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EXPLORING THE ROLE OF DEVELOPMENT BANKS IN PROMOTING INCLUSIVE ECONOMIC GROWTH IN AFRICA

Authors: Yousif Awad Ahmed Mohamed

European Institute of Management and Technology (EIMT),
Hinterbergstrasse 9/11, CH-6330, Cham, Zug, Switzerland.
Author Email: Yousif.eljazz@badea.org

Abstract:

This research paper explores the role of development banks in promoting inclusive economic growth in Africa. It considers findings by contemporary authors and the practice of variants of development banks and their role in financial inclusion, stimulation of investments, and economic development, especially in Africa. Development Banks have been thoroughly considered when assessing factors that can boost economic growth on the African continent, more so in the region of the prevailing internal and external economic pressures. This paper discusses the extent to which multilateral, regional, and national business development banks (NDBs) provide long-term finance, infrastructure, small and medium enterprises (SMEs), and regional integration. In addition, it covers one of the main ignored topics, such as development bank's relationship with institutional quality and inclusive growth performance. The analysis implies that the improvements in the institutional environment in which these banks operate raise the prospects for attainment of inclusive growth drawing pertinent conclusions for the policymakers on the use of development banks for economic development in Africa.

Keywords: *Development Bank Role, Inclusive Economic Growth, Economic Growth*

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INTRODUCTION

In this paper, the role of development banks in promoting inclusive economic growth in Africa is examined factoring in objectives such as long-term financing, financing infrastructure development and supporting small and medium enterprises (SMEs). Additionally, this paper assesses the relationship between development banks and institutional quality, particularly in terms of their impact on inclusive growth. The initial sections broadly examine the role of multilateral development banks (MDBs), regional development banks, and national development banks (NDBs) towards economic growth in Africa, citing their specific duties. The paper then subsequently examines how management researchers have conducted significant research

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projects in similar fields. The following sections then identify and critically discuss what is considered 'cutting edge' knowledge within management when assessing the role of development banks. Afterward, the article looks at identifying and assessing potential areas of research within different management disciplines. Lastly, the research paper focuses on understanding the importance of ethics in management research and their application when conducting studies. The analysis concludes with research recommendations that could improve the role of development banks in fostering sustainable economic development across Africa.

THE ROLE OF DEVELOPMENT BANKS IN PROMOTING INCLUSIVE ECONOMIC GROWTH

Development banks play a critical role in the continued growth of both developed and developing countries. They include multilateral development banks, regional development banks, and national development banks, and each of these types of banks plays an important role in offering development finance to different economies. Multilateral development banks (MDBs) are established by various countries to support development activities through long-term loans and grants. They provide mostly lending at low or no interest and sometimes grants to finance projects in areas that promote development. Regional development banks and sub-regional development banks concentrate on financing development projects in specific geographical areas, and they tend to have regional countries and other large donor countries as majority shareholders (Abor, 2023). National development banks (NDBs) are financial institutions that are wholly or partially owned or controlled by a national government with the mandate of achieving socio-economic goals in the respective country (Griffith-Jones & Ocampo, 2018).

In the past decade, support for both national and international development banks has increased especially since the global financial crisis. To achieve more sustainable economic growth across the world, the continued future success of these banks is crucial. Following the global crisis, National development banks (NDBs) were significantly involved in counter-cyclical activity. Based on data from the World Bank, these banks increased their lending by 36%, from $1.16 trillion to $1.58 trillion in 2009. This rise even surpassed the performance of private banks lending throughout the same period (Ocampo & Griffith-Jones, 2019). In addition, there has been a dramatic shift over the last ten years, with many new NDBs established after 2010, and many others emerging from mergers and restructuring of previous institutions. In 2019 alone, 4 NDBs were created in West Africa, specifically in Benin, Burkina Faso, Côte d'Ivoire, and Guinea (Attridge, Chen, & Mbate, 2021). A large number of NDBs were also established in the period 2020–2022, mainly in response to the COVID-19 crisis (Abor, 2023). This rise in influence has prompted questions about the effectiveness of development banks in general in achieving long-term, sustainable economic growth and the extent to which they can mitigate external economic shocks.

After several global crises including the spread of COVID-19, continued difficulties in Eastern Europe, and higher living costs, Africa has been negatively affected. These events have significantly stressed overall global economic activity in 2022-2023, leading to slower economic

growth, food shortage, Inflation rate, rising budget deficit, and reduced energy supply (BADEA, 2023). Given these recent economic downturns in Africa, the role of development banks is more paramount than ever and needs to be keenly examined, with a focus on how they promote inclusive economic growth amid global crises. Achieving inclusive economic growth in Africa is a multifaceted challenge impacted by various factors including financial inclusion, fiscal policies, climate change, and trade liberalization. A recent study (Yakubu & Salifu, 2024) emphasizes the importance of increasing financial inclusion and fighting corruption to promote inclusive economic growth in Sub-Saharan Africa (SSA).There is more and more evidence that links access to financial services to economic growth, especially when it aligns with their goals (Tian, Pan, & Wu, 2023). Development banks play an important role in driving inclusive growth in key sectors by providing not only long-term financing but also promoting regional integration and stimulating investment. The evolving role of these banks, considering factors such as financial inclusion and institutional quality which are closely tied to bank operations needs to be assessed especially towards the promotion of inclusive economic growth in Africa, and serves as the main research problem of this paper. A study on this therefore presents an excitingopportunity to contribute to the growing literature on development banking in Africa.

The role of development banks in promoting economic growth has been studied by many academics. These studies are carried out in various media which include academic theses, journal articles, bank reports, policy discussions, etc. For example, Jungo (2024)examines the impact of financial inclusion on economic growth by considering various factors such as the quality of the institution. The study used dynamic panel analysis with the two-step system generalized method of moments (GMM) on a sample of 61 developing countries between 2009 and 2020. Data was collected from World Bank databases, including the World Governance Indicators (WGI), World Development Indicators (WDI), and Financial Development Indicators (FDI).

The study used the annual GDP growth rate to represent economic growth and measured institutional quality using six key indicators such as government effectiveness, rule of law, and political stability. These indicators were combined into a single measure of institutional quality using principal component analysis (PCA) to avoid multicollinearity. Financial inclusion was also measured using a combined indicator based on factors like credit, ATM availability, and bank accounts. The KMO adequacy test was conducted to ensure the validity of the variables before running the GMM estimation. The analysis focused on identifying the elements of institutional quality that had the most significant impact on economic growth in developing countries, aiming to determine the link between institutional quality, financial inclusion, public spending on education and military, and economic growth.

Another study on the role of institutions in financial development and economic growth in Sub-Saharan Africa (Bandura & Dzingirai, 2019) analyzed dynamic panel data using the System Generalized Method of Moments (GMM), which allows one to estimate values effectively to take into account internal integrity. This study aimed to analyze factors affecting economic growth with emphasis placed on financial development and institutional quality. A total of 131

observations were collected, based on data from 27 countries, where the main variables were gross savings, initial income, government expenditure, gross fixed capital accumulation, and trends related to time.

Statistical tests used to validate this model include the Wald statistic for model significance, the Hansen test for instrument validity, and autocorrelation tests (AR(1) and AR(2)). Analysis conducted in this study revealed significant relationships specifically between not only government spending and economic growth but also gross savings and development. In addition, growth trajectories have also been found to be affected by initial income levels. The model is reliable as evidenced by the robust standard errors and individual significance levels of 1%, 5%, and 10%. Based on these findings, it is clear that financial institution factors influence economic outcomes in different countries.

Researchers often make the case that their work is cutting-edge using a variety of innovative features, such as recognition outside their field, using novel methodologies, or filling research gaps with other innovation arguments. The study (Bandura & Dzingirai, 2019) adds to existing literature as they argue that their research not only addresses development in finance and economic growth in sub-Saharan Africa from a new perspective, as they place a special focus on institutions but also argues that previous studies often overlooked the institutional factors that influence this nexus. The use of the system Generalized Method of Moments (GMM) method which is based on the dynamic panel data approach for analysis enhances the traditional static models, thereby guaranteeing more reliability in findings. This methodological innovation is novel because it takes into account undetected heterogeneity and endogeneity. It therefore contributes to analytically capturing the complexity associated with such financial system-growth dynamics faced by developed economies that is missed in simpler models. This methodological innovation not only improves accuracy but also provides a more comprehensive understanding of how well-developed institutions influence financial development in Africa.

The researchers confirmed their findings by citing existing literature that supports their claims. They note that their results are consistent with a recent study (Beck & Cull, 2013) showing that bank-based financial systems are more efficient in low-income countries compared to market-based systems. We now have a better understanding of how financial structure affects growth. It depends on the level of development of the country with this research. According to Kacho and Dahmardeh (2017), this research is highly praised. This is because it not only confirms previous findings but also advances the field of financial economics in Sub-Saharan Africa by adding institutional quality to the analysis. The inclusion of institutional quality in their analysis advances the field of financial economics in Sub-Saharan Africa, moving beyond previous research that often neglected these critical factors.

The study (Jungo, 2024)indicates that their analysis adds to the body of knowledge on the effects of institutional quality on economic results through the application of new methods and techniques. The researchers say that most of the previous studies have only employed simple

models. Such models don't capture the dynamism inherent in institutional relationships, and their effects on the economy. In order to more thoroughly address the effects of institutional differences on credit and economic growth. The scholars consequently adopted a dynamic panel data approach. This methodological severity also assists them in revealing connections that have been overlooked before. They therefore consider their results to be an important intervention in the economic development literature in Sub-Saharan Africa.

Furthermore, they prove a more pronounced linkage between institutional quality and financial development and how their results correlate with established theories. The reason why they claim their work is innovative is that not only does it also support the theories of previous works, but also this time there is information that explains how the quality of institutions can also impact inclusive economic growth. This claim has been made by other authors too in the sense that (Gani & Rasul, 2020)&(Gyamfi, Bokpin, & Aboagye, 2022)claim the results create a benchmark for future governance, economic growth, and performance relationship studies, Arguments of this nature have been put forward in some existing literature on the matter, hence sustaining the discussions on the issue in the contemporary economic debates. These innovations provide critical insights that will inform future research and policy on governance, financial development, and inclusive economic growth in Sub-Saharan Africa.

When it comes to the role of development banks on inclusive growth in Africa, several potential related research areas emerge that align with the disciplines of management and business. One such area addresses the impact of development banks on the Small and Medium Enterprises (SMEs) growth in Africa. According to (Fjose, Grunfeld, & Green, 2010) , development is largely dependent on SMEs as they do not just offer goods and services for final consumption but also offer services and inputs for other sectors. Thus this sub-sector is pivotal for development and more so in the sustainable development agenda in the African nations. This area of study is applicable to various businesses, particularly in entrepreneurship. Understanding the role of development banks in SME growth contributes to entrepreneurship literature, offering actionable insights to policymakers on how these banks can support business expansion in Africa. This study may also reveal elements employed by development banks in financing SMEs as well as policies adopted to promote innovation and growth in this sector.

Another crucial area for study is how development banks provide financing to infrastructural projects in Africa which are essential for inclusive economic growth through the provision of education, health care, and markets. Lately, the global economic meltdown has focused the world on the growing importance of development finance institutions (DFIs) in general and especially in infrastructure development (David, 2011) . The concept of infrastructure development is important to encourage enterprise development and transition the economies of African countries from purely consumer economies to investor economies (Abor, 2023) . The research will also include the impact of development banks on the development of Africa and in particular include operations management as a discipline and its elements namely project management, risk, and project financing. Project management is paramount to the successful

implementation of development projects. This is because it involves planning execution and reporting of projects over long periods. Relevant studies on the same, may not only help identify elements that are important for project success but also ultimately touch on the key factors influencing infrastructure development and the effect they have in fostering economic growth in the long run.

The institutional framework within which development banks operate influences greatly how these banks conduct their transactions. This framework comprises factors such as governance structures which are of utmost importance in establishing an operational institutional framework for the development banks. The contribution of institutional quality is crucial in reinforcing the stability of banks specifically and the financial institutions in general. Due to postulations that both formal and informal institutions cause banks' fragility in the banks, it is therefore of great need to investigate how different institutional architectures influence the stability of banks in Sub-Saharan Africa (Fred, 2022). Further studies could examine the appropriateness of the link between institutional quality and the role of development banks in Africa in terms of business concepts such as leadership and governance.Leadership and governance would be relevant when assessing the banks' management as well as governance structures in place when navigating organization complexities and regulations. Studying such concepts will assist policymakers and other relevant stakeholders to improve governance systems toward more efficient institutional practices.This will help in dealing with the issues of improving institutional quality and the functioning of development banks in Africa.

Finally, given the increasing emphasis on sustainable development across the globe, the other possible area of research in relation to development banks is their impact on sustainability and green financing. As the emissions of greenhouse gases continue to beat global records, some nations feel threatened by implementing specific climate-related policies that may come at the cost of their economic development which is already compromised in the past few years. On the contrary, appropriate measures in combating climate change can be a source of new economic activities in areas such as smart green agriculture, promotion of low carbon resilient infrastructure, industry full of innovation – clean energy, inclusion of people in development, and green infrastructure among others (Worldbank, 2022) . Development Banks have been referred to as one of the important resources in the mobilization of efforts towards climate change and sustainable development (Abor, 2023) . This research sits comfortably within the boundaries of other business disciplines like corporate social responsibility (CSR) and environmental management.

In recent years there has been a significant emphasis on ethical regulation in research, especially in areas like financial development and institutional stability. This shift is reflected in the adoption of research ethic codes by educational researchers, research organizations, and professional associations such as universities (Hammersley & Traianou, 2012). When assessing the contribution of banking systems towards inclusive economic growth in Africa, ethical issues cannot be overlooked considering that it would involve interaction with delicate information

therefore the need for fairness and objectivity in analysis. Research ethics can be generally described in such a way that “it refers to the ethical codes and guidelines which concern the planning, carrying out, and the dissemination of research (Lukito, 2024). To meet all the needs of the concerned parties, banks must adopt more ethical models of operation, especially in developing nations that have rampant corruption to improve risk management. Such countries have been marked with a history of greed which has resulted in reckless actions and a disregard for ethical principles in business operations. The very nature of business ethics advocates for a moral economy therefore the banking industry is expected to abide by such aspirations. (Dorasamy, 2013).

According to (Beauchamp & Childress , 2001) all existing research guidelines extend to the treatment of human subjects. They stress the importance of ethical principles that need to be followed when conducting studies that involve human participants. One such principle is respect for persons. The concept of respect for persons requires that everyone has the right to accept to participate in the research or not. This is applied practically through the informed consent process. Informed consent usually takes place when an individual voluntarily chooses to participate in a research provided, they have been granted enough information about the study. Informed consent is crucial to ensure that stakeholders understand the objectives, methods, and potential impacts of the research. This ensures that individuals and organizations voluntarily participate in the research and are fully aware of its implications.

Transparency is another ethical standard for research that raises the total worth and contribution of the study while enhancing research integrity (Office for Open Research, 2024). According to (bin Safie, 2024) , financial institutions and regulatory agencies must maintain standards that encourage transparency and honesty if they intend to have a bigger impact. They ensure that their clients are protected from deceptive company tactics and that they receive accurate information. This is necessary to protect consumer rights and preserve the integrity of financial institutions.
Transparency inevitably creates a trustworthy and responsible financial environment leading to increased ethical integrity and economic stability. This ethical guideline also enables respect for stakeholders' rights’ which may include financial organizations, governments, and other players affected by development projects, especially in Africa where development banks play a key role in financing infrastructure development, regional integration, and supporting small and medium SMEs' objectives. Transparency in research processes is quite crucial to ensure that stakeholders not only understand the objectives and methods but also the potential impacts of the research (Beauchamp & Childress , 2001).

Studies by the Centre for Innovation in Research and Teaching (CIRT) (2019)reiterate that such ethical principles in research are crucial. They help to prevent the distortion of information thus, preserving the very objective of research which is the pursuit of knowledge. Moreover, ethics is fundamental to increasing collaboration between researchers by developing respect, trust, and a sense of duty among all the members of the research team. This is crucial especially when

dealing with confidentiality matters concerning data, sharing of information, copyright laws, and so forth. Moreover, the public as a whole feels that ethics should be observed by researchers particularly to avoid ethical issues such as conflicts of interest, health or treatment of animals, civil rights, and many other ethics-sensitive issues in research. By upholding these ethical considerations, the researchers are also assured that they will be able to earn the confidence of all the parties involved as their work will reflect positively on the academic world as well as the actual policies.

CONCLUSION

In conclusion, development banks support economic growth in Africa in a very significant way, focusing on some sectors like infrastructural development, sustainability, and SMEs. Their counter-cyclical financing activities especially at the time of global economic crises have proved important for flexible long-term sustainable growth. However, despite their achievements, in most cases, development banks continue to be under-researched, especially with regard to inclusive economic growth in sub-Saharan Africa, a gap that limits our understanding of how they can best support equitable and broad-based development across the continent.Further studies in areas like green financing and institutional quality may greatly contribute to the existing literature on development banking in Africa. Green financing, in particular, is becoming increasingly relevant in the context of environmental activism, while institutional quality determines the efficiency and effectiveness of development banks in promoting inclusive growth. The implications of this study are substantial, suggesting that African governments, policymakers, and development institutions must prioritize improving institutional frameworks, to enhance the impact of these banks. As they uphold ethical considerations such as transparency, researchers can be completely confident that the region’s policies and practices will be informed by positive research outcomes contributing to sustainable development in Africa. Key recommendations by this study include the need for development banks to expand their focus on underfunded areas like climate resilience, and for policymakers to strengthen institutional capacities to enhance the effectiveness of these banks.

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