This chapter analysed the relationship between banks, enterprises, and government in Rwanda. Similarly to firms in Côte d'Ivoire, Rwandan companies, especially SMEs, identify access to finance as their top business environment obstacle. While foreign capital also dominates Rwanda's agribusiness and manufacturing sectors, Rwandan-owned enterprises seem to be less impacted by the presence of foreign-owned firms than their Ivorian counterparts. This is to a significant degree because BRD, aided by bilateral and multilateral donors, has helped develop the activities of many Rwandan agribusiness enterprises. Besides companies like RMT and Horizon Sopyrwa that belong to asset-rich investment groups, Rwandan agribusiness firms usually struggle to secure loans and develop their activities without BRD and foreign donors. For example, the partnership between USAID and Bank of Kigali shows that commercial banks are seldom willing to lend to less established coffee processors on their own.

Another major takeaway from this chapter is the importance of farmer engagement in the value addition process. By providing loans to farmers and cooperatives to purchase inputs, BRD helps address the supply constraints that plague most agribusiness firms. Especially, BRD's outsized role in financing cooperatives to build coffee washing stations led to the increase in the share of fully washed Rwandan coffee. Indeed, cooperative-owned coffee washing stations has allowed farmers to directly reap the monetary benefits that come with value addition. Recent efforts by BRD to help cooperatives own a greater stake in tea factories by extending subsidised loans, will, hopefully, contribute to more value addition in Rwanda's tea industry.

This chapter also shed light on the governance and the management of Rwanda's public sector. The Rwandan parliament's investigation of BRD's controversial loans to tea cooperatives shows that the Rwandan government is willing and able to make the bank liable for its actions. While the culture of accountability that prevails in Rwanda's public sector helps check BRD, the pressure to meet quantitative performance targets can make the bank ignore standard lending practices by 'forcing' loans onto some clients without due diligence.

Finally, this chapter has provided some insights on the relationship between BRD and Rwanda's privately owned, but state affiliated investment groups. The evidence presented in the sections above suggests that BRD does not systematically privilege investment groups linked to the RPF and to the military, as argued by some.[180] In the tea sector, for example, BRD has given loans to every cooperative and has both Petrocom-owned RMT and foreign-owned SORWATHE in its portfolio. Additionally, Sopyrwa's turnaround under Horizon Group's management shows that BRD's financial commitment to these investment groups is not necessarily unjustified, since their proximity to the state means that they are easier to discipline than individual investors (Booth and Golooba-Mutebi, 2012).

[180] See Chapter 3

Chapter 7—Conclusion

7.1. Overview

This thesis has examined the role and the impact of Africa's National Development Banks (NDBs) and identified the factors that affect their ability and their willingness to fulfil their mandates, using the cases of Côte d'Ivoire and Rwanda. To this end, the thesis first justified its focus on African NDBs, which are understudied, despite their potential to close the continent's significant enterprise financing gap. Next, the thesis introduced the different actors that engage with NDBs (state authorities, commercial banks, bilateral and multilateral institutions, central banks, credit rating agencies, and non-financial firms), which constitute their 'task environment'. The study investigated then the relationship between NDBs and their task environment in Côte d'Ivoire and Rwanda. The following sections will review the thesis' main findings and its broader contributions to debates on the political economy of finance and development, before discussing implications for policy and future research.

7.2. Main Findings and Contributions

7.2.1. Identifying NDBs as Market Fixers and Shapers

As outlined in the introduction, the commitment of commercial banks to delivering profits and their reliance on short-term financing pushes them to avoid investing in long-term projects in risky fields, such as manufacturing, that are critical to economic development. The evidence provided in this thesis showed that most commercial banks do not lend to indigenous agro-processors in Côte d'Ivoire and Rwanda due to their activities' perceived riskiness and their lack of collateral. Instead, commercial banks in both countries, and in Africa generally, prefer to purchase safer assets, such as government bonds. These retail banks are also more likely to support established firms, which are usually foreign owned, alongside offering short-term consumer credit and easily collateralizable long-term loans, such as mortgages. By lending to locally owned enterprises in risky but productive sectors, NDBs in Africa help address market failures in the financial sector, such as information asymmetries, which make it challenging for these businesses, particularly SMEs, to access credit.

Besides giving evidence that NDBs 'fix markets' by addressing market failures in the financial sector, this thesis showed that role of these banks goes further and involves shaping markets by creating outcomes that wouldn't have occurred without their participation (Mazzucato and Penna, 2016). When NDBs in Côte d'Ivoire and Rwanda were first set up in the 1950s and 1960s, the domination of foreign interests in their financial and manufacturing sectors left little-to-no space for indigenous industrialists. By establishing NDBs, governments in both states shaped their respective economies through creating avenues for domestic entrepreneurship that commercial banks wouldn't finance. For example, NDBs in Côte d'Ivoire had an outsized impact on the Ivorian economy during the 'miracle' years in the 1960s and the 1970s. In Rwanda, we saw how BRD is a key financial backer of value-addition efforts in the country's most important export-oriented industries. NDBs in Côte d'Ivoire and Rwanda have also supplied domestic enterprises with counter-cyclical loans to weather the financial crises of the 1980s and the early 1990s and, more recently, during the COVID-19 pandemic.

Although NDBs are better than commercial banks at promoting economic development, the thesis' comparative case study demonstrated that not all NDB business models are equally suited to the provision of long-term credit lines to risky sectors. For instance, Chapters 5 and 6 showed that NDBs with universal banking business models, such as Côte d'Ivoire's BNI, have less a significant developmental role and impact than NDBs like BRD, which are solely dedicated to enterprise financing. Two core factors explain why the two banks behave differently. First, the reliance of universal banks on short-term customer deposits exposes them to asset-liability mismatches, should they choose to commit short-term resources to finance longer-term ventures. Second, the focus on short-term profits that is associated with commercial banking, with which universal banks have to compete, is at odds with the longer-term time horizon that NDBs typically take when financing projects. BNI's trajectory therefore suggests that universal banks may be more likely to prioritise retail operations over enterprise financing, with the former being more lucrative and less demanding in terms of loan appraisal and monitoring than the latter. Therefore, NDBs should be banks specialised in long-term lending, rather than universal banks.

7.2.2. Challenging Mainstream Claims on NDBs and State Ownership

This thesis also challenged the view in the mainstream that an NDB’s struggles are primarily a function of state ownership (de Aghion, 1999; La Porta *et al.*, 2002).

It is true that politically influential individuals have embezzled funds from NDBs in Côte d’Ivoire and Rwanda (and in other countries). However, state ownership has also led to ‘politically determined’ state action that better serve society than market forces, such as governments in both countries pressuring their NDBs to provide countercyclical loans to local enterprises.

Additionally, the story of Côte d’Ivoire’s housing bank (BHCI) demonstrated that privatised NDBs can be corrupt, too. More importantly, the governance and the management track record of NDBs in Côte d’Ivoire and Rwanda implies that corruption can be checked if state authorities are willing to do so. Chapter 3 established that NDBs are among the most well-run parastatals in Côte d’Ivoire and Rwanda. For example, BNI won the prize for the best Ivorian SOE in 2021, while BRD has earned continental accolades for its corporate governance. Indeed, NDBs in Côte d’Ivoire and Rwanda benefited from having institutional checks and balances. These include the separation between the ownership and the supervision of these banks, the presence of representatives from the public sector and from the private sector on their board of directors, and their use of independent financial auditors. Indeed, in the case of Rwanda, mechanisms of accountability, if poorly designed, can hamper an NDB’s operations by making it concentrate on meeting quantitative lending targets over appraisal quality.

The Ivorian and the Rwandan case studies confirm that NDBs are also more likely to promote economic development under state ownership because the public sector and the private sector have different priorities. For instance, the story of Côte d’Ivoire’s industrial development bank (BIDI) highlighted how an NDB with joint public-private ownership may struggle to fulfil its mandate due to misaligned incentives between public sector and private sector shareholders.

7.2.3. Acknowledging the Centrality of International Financial and Monetary Asymmetries in the Task Environment of NDBs

Laying out how international financial and monetary asymmetries (Bortz and Kaltenbrunner, 2018) affects NDBs in Côte d'Ivoire and Rwanda proved that the problems they face are largely outside their control. In Chapter 4, the analysis of the CFA franc's unique arrangements showed how the legacy of colonialism hindered credit creation in Côte d'Ivoire. The existence of an international monetary hierarchy also explains why BRD struggles to mobilise the financing it needs to fully support Rwandan enterprises. Like most NDBs, BRD sometimes issues loans in reserve currencies, such as the US dollar, which firms may require to import inputs. However, the fact that foreign currency borrowings carry exchange rate risk makes fundraising on international capital markets costly for NDBs in developing and emerging economies. Instead, these banks usually depend on bilateral and multilateral partners to secure cheap, longer-term foreign currency resources.

International financial and monetary asymmetries also affect NDBs in Côte d'Ivoire and Rwanda through their respective central banks. As discussed in Chapter 2, the need for central banks in developing and emerging economies to hedge against macroeconomic volatilities pushes them to accumulate excessive foreign exchange reserves, instead of using these resources to make more productive investments at home. Following structural adjustment in the late 1980 and early 1990s, BNR in Rwanda and BCEAO in Côte d'Ivoire—like many central banks in the Global South—started to prioritise price stability over economic development. In Côte d'Ivoire and Rwanda, this policy change led to the removal of long-term refinancing facilities housed in BCEAO and BNR, which NDBs in both countries had used to alleviate asset-liability mismatches. Moreover, structural adjustment made these central banks adhere to a 'global standard' prudential regulatory regime with higher liquidity and capital adequacy ratios that incentivises banks, including NDBs, to de-risk their portfolios by reducing loans to productive enterprises, which are riskier than loans to households and consumers.

7.3. Implications for Policy

Our study of NDBs in Côte d'Ivoire and Rwanda provides insights on how these banks can more significantly promote economically development. For instance, the evidence presented in the thesis highlighted the importance of NDBs having robust loan appraisal, monitoring, and evaluation mechanisms. By hiring and training more staff involved in enterprise financing, NDBs in both countries will be able to better support more firms without fear of exposing themselves to undue risk. The investments required to improve the operational capabilities of these banks can be funded by levying a special tax paid by privately owned banks. Money raised through this tax can also allow NDBs to provide more local currency loans to help businesses with their working capital needs.

At the regulatory level, central banks, like BCEAO and BNR, should commit to reopening long-term refinancing facilities and make them accessible to NDBs. These refinancing facilities would be especially useful to universal banks, such as BNI, that are more susceptible to asset-liability mismatches than investment-oriented NDBs, such as BRD. Both central banks should also subject their NDBs to different prudential standards than the ones expected of commercial banks to give NDBs more policy space to promote economic development.

At the international level, bilateral and multilateral donors, which respectively include NDBs in advanced economies and international financial institutions, should increase their financial and technical support to NDBs in developing countries, like Côte d'Ivoire and Rwanda. For example, foreign donors can provide NDBs in developing country NDBs with more grants and long-term loans in reserve currencies like the US dollar, which these banks cannot cheaply access on their own. Foreign donors can also help improve the operational capacities of these NDBs through knowledge transfer partnerships, such as staff exchange programs (Abebe and Schaefer, 2015).

7.4. Areas for Future Research

Investigating NDBs in Côte d'Ivoire and Rwanda gave us some insight into the role and the impact of these financial institutions in developing countries and regions. However, there is a lot of work that remains to be done.

One potential area for future research is assessing the effect of different financing instruments, such as loans and equity stakes, on the financial performance and the developmental impact of NDBs (Griffith-Jones *et al.*, 2022). For example, a large equity stake in an enterprise may give an NDB some control over the businesses' operations to ensure that the firm succeeds (Chang, 1993, p. 149). Yet, the equity income that an NDB aims to make is contingent on the company turning a profit, which is not assured. Although loans, unlike equity, contractually guarantee a stream of income, an NDB may have to extend the repayment period for struggling enterprises, which can expose the bank to asset-liability mismatches (Harlander and Mezger, 1971). NDB are likely, however, to have a greater say in the restructuring of the companies that are granted such an extension.

Another potential area for future research is exploring the extent to which an NDB's commitments to different sectors, such as agriculture and industry, affects the operational capabilities of these banks. In agriculture, the variation in environmental factors, such as soil types and climate, makes the application of standardised inputs yield more heterogeneous results compared to manufacturing (Koning, 1994). Additionally, "the transmission of the new techniques required to make effective use of financial resources—involving a multitude of families rather than a relative handful of industrial managers and technicians—makes the problem of farm credit quite different in kind from that of industrial credit" (Chang, 2009; Diamond, 1957, p. 16). The difference between agricultural credit and industrial credit raises the question of whether some financial instruments are better suited to support certain sectors than others, and whether countries benefit more from having a general-purpose NDB that finances all sectors or from a system of specialised, single purpose NDBs (Di John, 2020).

7.5. Concluding Remarks

This thesis showed that state-owned development banks have been and can be successful in promoting economic development. The absence of strong incentives for privately owned banks to invest in the sectors that drive structural change means that the state should be encouraged to assume an entrepreneurial role via financial institutions, such as National Development Banks. Indeed, even though National Development Banks do not guarantee economic success, their presence has been crucial to jump-starting and nurturing industrialisation in many countries.

The possibility of failure should therefore not preclude states and their development banks from risk taking, which is the essence of entrepreneurship (Chang and Rowthorn, 1996). Moreover, these banks can minimise the chances of failure by committing to good governance and management and by implementing robust loan appraisal, monitoring, and evaluation mechanisms through learning by doing.

While market-led approaches to development are alluring, they should not make National Development Banks deviate from their mission, which only they can best carry. The importance of National Development Banks throughout history should encourage more research on them to influence and inform policy. Although context-specific characteristics exist and should be acknowledged, valuable lessons can be gained from the experience of others. This work was a contribution to this effort.

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