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ODI

CHALLENGES AND CHANGES: THE POLITICAL ECONOMY OF NATIONAL DEVELOPMENT BANKS IN AFRICA

CÔTE D'IVOIRE CASE STUDY

Banque Nationale d'Investissement

Banque Populaire de Côte d'Ivoire

Private Sector Development (PSD)

The African Center for Economic Transformation (ACET) is a pan-African economic policy institute supporting Africa's long-term growth through transformation. We produce research, offer policy advice, and convene key stakeholders so that African countries are better positioned for smart, inclusive, and sustainable development. Based in Accra, Ghana, we have worked in nearly two dozen African countries since our founding in 2008.

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ACRONYMS

ACET	African Center for Economic Transformation
AFD	Agence Française de Développement
AfDB	African Development Bank
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BHCI	Banque de l'Habitat de Côte d'Ivoire
BND	Banque Nationale de Développement
BNI	Banque Nationale d'Investissement
BOAD	Banque Ouest-Africaine de Développement
BPCI	Banque Populaire de Côte d'Ivoire
IDFC	International Development Finance Club
NSIA	Nouvelle Société Interafricaine d'Assurance
OHADA	Organisation pour l'Harmonisation en Afrique du Droit des Affaires
ROA	Return on Assets
SMEs	Small and medium enterprises
WAEMU	West African Economic and Monetary Union
WAMU	West African Monetary Union

Executive summary

The African Center for Economic Transformation (ACET), in collaboration with the Overseas Development Institute, has undertaken a study of development banks in four countries: Côte d'Ivoire, Ghana, Rwanda and Tunisia. This study is in the context of a research project of the Agence Française de Développement (AFD) and the International Development Finance Club (IDFC) on national development banks in Africa.

The study aims to establish the relationship between bank governance and performance in Côte d'Ivoire, Ghana, Rwanda and Tunisia, not only in narrow financial terms but also in terms of economic and developmental impact. In the case of Côte d'Ivoire, the study evaluates two banks, the Banque Nationale d'Investissement (BNI) and the Banque Populaire de Côte d'Ivoire (BPCI) in which the state holds 83 percent and 100 percent of the respective capital.

The study is based on a desk review of documents and secondary data as well as qualitative data (from interviews) collected from state structures, financial institutions, the private sector and international partners. A validation workshop on the preliminary report was held with these institutions online.

Analysis of the data led to the following findings:

- The BNI and BPCI were established within the framework of government economic policy. The mandate of BNI was to (i) mobilize internal and external resources to finance national development; and (ii) manage the assets/deposits of state-owned enterprises. The BPCI was also to expand financial inclusion by reaching populations that had hitherto been excluded from financial services and to provide financing for small and medium enterprises (SMEs). As the banks grew, their mandates were enlarged.
- However, problems of governance, political interference and bad management of credit risk affected their performance, especially that of the BPCI, to the extent of impacting their original mandate. Although still oriented towards financing SMEs, the BPCI cannot afford to take certain risks. This is why the business models of the BPCI and BNI are comparable with those of commercial banks. Nevertheless, both the BNI and BPCI are obliged to support government financial policies.
- In terms of institutional context, the political interference in these two banks, especially the BPCI, weakened their financial management. While the BNI remains financially solid, despite some losses, the BPCI is unable to fully implement government policy because of its financial fragility. It may get some support in providing financing for SMEs from the recently strengthened Fonds de garantie aux financements des PME (Guarantee Fund for SME Financing).
- Although the banks' performance has been adversely affected by governance issues and political interference, successful implementation of the Basle 2 and 3 governance regulations in the Ivorian banking sector is likely to reduce political interference and enable them to operate with greater success.

- The BNI has financed SMEs, it has bought its approved share of government bonds (to the annual tune of 20 billion CFA francs), it has funded low-cost housing, set up online banking and managed assets for individuals and companies. In contrast, BPCI performance has been less impressive due to its grave financial difficulties. It has managed to provide some funding for SMEs and to help extend banking services to more of the population. However, boosting funding for SMEs remains a problem for both banks, along with raising long-term resources for long-term lending and financing agriculture.

These findings provide the basis for the following recommendations:

- The director-general of each national development bank should be nominated by the board of directors (and not by the government) in conformity with West African Monetary Union (WAMU) regulations;
- The government should pursue its efforts to formalize and consolidate the SME sector in order to facilitate financing for them from the national development banks;
- The national development banks should be recapitalized by the state and local private capital;
- The national development banks should seek long-term resources from multilateral banks such as the African Development Bank (AfDB);
- A national bank should be established to finance the agricultural sector.

1. Introduction

1.1 The case studies

Before independence in Côte d'Ivoire, the colonial administration put some emphasis on financing agriculture in order not only to ensure food self-sufficiency and job creation but also to boost budget revenue. As a result, several financial institutions were set up, the first of which was the Caisse Centrale de Crédit Agricole Mutuelle (CCAM), created in 1926 to finance the habitat, farming, rural roads and produce marketing. The CCAM was replaced by Crédit de Côte d'Ivoire (CCI) in 1955, which had a mandate to finance industry, commerce and agriculture. It was replaced by the Caisse Nationale de Crédit Agricole (CNCA), a specialized and decentralized institution for agricultural credit. These institutions made loans directly to clients and were eventually overburdened with bad loans, which led to their closure.

These experiences led to a thorough review of agriculture sector financing policy and the establishment in the 1960s of the Banque Nationale pour le Développement de l'Agriculture (BNDA). This bank had a network of about 60 offices around the country (regional centers, local agencies and offices) to enable it to play an effective role in extending banking services and reducing poverty in rural areas and in the informal economy.

During the 1960s, other banks were set up, with the state as the majority shareholder. These were the Banque Nationale d'Epargne et de Crédit (BNEC), Crédit de Côte d'Ivoire (CCI), Banque Ivoirienne de Développement Industriel (BIDI), Banque Ivoirienne de Construction et des Travaux Publics (BICT) and the Banque Ivoirienne d'Epargne et de Développement des Postes et Télécommunications (BIPT). However, they all went bankrupt during the banking crisis that hit developing countries in general and the West African Economic and Monetary Union (WAEMU) in particular in the 1980-1990 decade.

There are currently four public sector banks in Côte d'Ivoire: the Banque de l'Habitat de Côte d'Ivoire (BHCI), Banque Nationale d'Investissement (BNI), Banque Populaire de Côte d'Ivoire (BPCI) and Versus Bank. All of them have been restructured. Among the objectives of this study is to evaluate the extent to which restructuring has modified their mandate and whether any change is due to political interference or changing development policy.

1.2 Motivation and objectives of the study

The African Center for Economic Transformation (ACET), in collaboration with the Overseas Development Institute, has undertaken a study of development banks in four countries: Côte d'Ivoire, Ghana, Rwanda and Tunisia. This study is in the context of a research project of the Agence Française de Développement (AFD) and the International Development Finance Club (IDFC) on national development banks in Africa.

The study aims first to establish the relationship between governance and performance of national development banks, not only in narrow financial terms but also in terms of economic and development impact. Second, it aims to clarify the governance and political economy dynamics that influence the performance of public sector banks. In Côte d'Ivoire, the study looks at two banks: the Banque Nationale d'Investissement (BNI) and the Banque Populaire de Côte d'Ivoire (BPCI).

The study is based on desk review of documents and secondary data as well as qualitative data (from interviews) collected from state structures, financial institutions, the private sector and international partners.

2. Literature review

2.1 Historical review of the banking sector

Modern banking began in Côte d'Ivoire with the creation of the Banque de l'Afrique Occidentale (BAO)[1] in 1906. Other credit institutions were subsequently set up, such as Société Générale de Banque de Côte d'Ivoire (SGBCI), Banque Nationale pour le Commerce et l'Industrie (BNCI)[2] in 1941 and Crédit Lyonnais[3] in 1942. These four banks were subsidiaries of the French banks: Banque Internationale pour l'Afrique Occidentale (BIAO), Banque Nationale de Paris (BNP) Société Générale and Crédit Lyonnais (MEF, 2009). As noted above, the closure of the CCCAM in 1957 and of CCI in 1959 led to the establishment of the Caisse Nationale de Crédit Agricole (CNCA) in 1959[4].

After independence in 1960, the government of Côte d'Ivoire prioritized agriculture as the foundation for national development and began using CNCA to modernize the sector. However, the CNCA was dissolved[5] in 1968 and replaced by the Banque Nationale pour le Développement de l'Agriculture (BNDA), in effect the first national development bank of independent Côte d'Ivoire. This bank grew rapidly during the 1970s during the "Ivorian miracle" of strong economic growth, when real GDP was rising by nearly 8 percent annually. The "miracle" was based on export agriculture, with coffee, cocoa and timber accounting for 82 percent of exports in 1965 and 74 percent in 1972 (Berthélemy and Bourguignon, 1996).

At the end of the 1970s, the combination of rising crude oil prices and international interest rates and the fall in prices of primary products such as cocoa and coffee plunged Côte d'Ivoire and other developing countries into economic crisis. This crisis deepened during the 1980s, hitting the banking sector in Côte d'Ivoire and throughout WAMU. All three banks in Benin and seven banks in Senegal went bankrupt. In both Niger and Togo, four banks collapsed while one bank did so in Burkina Faso. Only Mali was spared this wave of bankruptcies. In contrast, Côte d'Ivoire recorded the most bankruptcies – eight in all, including six national development banks or state-owned banks (Powo 2000).

At institutional level, there were multiple breaches of banking and accounting regulations. Diagne (1998), Caprio and Klingebiel (1996), Honohan (1993) and Servant (1991) all found fraud, political interference in the banking system, a deterioration of judicial systems and processes, poor banking supervision and weak prudential controls.

There are divergent views on the causes of these bankruptcies. Some blame deficient governance, especially of the national development banks, and the absence of sanctions against their

1 BAO became BAO-CI in 1965. The Ivorian state became the biggest shareholder (35 percent) in 1980. The bank was taken over by the Groupe NSIA in 2006 and renamed NSIA Banque in 2014.

2 BNCI became Banque Internationale pour le Commerce et l'Industrie (BICICI) in 1962, with PNB Paribas as majority shareholder to date.

3 Crédit Lyonnais became Société Ivoirienne de Banque (SIB) in 1962. In 2009, Attijariwafa Bank took 51 percent of the shares, with Côte d'Ivoire retaining 49 percent.

4 The closure of these two financial institutions was due to bad loans that amounted to nearly half their assets.

5 Outstanding loans amounted to an estimated 23 percent of total credit in 1968 (Djato, 2001).

management. According to one researcher, the explanation is simple: "ruling party big shots took loans then found themselves unable to repay those loans. Their individual difficulties led to the collapse of the bank. All elementary rules and safeguards were trampled underfoot. The BNDA[6] went as far as lending nearly one-third of its capital to a single client"[7]. Political interference, poor risk analysis and careless management of credit partly explain the collapse of Ivorian public banks.

According to Powo (2000), market risk is linked to banking failure and is measured by the ratio of paper instruments to total credit. This ratio shows that portfolio diversification does not completely eliminate the risk of default, especially for national development banks in developing countries. The fact is that these national banks have specialized in lending to particular sectors, they have long serviced parastatal enterprises and most of them have gone bankrupt (Powo, 2000).

The likelihood of national development banks collapsing also seems linked to the volume of term deposits longer than two years (Powo, 2000). In other words, the greater the banks' portfolio of terms deposits longer than two years, the greater the probability that the banks will become collapse. The author explains that these banks specialized in medium- and long-term lending although they did not have sufficient medium-and long-term resources. This "maturity mismatch" is a factor in bankruptcy (Bai, Krishnamurthy and Weymuller, 2018; Brunnermeier, Gorton and Krishnamurthy, 2012). Furthermore, since term deposits are expensive, using them adventurously for risky lending would tend to lead to default.

In response to the crisis of the 1980s, the World Bank and International Monetary Fund began conditional lending to Côte d'Ivoire through Structural Adjustment Programs (SAP). The SAPs aimed to stabilize the country's balance of payments and financing deficit after its external debt rose from US$7.4 billion in 1980 to US$17.7 billion in 1990 (Garuda, 2000).

The SAP imposed neo-liberalism (Kingston, 2011), an ideology that emphasizes the market economy and a preponderant role for the private sector as the key to economic growth (Bird, 1996). The program forced the state to reduce health and education spending and to privatize state enterprises, including banks. This is why by the end of the 1990s, the state retained only 50 percent of one bank – the Banque de l'Habitat de Côte d'Ivoire (BHCI). Through the SAP, the CFA franc was devalued by 50 percent in 1993 to lower the cost of Ivorian exports (Kingston, 2011), a measure that also reduced the value of depositors' assets in the banks and led to bank collapses.

In response to the wave of bankruptcies and financial instability across WAMU countries[8], the WAMU Council of Ministers set up the WAMU Banking Commission in April 1990. Its mandate was to ensure stability and security in the WAMU banking system mainly by closely monitoring banks in these countries, and resolving bank crises (UMOA, 1990b). The Banking Commission undertook desk reviews and on-the-spot checks of lending institutions to make sure they were following the regulations[9](UMOA, 1990a). A new accounting plan was also developed and implemented by January 1996. In June 1999, the WAMU Council of Ministers issued a prudential framework applicable to all banks in the WAMU zone (BCEAO, 1999). The main aim was to consolidate the solvency and stability of the banking system by setting standards for capital, liquidity and bank management.

6 Banque Nationale pour le Développement de l'Agriculture.

7 According to Dr. Serges Nicola Nzi in the 4 October 2014 issue of Dépêche d'Abidjan journal.

8 The 1990s were marked by the liberalization of banking, monetary and financial activities in WAMU, which encouraged competition and innovation in the banking system.

9 See Article 17 of the Annex of the Convention governing the Banking Commission of WAMU.

From 2000 to 2010, there was relative stability in the Ivorian banking sector, despite the military and political crisis of 2002. Alongside the eight existing banks,[10] seven new banks were opened in this period, namely Standard Chartered Bank Côte d'Ivoire (SCB-CI), Versus Bank, Banque Sahelo-saharienne pour l'Industrie et pour le Commerce (BSIC-CI), Caisse Nationale des Caisses d'Epargne (CNCE), Bridge Bank Group, United Bank of Africa (UBA) and Diamond Bank.

After 2010, the Ivorian banking system was shaken by the collapse of mostly national development banks, which led to mergers and acquisitions in the sector. These changes were in part due to the obligation of WAMU banks to meet minimum capital requirements of 1 billion CFA francs under Article 34 of the Banking Law[11] of 1990. This minimum capital requirement was raised to 10 billion CFA francs by the WAMU Council of Economic and Finance Ministers on 17 September 2007. The aim was to stabilize WAMU banks by strengthening their capital base (CBU, 2008). The measure also represented WAMU observance of the international banking norms known as Basel 1 and Basel 2. WAMU banks now had to observe the new threshold of 10 billion CFA francs after 31 December 2010.

In this climate, the Groupe Banque Centrale Populaire (BCP) of Morocco bought Banque Atlantique en 2012. In 2013, BIAO CI became NSIA Bank and Afriland First Bank acquired Access Bank. Orabank acquired the development-oriented Banque Régionale de Solidarité (BRS) in 2015. NSIA Banque absorbed Diamond Bank in 2017 and that same year, the government divested nearly all its shares in Société Ivoirienne de Banque (SIB) to the Attijariwafa group. Over this period, several banks entered the Ivorian banking space, the most recent being Orange Abidjan Compagnie and Mansa Bank.

Until 1976, the Ivorian banking system, regulation of credit systems and governance of banking and related professions were founded on Law N° 65-252 of 4 August 1965. Article 2 of this law made distinctions between commercial, deposit, business and development banks. The Banking Law of 1990[12] eliminated these distinctions based on specialization and affirmed that credit institutions comprised banks and finance houses. Article 3 stipulated that "banks are enterprises that customarily receive funds through checks and transfers, which they use for credit operations and investment for themselves or for other persons". This elimination of specialization has resulted in the establishment of several universal banks and the sector currently has 28 banks and two finance houses, namely SAFCA-Alios Finance and Fidélis-Finance. The list of banks in Côte d'Ivoire is as follows:

10 These were: Société Générale de Banque de Côte d'Ivoire (SGBCI), Banque Internationale pour le Commerce et l'Industrie de Côte d'Ivoire (BICICI), Société Ivoirienne de Banque (SIB), Banque Atlantique de Côte d'Ivoire (BACI), Banque pour l'Afrique de l'Ouest (BIAO-CI), Ecobank Côte d'Ivoire (Ecobank-CI), Banque de l'Habitat de Côte d'Ivoire (BHCI) et Banque Nationale d'Investissement (BNI).

11 Cf. Framework law for bank regulation in WAMU countries.

12 Cf. Framework law for bank regulation in WAMU countries.

Table 1: List of banks in Côte d'Ivoire (as of December 2020)

	Name	Public or Private
1	Afriland First Bank	Private
2	Banque Atlantique Côte d'Ivoire (BACI)	Private
3	Bridge Bank Group Côte d'Ivoire (BBGCI)	Private
4	Banque d'Abidjan (BDA)	Private
5	BGFI BANK	Private
6	Banque Internationale pour le Commerce et l'Industrie de la Côte d'Ivoire (BICICI)	Private
7	Banque de l'Habitat de Côte d'Ivoire	Public
8	Banque de l'Union-Côte d'Ivoire (BDU-CI)	Private
9	Banque Nationale d'Investissement (BNI)	Public
10	Bank of Africa-Côte d'Ivoire (BOA-CI)	Private
11	Banque Sahélo-Saharienne pour l'Investissement et le Commerce (BSIC)	Private
12	Coris Bank International (CBI-CI)	Private
13	Citibank-CI	Private
14	Banque Populaire de Côte d'Ivoire	Public
15	Ecobank-Côte d'Ivoire	Private
16	Guaranty Trust Bank (GTBANK-CI)	Private
17	NSIA Banque	Private
18	ORABANK-Côte d'Ivoire	Private
19	Société Générale de Banques en Côte d'Ivoire (SGB-CI)	Private
20	Société Ivoirienne de Banque (SIB)	Private
21	STANBIC BANK	Private
22	Standard Chartered Bank-Côte d'Ivoire (SCB-CI)	Private
23	United Bank for Africa (UBA-CI)	Private
24	Versus Bank	Private
25	BMS-CI	Private
26	BRM-CI	Private
27	Mansa Bank	Private
28	Orange Abidjan Compagnie	Private

Note: A bank is denoted public when the state holds more than 50 percent of its capital.

Source: Report of the WAMU Banking Commission 2020 (CBU 2021)

2.2 Regulatory and institutional landscape

The regulatory and institutional landscape of the Ivorian banking and finance sector is in line with that of WAMU[13]. The regulatory framework for banks and finance houses is designed to protect the deposits of savers and promote sound intermediation. To this end, different levels of oversight bodies are involved in the drafting and implementation of banking regulations.

After gaining independence, West African francophone states decided to form a monetary union. In May 1962, Côte d'Ivoire signed the West African Monetary Union Treaty and entered a monetary union comprising the following organs and institutions (UMOA, 2010) :

- Conference of Heads of State and Government;
- Council of Ministers;
- Banking Commission; and
- Regional Council for Public Savings and Financial Markets.

The WAMU institutions are the Central Bank of West African States (BCEAO) and the West African Development Bank (BOAD).

The Conference of Heads of State and Government is the supreme body of the monetary union and convenes the heads of state and government of member states at least once a year to determine overall WAMU policy. It also takes final decisions on matters that have not been resolved unanimously at the level of the WAMU Council of Ministers. This Council [14] nominally runs the monetary union, overseeing implementation of policy directives and decisions of the Conference of Heads of State and Government . It oversees the regulatory environment for banking and finance and the exchange rate regime in the WAMU region. To this end, the Council of Ministers exercises regulatory oversight of credit institutions in relation to:

- Observance of lowest and highest limits for certain credit operations;
- Terms and conditions for equity investments;
- Management norms; and
- Minimum levels of capitalization.

The Council comprises ministers of economy and finance of member countries. Finance ministers may give conditional approval for the creation of a bank in their country but the WAMU Banking Commission is the watchdog of the WAMU banking system. Article 23 of the Treaty stipulates that the Banking Commission supervises credit institutions in member countries[15]. The Regional Council for Public Savings and Financial Markets is responsible for organizing and supervising public listings and supervising operators in the regional financial market[16].

13 WAMU members are: Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.

14 Each WAMU member country is represented in the Council of Ministers by two ministers of whom one is the Minister of Finance (Cf. Article 10 of the WAMU Treaty).

15 The WAMU Banking Commission is governed by a specific Convention signed by member states that defines its mandate.

16 The Regional Council for Public Savings and Financial Markets is also governed by a specific Convention signed by WAMU member states.

In terms of institutions, the BCEAO has the exclusive right to issue money and its mandate includes establishing and implementing monetary policy and supervising the banking and financial sector of the Union to ensure stability. To this end, it issues rules, instructions, guidelines and advisory notices[17] (BCEAO 2010).

The Banque Ouest-Africaine de Développement (BOAD) was established on 8 November 1973 and according to Article 33 of the revised WAMU Treaty of 20 January 2007, it continues to be a bank for balanced development and economic integration among WAMU states.[18](UMOA 2010).

Article 34 of the revised WAMU Treaty provides for the adoption by member states of uniform regulations established by the Council of Ministers for payment systems and banking and financial practices across the region.

Alongside WAMU regulations, Ivorian development banks (and state-controlled enterprises) are also governed by national regulations as well as those of the Organization for the Harmonization of Business Law in Africa (OHADA)[19]. Particularly notable among Ivorian regulations is Law N° 97-519 of 4 September 1997 which governs state-owned enterprises and public banks. This law was replaced by two laws in 2020: Law N° 2020-626 of 14 August 2020 on state-owned enterprises, and Law N° 2020-886 of 21 October 2020 on enterprises with state shareholding. Highly pertinent OHADA regulations include the revised Uniform Act, ratified by Côte d'Ivoire in 2014, which establishes norms for the establishment, organization and dissolution of business entities.

2.3 Financial sector reforms in Côte d'Ivoire

As in other African countries, the financial and banking sector in Côte d'Ivoire went through major changes during the implementation of structural adjustment programs. More recently, further reforms for the development of the banking sector have been launched under the Emergence 2020 program. These involve financial liberalization, new banking legislation and bank restructuring (Table 2).

17 The standards are set on its own initiative and on that of the WAMU Council of Ministers, and may be adopted by the parliament of each member state, with the possibility of amendment.

18 BOAD is governed by a specific agreement signed by WAMU member states.

19 Organisation pour l'Harmonisation en Afrique du Droit des Affaires.

Table 2: Banking sector reforms under the Emergence 2020 program

Financial liberalization	New banking legislation	Bank restructuring
• Liberalization of interest rates and discontinuation of sectoral allocation of credit: the minimum interest rate on savings accounts fell from 7 percent en 1990 to 3.5 percent in 1999. • Establishment of mandatory reserves, with the rate on demand deposits and short-term credits (besides seasonal credit) falling from 9 percent to 1.5 percent. • Issuance of Treasury bills through open market operations organized by the central bank since 1993.	• Prudential regulations to reduce risk-taking by banks and ensure liquidity and solvency in the banking system. • Strengthening the monitoring capacity of the central bank.	• Clearance of arrears by the government enabled by turning them into bonds to finance the deficit without printing money. • Recovery of bad debt by setting up debt-collection firms. In Côte d'Ivoire, non-performing loans in bank portfolios and outstanding loans of banks which were closed down were transferred to a debt-collection agency. • Recapitalization of otherwise solvent banks in difficulty (SGBCI, BICICI, SIB and BIAOCI) to the tune of 14 billion CFA francs, in line with prudential regulations. • Closure of insolvent banks – BNDA was liquidated and small depositors were indemnified at a total cost of 47. 8 billion CFA francs (BAD, 1995)

These reforms were implemented in the 1990s and early 2000s along with other reforms to consolidate the banking and financial sector and strengthen its supervision. This report focuses on the major reforms undertaken in line with the Emergence 2020 program and aimed at facilitating access to credit for private sector firms and for individuals. The 20 reforms in question had six main themes with specific objectives (SO) and expected results (OECD, 2018):

- Reduction and better evaluation of credit risk
- Improved functioning of the bank guarantee system
- Mobilization of savings and extension of maturities
- Expansion of financial inclusion through new banking products
- Strengthening of public confidence in the banking system
- Setting up alternative financing sources other than bank credit

The key aim of these reforms was the mobilization of sound, long-term resources and easier access to credit in a dynamic banking and finance sector. There has been mixed progress over the last five years, as noted by the Third Progress Report and the Report on Implementation of Reforms for the Emergence of Côte d'Ivoire by the OECD Development Centre and the Ivorian government.

They show that 11 out of the 20 reforms have made significant progress towards the six specific objectives.[20] Seven reforms underway involve the first five objectives[21] while three reforms need greater effort to make substantial progress. These involve an upgrade of accredited management centers, completion of land registration procedures and institutional support for the development of innovative financial products.

These last three reforms showing negligible progress have a significant influence on access to credit for ordinary people. In effect, the sixth reform involving upgrading of the accredited management centers (Centres de Gestion Agrées, or CGA) remains a challenge. The CGA that work on certifying company balance sheets have enormous human resource problems. For example, the ratio of certified accountants to firms is 1:400 (OECD, 2018), which means a very heavy workload for accountants. Furthermore, according to the International Labour Organization (2018), the budget problems of the CGA constrain its ability to make economies of scale (as membership grows) that enable it to offer more sophisticated services. The ninth reform involving land registration is another challenge to be overcome in order to increase access to credit.

Finally, still pending is the development of innovative financial products. This is due to the virtual absence of innovation and product development hubs within secondary banks and the absence of an office in the BCEAO that would supervise such hubs.

2.4 Overview of the development finance landscape in Côte d'Ivoire

2.4.1 Evolution of development finance institutions

The first development finance institution in Côte d'Ivoire was the Caisse Centrale de Crédit Agricole Mutuelle (CCCAM), set up in 1929 by the colonial administration. Its mandate was to finance the habitat, agricultural projects, build rural roads and tracks and market agricultural products. The financial deficit in three key sectors – agriculture, industry and commerce – led the colonial administration to establish Crédit de Côte d'Ivoire (CCI) in 1955. It closed down CCAM in 1957 and CCI in 1959 and set up Caisse Nationale de Crédit Agricole (CNCA) just before national independence. In 1959 also, Caisse Autonome d'Amortissement (CAA) was established with the mandate to mobilize development finance from domestic and external sources and to assure the servicing of national debt.

After independence in 1960, the CNCA was called into full action to modernize agriculture as the foundation of Ivorian economic development. However, financial problems led to its dissolution in 1968 and replacement by the Banque Nationale pour le Développement de l'Agriculture (BNDA). This bank grew rapidly during the 1970s "Ivorian economic miracle" due to the boom in agricultural exports (mainly coffee, cocoa and timber).

Other national development bank and non-bank institutions were established in the 1970s. These included the Banque Nationale d'Epargne et de Crédit (BNEC), Banque Ivoirienne de Développement Industriel (BIDI), Banque Ivoirienne de Construction et des Travaux Publics (BICT) and Banque Ivoirienne d'Epargne et de Développement des Postes et Télécommunications (BIPT). These financial institutions, as their names indicate, were oriented towards specific sectors . Unfortunately, the

20 Involving the reforms numbered 1, 2, 5, 7, 10 11, 12, 17, 18, 19 and 20

21 Reforms number 3, 4, 8, 10, 13, 15 and 16

economic and financial crisis of the 1980s and early 1990s across developing countries led to the collapse of all these Ivorian national development banks.

The CAA was the only national financial institution to survive. In order to meet domestic financing needs, especially regarding the habitat and the housing needs of the population, the government set up the Banque de l'Habitat de Côte d'Ivoire (BHCI) in 1993. It also established the Caisse d'Epargne et des Chèques Postaux (CECP) under Decree N° 98-378 of 30 June 1998 to mobilize savings from rural and urban populations otherwise excluded from financial services and provide them with credit services.

During the 2000s, all non-bank development finance institutions became banks with broader mandates. Other development banks were created, such as the Banque Régionale de Solidarité (BRS), Banque pour le Financement de l'Agriculture (BFA) and Versus Bank.

Decree N° 2004-188 of 19 February 2004 turned the CAA into Banque Nationale d'Investissement (BNI) with a new mandate to finance SMEs, to refinance banks and finance houses and to develop the capital market. Similarly, Decree N° 2004-566 of 14 October 2004 transformed the CECP into the Caisse Nationale des Caisses d'Epargne (CNCE) and broadened its mandate. CNCE was now mandated to increase the banking population by expanding access to financial services, and also to provide funding for SMEs. Meanwhile, the Banque Régionale de Solidarité (BRS) was set up by BCEAO member states to decentralize financial services and provide greater support to the rural population. This bank was set up in the eight WAMU countries and each state is the majority shareholder. The Ivorian branch was set up in 2002. In 2004, to accentuate the support for this essential sector, the government created the Banque pour le Financement de l'Agriculture (BFA). Meanwhile, Versus Bank, set up as a private commercial bank in 2003, was taken over by the state in 2009 to increase funding for SMEs and small and medium industries (SME/SMI).

Unfortunately, the period since 2010 has seen the bankruptcy of six of the seven development finance institutions in Côte d'Ivoire, namely the Banque de l'Habitat de Côte d'Ivoire (BHCI), Banque Régionale de Solidarité (BRS), Banque pour le Financement de l'Agriculture (BFA), Caisse Nationale des Caisses d'Epargne (CNCE) and Versus Bank. Only Banque Nationale d'Investissement (BNI) is doing relatively well. While the BFA and BRS were liquidated in 2015, the others are undergoing through restructuring.

Côte d'Ivoire currently has five development finance institutions, of which the four banks are the Banque de l'Habitat de Côte d'Ivoire (BHCI), Banque Nationale d'Investissement (BNI), Banque Populaire de Côte d'Ivoire (BPCI) (ex- CNCE) and Versus Bank.

The Caisse des Dépôts et Consignations (CDC-CI) is the fifth development finance institution, a non-bank body established by Law N° 2018-574 of 13 June 2018. Its mission is to mobilize and securely manage public and private funds and deposits, securities and dormant deposits. All such activity is undertaken in conformity with WAMU regulations and all these development finance institutions operate in support of the national vision of economic emergence by 2030.

2.4.2 Challenges and failures of development finance institutions

The failures of development finance institutions in Côte d'Ivoire are linked to the difficulties faced by the government following the drastic fall in agricultural raw material export prices towards the end of the 1970s. When their prices peaked, export revenue from these agricultural products had enabled Côte d'Ivoire to embark on major development programs However, towards the end of the 1980s, although the financial system was relatively diversified and complex, its entire functioning had been disrupted by a combination of factors including: mediocre performance, debt defaults (especially by the government, which was a major borrower), disorganization in the agricultural sector, market distortions, lack or total absence of prudential supervision, and overall poor management.

At the same time, the government was putting pressure on the banks, including the private ones, to grant loans to state enterprises or to projects in which the state had an interest. This led to banks accumulating heavy non-performing loan portfolios and their financial situation deteriorated from the mid-1980s onwards. A recovery plan was launched in 1987 but ran aground when the government failed to make its financial contribution. The outcome was a banking sector in need of overall reform, especially those banks to which the government was heavily indebted. The problems of the banking sector persist and can be grouped in two categories: challenges related to financing and challenges of governance.

In terms of finance, the analysis should cover both the supply side and the demand side[22]. Regarding supply of finance, state banks need to leave their comfort zones of minimal risk (salaried public and formal private sector workers; big businesses; the interbank market and government bonds) and venture into a new business model involving inclusive financing of SMEs.

On the demand side, those seeking funding would gain by strengthening their internal structures so as to reassure banks that are obviously wary, knowing that lending is a calculated risk. Another challenge is how to finance the agricultural sector, which employs a major portion of the workforce in Côte d'Ivoire. While there is a need for boldness, private banks are reluctant to provide funding for the sector due to the lack of land title deeds that could be used as collateral and also because of the failures of state banks set up to provide finance for agriculture (the BNDA and BFA).

In effect, only the state banks can venture into agricultural finance. This reflects the domains in which only the sovereign state can operate, such as national defense, justice and education. These are functions that cannot normally be undertaken by the private sector for a range of reasons, including the absence of profitability, equity and equality. It remains the duty of the state not only to oversee land registration but also, with its banks, to undertake financing of the agricultural sector.

In terms of governance, it is important to note the strong relationship between policy and implementation. National development banks play an essential role in actualizing government policy by financing development projects and the public debt. At a formal level, in terms of observance of regulations such as equity holdings, prudential ratios, market discipline and transparent financial information, the efforts of public development banks can be commended. In effect, the non-observance of these measures and protocols leads to de facto ejection from the market.

In contrast, the governance challenge continues to be acute. In Côte d'Ivoire, all state banks are subject to political interference. It is not unusual for a board of directors to be composed mainly of political appointees who follow an agenda barely linked to the business of banking. Similarly, it is unusual to have a board comprising only independent people without political connections. Nevertheless, the fact of political interference in a board of directors is not in itself problematic – the bigger problem is the absence of vision.

22 It would be reductive to think that only banks have to work harder in terms of supporting individuals, SMEs, large companies and public sector entities.

The state has majority shareholding and not the entirety of the capital in a state bank. Furthermore, board members may be appointed by governmental decree, which implies a de facto reporting obligation. However, is it not possible to have political appointees leading public banks to be competitive with private banks? If this were to be the case, governance would take a leap forward. Can public banks led by political appointees factor into their business model the fact that private banks will remain reluctant to invest in the agricultural sector as long as land registration remains uncertain. If so, then another important improvement will have been made in the governance of state banks.

2.4.3 National development banks in Côte d'Ivoire

There are currently four public banks in Côte d'Ivoire:

- Banque Populaire de Côte d'Ivoire (BPCI);
- Banque Nationale d'Investissement (BNI);
- Versus Bank; and
- Banque de l'Habitat de Côte d'Ivoire (BHCI).

Banque Populaire de Côte d'Ivoire (BPCI)

The BPCI replaced the Caisse Nationale des Caisses d'Epargne (CNCE) following Decree N° 076/MEF/DGTCP/DEC of 18 February 2019 from the Ministry of Economy and Finance. The main mission of the bank is to provide credit to SMEs, which otherwise have limited access to bank financing. The bank is active in all economic sectors. According to its Director-General speaking in early 2021: "… strategically, we are engaged in developing our priority sectors, notably individuals and SMEs … To date, more than 70 percent of our loans have gone to SMEs and they remain at the core of our strategy … Our role is to promote financial inclusion, to provide financing for the economy and to help the government implement its sectoral policies".

Banque Nationale d'Investissement (BNI)

The BNI replaced the dissolved Caisse Autonome d'Amortissement (CAA) following Decree N° 2004-188 of 19 February 2004, which amended Decree N° 98-11 of 14 January 1998 and was in line with Law N° 97-519 of 4 September 1997. The BNI has 20.5 billion CFA francs in capital held in its entirety by the state. The mission of the bank is to:

- Increase accessibility of banking and other financial services across the economy;
- Provide funding for SMEs;
- Provide financial support to the state; and
- Assist in the development of the capital market.

Its activity with regard to the capital market is through two subsidiaries: BNI-FINANCES and BNI-GESTION. BNI-FINANCES was created in 2004 for management and intermediation in investment banking and consultancy. La BNI-GESTION was set up in 2008 specifically to manage holdings, mobilize savings of individual and institutional investors and make investments on their behalf.

Versus Bank

Versus Bank is a public bank in which the state has a majority stake of 57 percent of the capital while 43 percent is held by the Caisse Générale de Retraite des Agents de l'Etat. It was set up in 2004 but ran into financial problems and was taken over by the state in 2009. Currently, it mainly provides financing to SMEs and SMIs and aims to establish an incubation hub for strong SMEs and "national champions".

Banque de l'Habitat de Côte d'Ivoire (BHCI)

The state holds 51.6 percent of the capital of this bank, with the remainder in private sector hands. Its mission has remained the same since establishment in February 1993: to finance real estate in Côte d'Ivoire. Its diverse clients include public and private sector professionals and other individuals.

This case study involves the Banque Populaire de Côte d'Ivoire and the Banque Nationale d'Investissement which are both active in financing SMEs and various economic sub-sectors as well as supporting implementation of government sectoral policy.

3. Methodology

3.1 Research approach

This study involved a combination of: (i) preparatory work; (ii) data collection; (iii) data analysis; (iv) group discussions, workshops and debriefing sessions. The preparatory work consisted of gathering policy documents and annual reports from the national development banks, which formed the basis of the literature desk review. Stakeholders to take part in the study were identified at this stage. Data collection involved gathering secondary data on the Ivorian banking sector and its performance indicators. This was done in addition to a qualitative enquiry involving semi-structured interviews related to the different research themes. Finally, a preliminary report was submitted by the consultant and reviewed before a final report was presented at a validation workshop held online.

3.2 Conception of the methodology

Interviews were held with four categories of respondents: national development banks; the government; international and private sector partners; and other stakeholders (see Table 3):

Table 3: Stakeholders interviewed

	Participant category	Institution	Function	Type of interview
1	Public bank	BNI (Banque Nationale d'Investissement)	Chief Financial Officer	Individual
		BPCI (Banque Populaire de Côte d'Ivoire)	Director- General	Individual
2	Government	Ministry of Economy and Finance)	Under-Secretary in charge of development –Departmental Director	Individual
3	International/private sector partners	BEI (Banque Européenne d'Investissement)	West Africa Regional Representative	Individual
4	Others	Coordination committee State/private sector	Technical Adviser	Individual
		APBF (Association Professionnelle des Banques et Etablissements Financiers)	Research officer	Individual

Source: Authors

The guidelines used for interviews were under the following headings:

1. History of the BND;
2. Economic context and business plan of the BND;
3. Political economy and institutional context of the BND;
4. BND governance and political influence;
5. Main achievements and current challenges of the BND.

The history of the BND reviews its legal and statutory foundation. The study discusses the economic context and market segments in relation to the BND business plan. The political economy aspect arises with the exploration of the basic conditions that led to the creation of the bank, its evolution and the socio-economic conditions that have had an impact on the mandate of the bank. Questions of governance and political influence are discussed in relation to supervision, management, internal control systems that enable the BND to operate with little or no external interference and with sound management. The main achievements and current challenges of the BND are then discussed in terms of its programs and projects.

3.3 Data analysis

The data collected were analyzed quantitatively and qualitatively. The quantitative involved analyzing the evolution of bank performance indicators in relation to governance. The performance indicators were drawn from the banks' annual reports. Regarding the qualitative analysis, all interviews were transcribed and the content analyzed in relation to the different research questions.

4. Analysis and discussion of findings

The case study was of two public banks in Côte d'Ivoire in which the state holds almost all the shares: the Banque Nationale d'Investissement (BNI) and Banque Populaire de Côte d'Ivoire.

4.1 Historical context

4.1.1 Banque Nationale d'Investissement (BNI)

The Caisse Autonome d'Amortissement (CAA) was set up in 1959 to finance national development through: (i) mobilization of internal and external resources; (ii) servicing public debt; and (iii) managing the deposits of state institutions.

En 1998, after obtaining its banking license from the WAMU Banking Commission and the BCEAO, the CAA became a full bank and state-owned enterprise. Decree N° 2004-188 of 19 February 2004 authorized its name to be changed to Banque Nationale d'Investissement (BNI) and its share capital was raised to 2.5 billion CFA francs, all held by the state. It set out with the triple function of investment, refinancing and advisory services until 2008 when its asset management activities and other functions became successful. The BNI operates on six levels:

- An agency for equalization of public savings;
- An agency for financing investment in the agricultural sector;
- An agency for refinancing banks and finance houses;
- A partner with the private sector in financing profitable public investments and SMEs;
- An actor in the capital market; and
- An implementing agency for public service contracts.

The BNI set up two subsidiaries for its capital market activities:

- BNI-FINANCES, established in January 2004, performs asset management and brokerage functions, primarily securities trading and portfolio management.
- BNI-GESTION, set up in 2008, specializes in fund creation and management by pooling savings (including those of individuals) for further investment.

The BNI continues to fulfil its founding mandate to increase financial inclusion; provide financing for SMEs; support the state during financial difficulties; and help develop the capital market. Following a prudential directive issued by WAMI in 2018 which aimed to forestall banking concentration, the Ivorian state relinquished its 100 percent ownership of BNI capital, transferring over 17 percent of the capital to the Caisse Nationale de Prévoyance Sociale (CNPS) and retaining the other 83 percent. In legal terms, BNI is no longer a state-owned enterprise but is now an enterprise with state majority shareholding. It is also subject to Law N° 2020-886 of 21 October 2020 which regulates enterprises in which the state has shares.

Article 34 of this law stipulates that the state exercises control over the bank through technical oversight from the Ministry of Budget, and financial oversight from the Ministry of the Economy and Finance. The BNI also has a 12-member board of directors comprising one representative of the CNPS, seven state representatives and four independent members. The bank is run by a Director-General, supported by a Deputy director-general, a general secretary and divisional directorates.

In line with Article 26 of this law, the bank signed a performance contract with the government in 2019 that sets «quantitative, periodic targets». The performance contract makes explicit the role the bank plays in support of the government's economic policies. For example, the contract states that credit granted to SMEs must constitute at least 15 percent of total lending by the bank. Another provision is for the BNI to take up at least 20 billion CFA francs of the total bonds offered by the government each year.

4.1.2 Banque Populaire de Côte d'Ivoire (BPCI)

The Banque Populaire de Côte d'Ivoire replaced the Société Ivoirienne de la Poste et de l'Epargne (SIPE) as part of the government's stabilization and economic recovery program after the economic crisis of the 1980s. The program contained sweeping reforms in the public sector that aimed to make SIPE run its postal and related financial services as if they were in the private sector, operating as viable and financially stable entity. However, following its discouraging performance, SIPE was dissolved in June 1998 and replaced by two independent agencies under Decree N °98-378 of 30 June 1998: (i) Poste de Côte d'Ivoire (POSTE-CI); and (ii) Caisse d'Epargne et des Chèques Postaux (CECP).

Decree N° 2004-566 of 14 October 2004 transformed the CECP into a bank called the Caisse Nationale des Caisses d'Epargne (CNCE). Its mission was to promote financial inclusion by extending banking and other financial services to hitherto excluded populations and to provide credit to SMEs. However, it was only in 2009 that the CNCE got its license to operate as a bank from the Banking Commission.

After little more than a year of operation, the CNCE ran into such financial difficulties that by 2013, its own equity had become negative. Its record of negative results since 2011 forced the Banking Commission to put the bank under temporary administration in June 2015. Two years later, in May 2017, the government adopted a restructuring plan that factored in its reluctance to privatize the bank in view of its mission to provide financial services to underserved populations. The plan covered all operational aspects of the bank including risk management, internal controls and human resources.

A new director-general was appointed in December 2017, followed by a new Board of Directors in 2018. New operational divisions were created and all the former directors were shown the door. Implementation of the restructuring plan involved 247 people leaving voluntarily out of 710 salaried staff, the closure of 45 branches out of 118 and recapitalization of the bank to the tune of 13 billion CFA francs (meaning a 30 percent increase in capitalization) by the state along with the disposal of fixed assets (especially land) valued at 60 billion CFA francs. This was against the background of new banking regulations that took effect in January 2018 and left non-compliant banks facing sanctions from the WAMU Banking Commission. The regulations cover capitalization, governance, risk management and internal controls.

In November 2019, the CNCE became the Banque Populaire de Côte d'Ivoire (BPCI, a change of name that reflected a clean break with a past that featured poor governance and bad management. However, the legacy is a bank in a fragile financial situation (with negative equity of 55 billion CFA francs) despite having been recapitalized and shedding a sizeable portion of its non-performing fixed assets.

This financial fragility hampers the bank's efforts to implement its mandate of increasing financial inclusion and supporting SMEs. In effect, the closure of about 40 percent of its branches was largely at the expense of the rural population and the low- and middle-income urban population. The profit targets set for the bank also prevent it from taking risks with SME financing.

The current capital of BPCI is 53 billion CFA francs held in its entirety by the state. This makes BPCI a state enterprise governed by Law N° 2020-626 of 14 October 2020, which regulates state enterprises. This law replaced Law N° 97-519 of 4 September 1997. The first article of the new law stipulates that a state enterprise exists to engage, in the public interest, in industrial and commercial activities "insufficiently or not covered at all by the private sector". Article 74 of this law states that "within the framework of measures to consolidate economic development, a share of dividends accruing to state enterprises shall be allocated to the development of SMEs". This demonstrates the government's continuing support for SMEs and partly explains why the bank was not privatized in 2017. The new law does not change the founding mission of the bank but consolidates it. Thus Article 35 of the law has provided for a performance contract since 2019, signed by the state and the bank with quantifiable targets the bank must meet. However, in relation to SMEs, no financing target is stated in the BPCI mandate. This stands in contrast with the BNI case and may be explained by the financial fragility of the BPCI noted above.

4.2 Economic context and business model

The Banque Nationale d'Investissement (BNI) and the Banque Populaire de Côte d'Ivoire (BPCI) were created to finance the development of Côte d'Ivoire. It should be noted that their operational environment consists of a formal and an informal economy. The formal sector comprises big businesses and groups as well as some SMEs. The informal sector is less organized and is made up of SMEs and micro-enterprises. This group is much larger than the formal sector and lacks the appropriate governance and management structures to obtain normal financing from banks.

When such SMEs manage to secure credit, some fail to meet repayment schedules and the bank has to make provision for unpaid loans for a given duration (now 90 days, according to new banking regulations[23]). Banks therefore find it difficult to support clients who do not repay their loans, whatever sector they are in. Banks have specific problems with agricultural exports, however. The prices of these products are fixed each year by the state and can fluctuate, a fact that does not encourage banks to support individual farmers.

The BNI is mandated to manage the assets of state and related entities. The majority of state revenue is held by the BNI and its role is to finance government projects. As part of the performance contract it signed in 2019, the BNI must buy government bonds worth at least 20 billion CFA francs each year. The bank is also to provide SMEs with at least 15 percent of its total lending. These provisions enable the bank to support government policy without limiting its activities to one sector only.

23 The old regulations provided for 180 days.

The BNI business plan is similar to that of a commercial bank – it receives deposits that it uses for lending or investments. It therefore aims to satisfy its clients' needs and its revenue comes from its main activity (lending) and other activities from which it earns a service fee (such as credit card management, letters of credit and bank guarantees, and investment management).

State funds managed by the BNI include those for specific sectors such as environmental protection or youth employment. The funding for youth employment targets businesses started by young people themselves as part of the overall effort to reduce unemployment. The BNI manages a large portion of the estimated 50 billion CFA francs allocated to such youth programs. However, where SMEs are concerned, it is hard to assess the impact of BNI support in the absence of any state structure responsible for monitoring and evaluation.

Besides these funds, the BNI inherited the Caisse Autonome d'Amortissement (CAA) for state land, buildings and securities, which it can sell to finance its operations whenever it deems necessary. It should be noted that the CAA was in charge of very substantial immovable state assets.

The BPCI is a wholly-owned state enterprise, also with the business plan of a commercial bank. It receives fixed-term deposits mainly for lending, and also for short-term. Unlike BNI which receives state funds for its lending operations, BNI struggles to raise funds on the open market. BPCI funds are mainly from deposits (from business and low- and middle-income individuals). As with its predecessor (the Caisse Nationale des Caisses d'Epargne) it mobilizes savings and expands financial inclusion particularly in economically disadvantaged areas. BPCI recently entered into partnership with a state-financed guarantee fund for SMEs. Further indication of state support for SMEs is the presence on the BPCI board of directors of a representative of the Ministry for Small and Medium Enterprises.

In 2020, nearly 70 percent of BPCI credit went to SMEs in different sectors such as construction, public works, transport, commerce, industry, tourism, food, technology and services. Again in 2020, construction received 40 percent of BPCI credit in the first quarter. However, the bank subsequently had to reduce credit to this sector to avoid over-exposure, which is in line with the prudential regulations issued by WAMU in 2018.

In contrast, agriculture has not been a priority for the BPCI over the last three years due to the bank's need to consolidate its financial situation, having recorded net negative annual performance over most of the past decade.. According to the BPCI director-general, agriculture is a risky sector in Africa. Nevertheless, BPCI is working on a strategic plan to expand production of cocoa, cotton, cashew nuts and rubber in 2022.

As noted above, both the BCI and BPCI invest in WAMU capital markets, which benefitted from some funds for WAMU member states in the context of the COVID-19 pandemic. Purchases of the "COVID-19 bonds" enabled the BNI and BPCI to cushion the adverse effects of the pandemic on their balance sheet.

4.3 Political, economic and institutional context

The World Bank (2018) defines national development banks as any type of financial institution in which the capital is partly or entirely controlled by the state and which has an explicit legal mandate to pursue socio-economic targets in a region, sector or market.

The Ivorian state holds 83 percent of the shares in BNI and is the sole shareholder in BPCI. The mandate of the two banks to support government policy is made clear in their respective performance contracts mentioned above. However, the involvement of political authorities in banking operations has not encouraged efficient management of credit risk in the two banks. Bad loans have piled up, causing heavy losses for the banks. Currently, BPCI has negative equity amounting to 55 billion CFA francs while its share capital is around 53 billion CFA francs. In contrast, BNI has been relatively solid despite recording losses in previous years. Its equity amounts to 17 billion CFA francs while its share capital is around 25.5 billion CFA francs.

The financial fragility of the BPCI is due to disregard for WAMU regulations on bank capital that have been in force since 2018. The mandate of the current director-general is to return the bank to solvency and profitability. This requires rigorous management of credit risk, effective internal controls and auditing, an aggressive marketing strategy and a state-of-the-art management information system, conditions in strict conformity with WAMU regulations. Although its mission is formally to support SMEs, the bank limits its risk exposure and its management is similar to that of a private commercial bank.

Many of the SMEs that the bank is meant to support are financially fragile and badly managed. They are not covered by any guarantees and are often unstructured and informal businesses. The government has set up a framework to facilitate SME financing by the BNI and BPCI. This involves a guarantee fund for SME financing, an SME Agency to support their business development and a portion of public contracts reserved for SMEs. It should be noted that public contracts in Côte d'Ivoire range between 2,000 billion CFA francs to 3,000 billion CFA francs every year.

These banks also provide support for unemployed youth through the Youth Employment Agency (l'Agence Emploi Jeunes, AEJ) which finances training programs for young entrepreneurs, with some emphasis on females. As the AEJ does not evaluate the performance of these young entrepreneurs, BNI funds them directly and the credit guarantees are held in AEJ accounts in BNI.

In support of the government in relation to climate and environmental issues, the BNI is negotiating with an international organization to access green funds. Such funds can help finance at lower costs projects for environmental conservation. The BNI also has an annual budget to support non-governmental organizations fighting cancer; it also supports some farmers' cooperatives. The BNI, which is financially more solid than the BPCI, is making social interventions such as these and they have a direct and measurable impact on the population

The current macroeconomic environment in Côte d'Ivoire is showing some positive indicators for the BNI and BPCI. Economic growth was 1.8 percent in 2020 despite the COVID-19 pandemic and a 6.2 percent growth rate is forecast for 2021. Although budget deficits have grown, the IMF expects the return to an average of 3 percent in 2023. These are relatively robust indicators that have a positive impact on banking operations. It is noteworthy that this macroeconomic upturn is largely due to infrastructure development (including roads, universities, rural electrification and stadia for hosting the Coupe d'Afrique des Nations football tournament in 2023). For example, expansion of the road network throughout Côte d'Ivoire stimulates business opportunities for firms and banks and creates a synergy that boosts the entire economy..

4.4 Corporate governance and political interference

Broadly speaking, corporate governance refers to the processes and structures for monitoring the management of an enterprise in order for it to meet its targets (World Bank 2018).

Those responsible for the governance of Ivorian national development banks in general and the BPCI and BNI in particular are government representatives, the board of directors and the management. The Ministry of the Economy and Finance and the Ministry of Budget respectively exercise financial and technical oversight.

Article 45 of Law N° 2020-626 of 14 August 2020, which defines the establishment of SOEs, stipulates that "the oversight ministries ensure the alignment of the strategic orientation of the SOE with government policy for the sector in which it operates". According to Article 45 of Law N° 2020-886 of 21 October 2020 on companies with state shareholding, "the appropriate ministry with financial oversight can at any time initiate an audit of a company with state shareholding by qualified professionals who may be independent or come from within the oversight ministry".

Article 46 of the same law states that "the oversight ministry can initiate a technical audit of a company with state shareholding. This exercise is in line with need for SOE activities to follow government policy in the relevant sector". As noted above and provided for in these two laws, these state banks must respect the performance contract they have signed with the Ministry of Budget (the ministry with technical oversight). Performance contracts, an obligation since 2019 for Ivorian state banks, differ between banks according to their specific mandate. At the Annual General Meeting of the bank, the line ministry evaluates the bank's performance in relation to objectives and past results. This performance is assessed in the light of the certified financial statement and a governance report, along with audit reports and other documents deemed useful by the line ministry.

Both the BNI and BPCI have a board of directors. The BNI has four independent members in its 12-person board. The BPCI has four independents out of a total of 11 members. These membership arrangements are in line with Article 10 of Circular 01-2017/CB/C of the WAMU Banking Commission on governance of credit institutions in the WAMU region. It states that, "in order to strengthen the impartiality and objectivity of its decisions, one third of board members shall be independent". This rule, which has been in force since 2018, aims to reduce political interference directed at board members of state banks.

The process for designating board members is as follows: a decree lists the relevant ministries and the number of board members each ministry can designate; each ministry then presents it nominees. These representatives are then officially nominated in a resolution of the Council of Ministers. In this study, the ministries in question are: Economy and Finance; Budget; SOEs; Trade; and Industry. For both the BNI and BPCI, one board member each is nominated by the Presidency and by the chairperson of the Council of Ministers. Some independent board members are designated by bodies that may be in the public sector but still have a degree of autonomy, such as the Côte d'Ivoire Chamber of Commerce and Industry. The other independent board members are nominated on the basis of their relevant expertise. It should be noted that the presence of independent board members in state banks and in the WAMU region has been a requirement since January 2018. Furthermore, the chairperson of the board of directors in both banks is not also the director-general, again in line with WAMU policy. The aim is to ensure effective supervision by the boards, which also have audit committees and a risk committee mandated to “closely analyze specific subjects in order to facilitate informed decision making by the board of directors” (Article 12 of WAMU Circular 01-2017/CB/C). BNI also has a remuneration committee.

It should be noted that BNI board members are experienced professionals in economics, banking and finance, law, management and audit, again in line with WAMU policy. Minutes of board meetings are sent to the WAMU Banking Commission. All these elements in board composition and practice reflect WAMU regulations implemented since 2018 in line with governance norms stipulated in the international banking norms known as Basel 2 and Basel 3, with a view to reducing political interference and increasing board effectiveness.

There is also a High-Level Credit Committee that assesses loans above 300 million CFA francs in the BNI and 1 billion CFA francs in the BPCI, ceilings imposed to reduce excessive risk taking by the management of these banks.

The Council of Ministers appoints the directors-general of the BNI and BPCI. Research information indicates that the BNI director-general was designated by the BNI board and proposed in the Council of Ministers which then took the decision to formally appoint the candidate. In the BPCI case, the candidate was appointed by the Council of Ministers and then approved by the board of directors. The appointment of a director-general in Ivorian SOEs such as BPCI is covered by Article 26 of Law N° 2020-626 of 14 August 2020. This article does not contradict Article 13 of the WAMU Banking Commission circular mentioned above which stipulates that the director-general of a bank in the WAMU region should be named by the board of directors, a rule that aims to reduce the political interference to which a director-general may be subjected.

However, this rule was not observed in the BPCI case, perhaps because the current director-general was appointed in December 2017 in the absence of a board of directors, which was in turn appointed the following year. While this procedure does not protect a director-general from political interference, Côte d’Ivoire should in future operate in conformity with WAMU banking regulations. Meanwhile, the directors of the different departments of the two banks are nominated by the director-general for approval by the board.

Thus, in principle since 2018, banking regulations in Côte d’Ivoire do not facilitate political interference in the governance of the national development banks. In the BPCI case, such influence resulted in enormous losses over the 2011-2018 period. Since then, the regulations enable the management of these banks to implement without hindrance the strategy of the board of directors. The only remaining challenge for government attention is enabling the appointment of the directors-general of state-owned Ivorian banks by their boards of directors.

4.5 Main achievements and current challenges

The national development banks have worked on some large-scale projects and while they have made some contribution to the national scene, their impact is more measurable at the internal level, namely on the balance sheet.

For example, every year since 2019, the BNI buys about 40 billion CFA francs of public bonds. These bonds provide liquidity to the government for its big projects. The construction and public works sector is booming in Côte d’Ivoire and the BNI set up the “Call immobilier” department in 2020 specifically to become active in financing real estate, especially public housing. For the past two years, the BNI signed an agreement with the Agence Emploi Jeunes (AEJ) to act as guarantor for loans to young entrepreneurs. The agreement relieves the AEJ of the potential burden of loan recovery.

In the case of the BPCI, 70 percent of its credit allocations go to SMEs, which play an essential role in African economies, representing 95 percent of businesses, 80 percent of jobs and 33 percent of GDP[24]. However, most SMEs are in the informal economy despite the fact that some of them can raise substantial resources.

Besides governance issues, the major challenges currently facing national development banks are financing overall economic activity and mobilizing resources to allocate to individuals and to enterprise development.

The COVID-19 pandemic disrupted normal financing processes and made debt recovery more difficult. It nevertheless remains critical for the national banks to find ways to support businesses in general and SMEs in particular in order to ensure their survival.

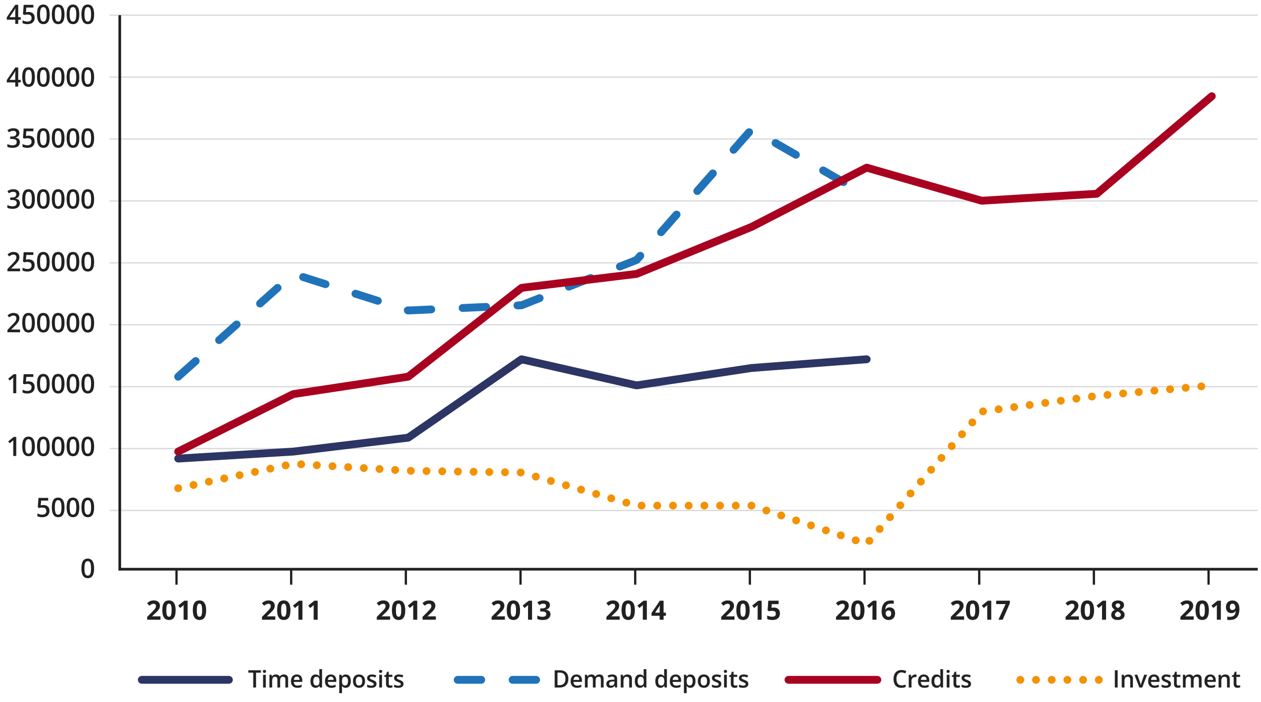
Meanwhile, the need for remote work during the pandemic has led banks to redesign how they work and meet with clients who are used to brick-and-mortar banks. The process of digitalization, paperless offices and virtual contact, through call centers and mobile applications, has also made it vital to heighten vigilance in national development banks. The threats range from hacking and electronic fraud to money laundering and funding for terrorism. Finally, due to stiff competition from mobile telephone companies, national development banks have to find ways to keep their market share of electronic transactions and services.

4.6 Performance of the BNI and BPCI

Figures 1 and 2 present trends in the performance of the BNI and BPCI from 2010 to 2019 using data from their financial statements lodged with the BCEAO. However, details of overnight and short-term deposits are no longer available on bank balance sheets. This is due to the Revised Banking Chart of Accounts, which came into effect in the WAMU region in 2018 and does not provide such information on deposits. In fact, deposits in the two banks have fluctuated and after 2016, BPCI deposits fell drastically.

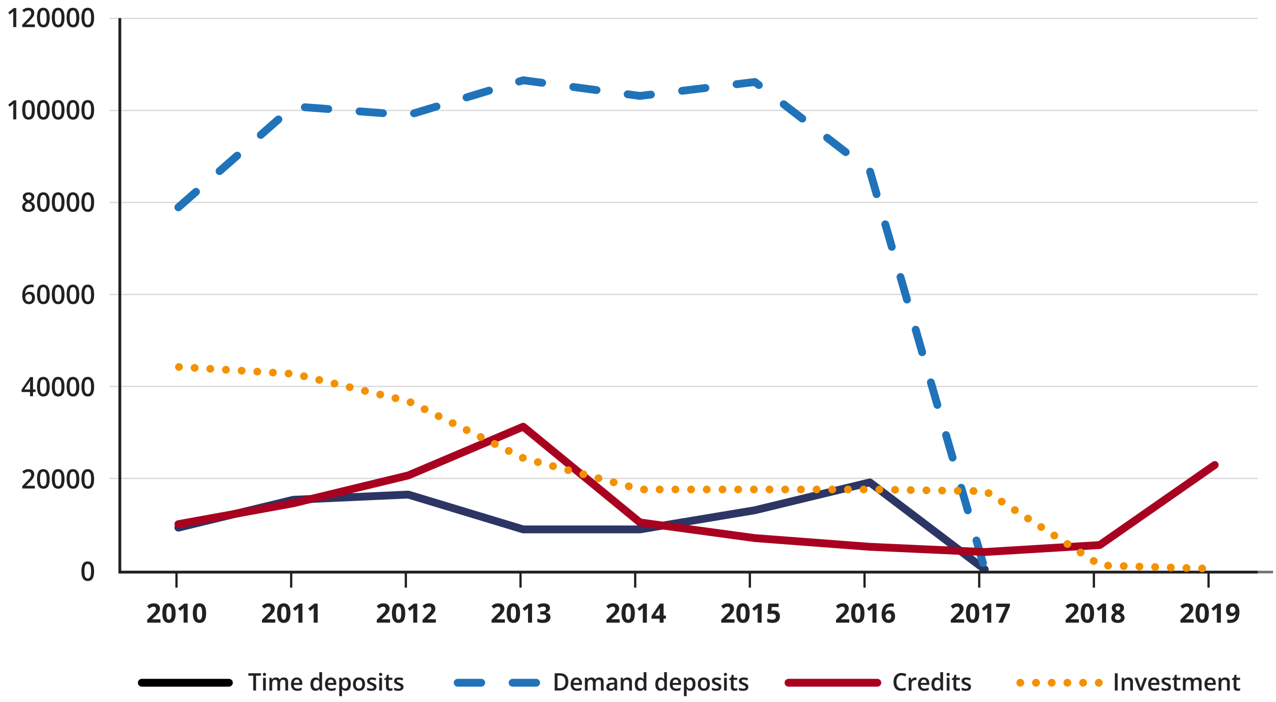
24 Revue proparco, September 2019.

Figure 1: Trends in the BNI balance sheet, 2010-2019 (million CFA francs)



Source: Author, from bank financial statements published by the BCEAO

Figure 2: Trends in the BPCI balance sheet, 2010-2019 (million CFA francs)



Source: Author, from bank financial statements published by the BCEAO

According to the qualitative data collected for this paper, this fall in deposits was the result of clients losing confidence in the bank after encountering difficulties in making withdrawals. In reality, the bank has had problems with liquidity that constrained its ability to meet client demand for withdrawals. This has resulted in a loss of credibility with customers who would prefer to put their money into more stable banks. The reasons for the BNI liquidity problems are discussed below.

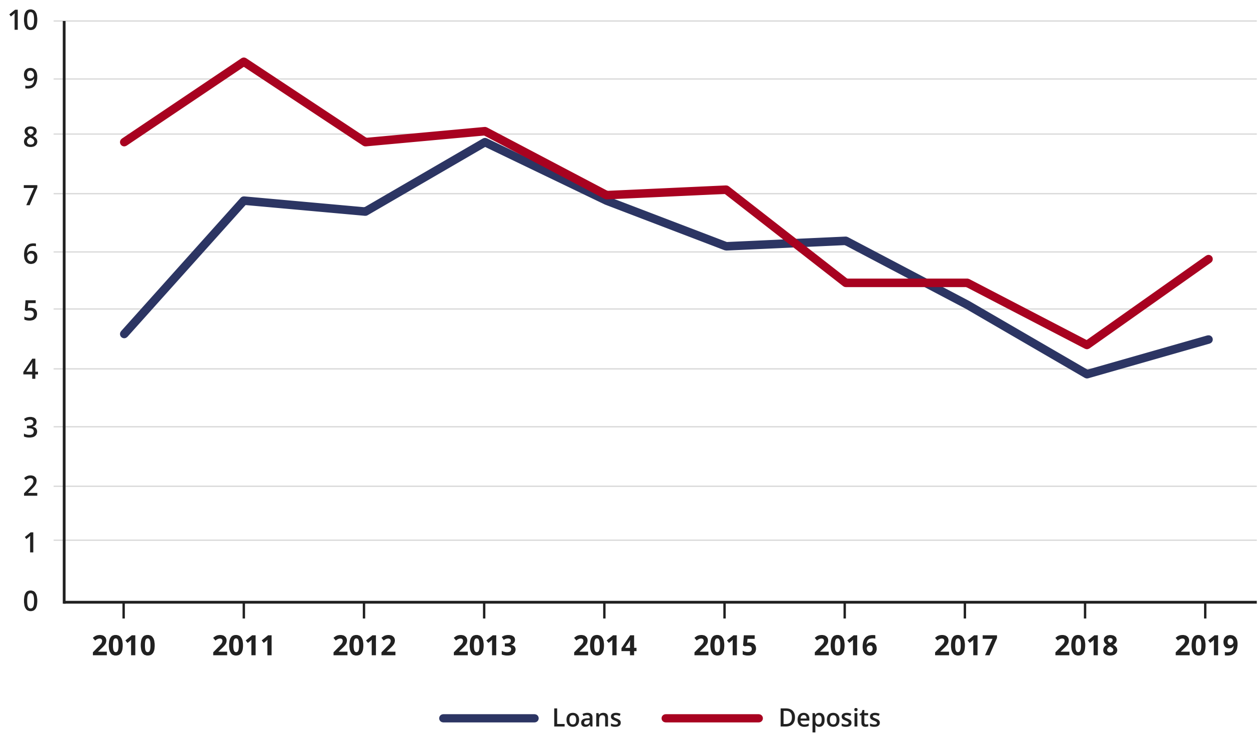
Meanwhile, BNI lending rose while that of the BPCI fell. Investment activity by the BNI was irregular whereas BPCI investment followed a downtrend over the period. It should be noted that BPCI investments were greater than its lending in the 2010-2019 period.

In effect, the problems the BPCI has had in mobilizing resources have prevented it from meeting the demand for credit, which explains the downtrend in its lending since 2013, which became a plunge after 2016. The managers of the bank were responsible for this performance. Some loans the bank made in this period were undocumented while others had files containing financial and other information that could not justify a bank loan. The director-general of the BPCI could decide on his own who would be granted loans, and political figures could get loans just by making a telephone call. Other loans were made to different levels of staff without supporting documents. These activities led to an accumulation of bad loans, which constrained the bank's liquidity.

As noted above, the director-general was using the bank's resources for his own purposes. As a result, in 2013, the WAMU Banking Commission banned him in perpetuity from holding any position in a banking or financial institution in the WAMU region (CBU 2014).

The BPCI also suffered some damage from the political crisis in Côte d'Ivoire after the disputed elections in 2011. Some political figures who had lost power managed to get loans from the bank and went into exile. Subsequently, these loans remained unpaid and reduced the bank's ability to extend loans to others.

Figure 3: Trends in market share of BNI, 2010-2019 (%)

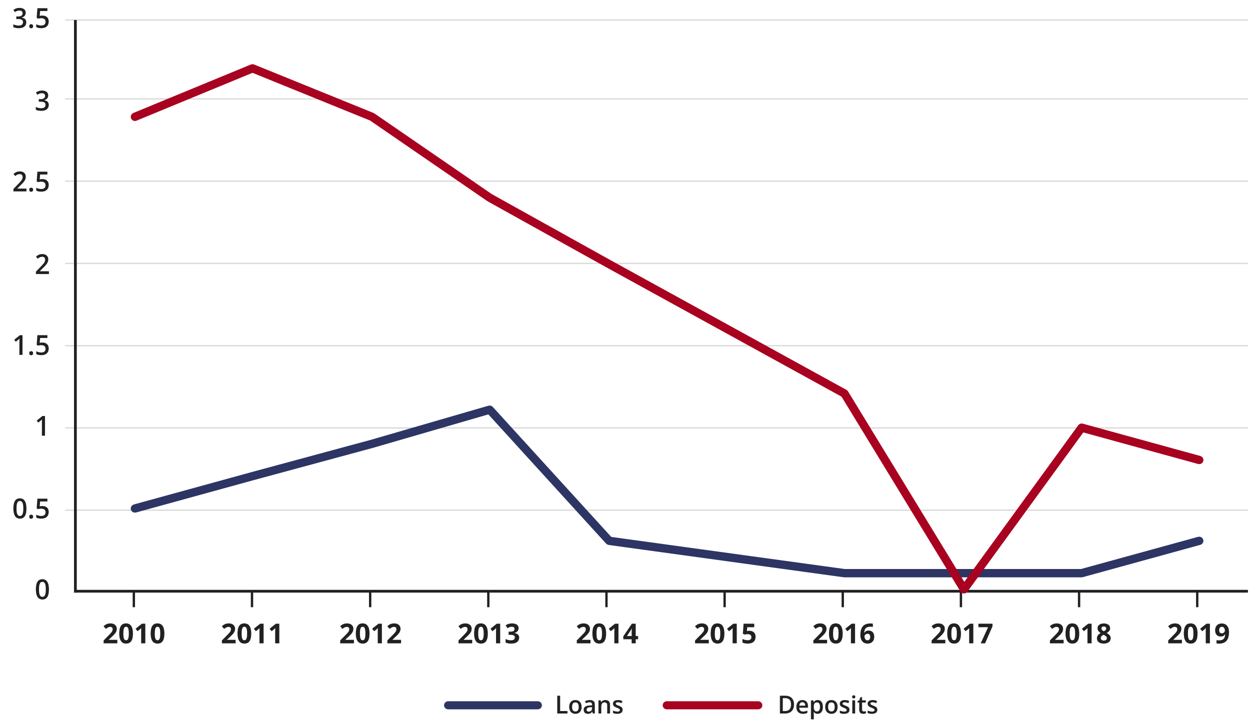


Source: Author, from bank financial statements published by the BCEAO

In these conditions, the BPCI share of loans and deposits contracted in the Ivorian financial market (Figure 4). Its 3.2 percent share of deposits in 2011 fell to almost zero in 2017 and rose marginally to 0.8 percent en 2019. BNI market share of deposits also fell, from 9.3 percent en 2011 to 4.4 percent in 2018 before rising to 5.9 percent en 2019 (Figure 3). On the loan market, the BNI share rose to a peak of 7.9 percent in 2013 before plunging to 3.9 percent in 2018 then recovering to 4.5 percent en 2019. In contrast, the BPCI share in the lending market peaked at 1.1 percent in 2013 then continued sliding down to 0.1 percent in 2018, before a marginal recovery to 0.3 percent in 2019.

As mentioned above, political interference, poor governance and mismanagement of lending risk in BPCI can explain the fall in its share of loans and deposits. While BNI was not immune to these problems, their adverse effect was less serious. Responding to these issues, particularly those relating to governance of the national development banks, the BCEAO instituted in 2011 a set of specific regulations in Circular N° 005/2011/CB/C on the governance of credit establishments in WAMU. Reflecting the Basel 2 and Basel 3 international banking norms, these WAMU regulations aimed to remedy the failure of member states to establish financial governance regulations or monitor their effectiveness. The circular came into effect in 2012 but was never fully implemented. Stronger measures were agreed on in 2017 and took effect in 2018 and they appear to have had a positive effect on BNI and BPCI in terms of lending, deposits and market share (Figures 3 and 4).

Figure 4: Trends in market share of the BPCI, 2010-2019 (%)



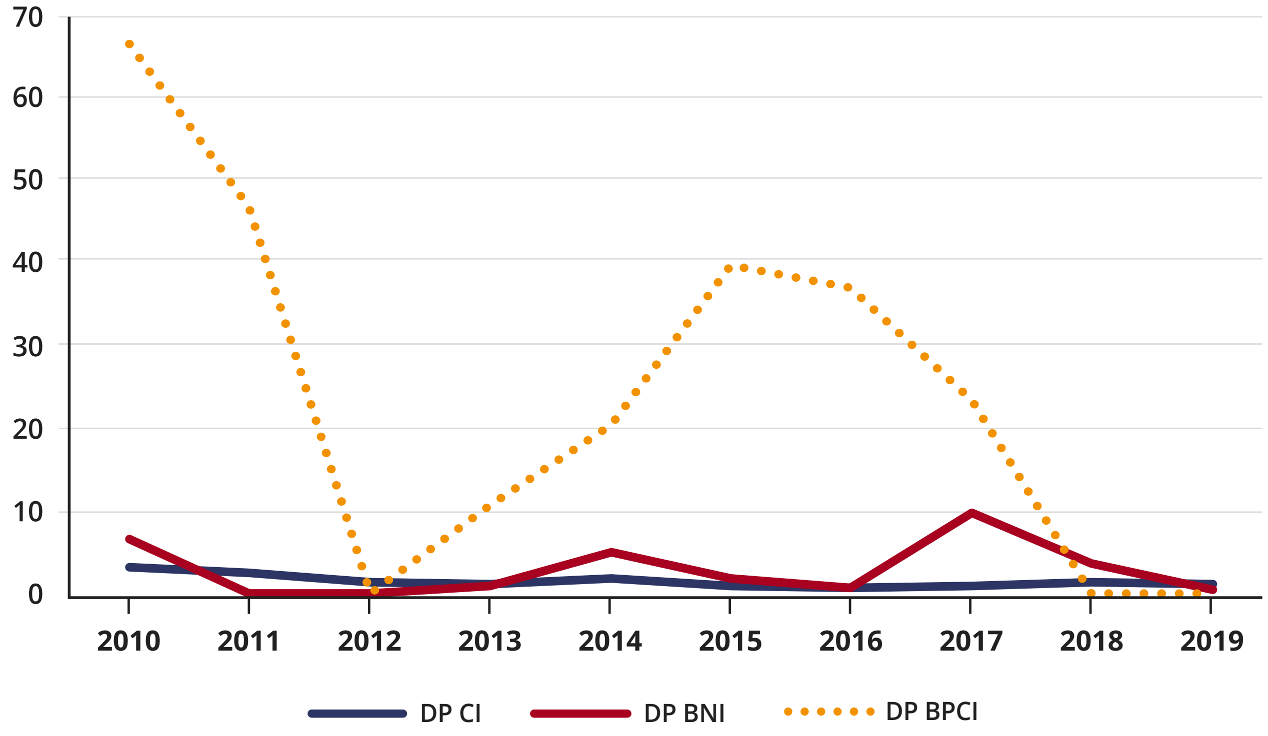
Source: Author, from bank financial statements published by the BCEAO

In the period since 2010, there was overall deterioration in the lending portfolios of the BNI and BPCI (Figure 5). Their performance was worse than the average in Côte d'Ivoire (DP CI) as measured by dividing bad loans by total loans and advances to customers[25]. The degradation of lending portfolios can be explained by the combination of poor risk management, bad governance and political interference before 2018. Konan (2021) finds that between 2011 and 2016, the director-general presided over widespread private contracts, fake jobs and nepotism.

25 The rate is obtained by dividing non-performing loans by total credit. The deterioration is relatively worse for the BPCI and BNI.

Since 2018, lending portfolio deterioration in the BPCI and BNI has trended towards zero, along with the national average. Improved governance, involving better risk management and internal controls reflecting WAMU regulations, certainly improved the quality of bank lending in this period.

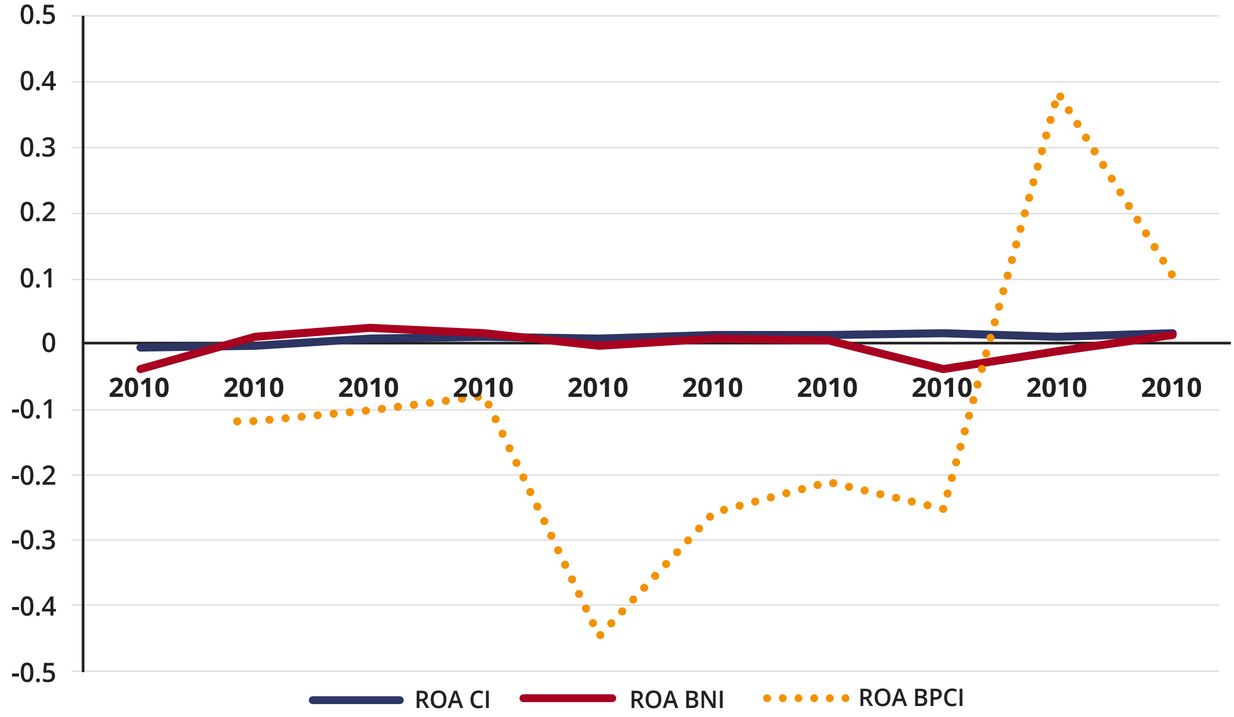
Figure 5: Credit portfolio deterioration of the BNI and BPCI, 2010-2019 (%)



Source: Author, from bank financial statements published by the BCEAO

While the return-on-assets performance of the BNI and BPCI in 2010-2019 was below the national average (Figure 6), the BNI hovered around it and was clearly above it in 2011 and 2012. In contrast, the BPCI posted negative performance from 2010 to 2017. Its positive results in 2018 and 2019 were due to the sale of land respectively worth about 40 billion CFA francs and 20 billion CFA francs.

Figure 6: Evolution of return on assets of the BNI and BPCI, 2010-2019 (%)



Source: Author, from bank financial statements published by the BCEAO

As to why these national development banks have a record of poor performance compared with that of private banks, senior officials of the Ministry of the Economy and Finance responded as follows:

"The performance of these national banks is constrained by governance problems, notably due to political interference. For example, a big national bank refused to finance a high-risk project but the director-general got an order from above to fund the project. The loan was never repaid and the bank suffered an enormous loss. Currently, however, the international standards being implemented in the WAMU region reduce political interference and conflicts of interest in the banks, which encourages better performance.

"The mandate and objectives of the public banks are not conducive to strong performance. Their mandate is to support government policy by financing private sector businesses unable to get credit from private commercial banks. The risk profile of these businesses does not meet the profitability criteria of the private banks whereas the state does not have profitability as its objective and the profitability criteria of the public banks are not as strict as those of private banks.

"Public banks in times of need can count on the state for recapitalization. This implicit assurance from the state results in the banks taking too many risks."

This last point echoes the findings in the literature to the effect that banks that have implicit state support tend to take more risks and record worse results.

5. Summary of findings, conclusion and recommendations

5.1 Summary of findings

1. **Background of the case study banks:** These national development banks were set up as part of state policy in the financial sector. The BNI had a mandate to (i) mobilize internal and external resources for national development finance; and (ii) manage the deposits of public institutions and agencies. The BPCI had the initial mandate of expanding general financial inclusion to previously underserved populations, and to finance SMEs. However, problems of governance, political interference and weak lending risk management affected the performance of these banks in relation to their original mandate, especially in the BPCI case. While the BPCI remains oriented towards SME financing in principle, its risk management is like that of a commercial bank. Indeed, the mandates of the BNI and BPCI have since 2019 been sharply delineated in legal performance contracts that set quantitative performance benchmarks.
2. **Economic context and business model:** Neither bank is legally restricted to a single economic sector. They operate as commercial banks but within the framework of government policy for the financial sector. The 2019 performance contract stipulates that the BNI allocates at least 15 percent of its total lending to SMEs, and buys 20 billion CFA francs in government bonds. In the BPCI case, due to its financial fragility, its performance contract does not specify the volume of its lending to SMEs. The business model of the two banks is comparable to that of commercial banks. The resources of the BNI come from state funds (e.g. SME support schemes; sector funds; youth employment funds) as well as deposits by individuals and companies. BPCI resources mainly come from deposits by individuals and companies. The assets of the two banks comprise credit (to businesses and individuals) and investments and are mostly short term. The BNI and BPCI are expected to diversify their assets and resources in order to avoid the risk of excessive concentration, in line with the WAMU banking regulations that took effect in 2018.
3. **Political and institutional context:** Relatively minor political interference in the BNI resulted in some losses during the past decade but the bank has remained financially solid. Not only does it allocate at least 15 percent of its total lending to SMEs, and hold 20 billion CFA francs in government bonds, it also finances social projects (such as low-cost environmental conservation, NGOs that campaign against cancer, and farmers' cooperatives). In contrast, BPCI suffered substantial political interference which played a big role in its decade of losses. It remains financially weak and unable to implement government policy effectively. The mandate of its current director-general is to restore the bank's solvency and ensure profitability. Current government policy eases the burden on the BPCI by spreading SME financing through the Guarantee Fund for SMEs, a new SME Agency and public procurement reserved for SMEs.

4. **Corporate governance and political interference:** The Ministry of Economy and Finance (the financial line ministry) and the Ministry of the Budget (technical line ministry) are represented at the highest level of BNI and BPCI management. The role of these representatives and the boards of directors is to ensure proper supervision of these state-owned banks and effective implementation of their legal performance contract. They also set the overall strategy of the banks and monitor its implementation. Their composition since 2018 has followed WAMU banking regulations aimed at ensuring the competence and impartiality of board members. This helps greatly reduce political interference and improve board performance. According to these rules, one third of board members must be independent individuals, and the board must have specialist committees. While the BNI and BPCI have both largely complied with these rules, the only exception is the board of one bank being prevented from appointing the bank's director-general. This is a problem that the Ivorian government should solve.
5. **Main achievements and challenges of the BNI and BPCI:** The main achievements of the BNI since 2018 involve SME financing, buying 20 billion CFA francs in government bonds every year, and financing social housing (through the Call immobilier section). It has also improved the speed of online client services and its BNI-FINANCES and BNI-GESTION subsidiaries have performed well in mobilizing funds from individuals and companies since 2004. In contrast, BPCI performance has been less positive due to a decade of financial and governance problems. It has nevertheless managed to channel some funding to SMEs, organize some public tenders, support a home savings plan for individuals, and contribute to the expansion of financial inclusion. Adequate financing for SMEs remains a challenge for these two banks, along with raising long-term resources and finance for agriculture.

5.2 Conclusion

The current political, institutional and regulatory environment is definitely more conducive to good performance by the BPCI and BNI. Their survival is due to the important role they are expected to play in national development policy. The regulatory context since 2018 conforms with the international norms of Basel 2 and Basel 3, which set stringent standards for governance, risk management and internal controls. However, these Ivorian national development banks still face challenges related to governance, volume of funding for SMEs and for agriculture, and development of new financial products.

In terms of governance, the director-general of a public bank should be appointed by the board of directors after a rigorous process of applications and interviews. This process may help reduce political interference. Where SMEs are concerned, they continue to be mostly informal, financially fragile, with little access to credit guarantees and poorly managed. Formalization of SMEs in all sectors could help reduce inherent risk, facilitate access to credit and increase the solvency and profitability of the national development banks. With regard to agriculture, the food crisis and surge in inflation during the first half of 2021 illustrated the need for national development banks to boost funding for agriculture. Long-term finance is also needed for the development of new financial products that will help accelerate industrialization in Côte d'Ivoire.

5.3 Policy recommendations

The findings of this report suggest the following economic policy recommendations:

1. The government must allow the board of directors of every public or national development bank to appoint the director-general, in conformity with Article 13 of Circular No 01-2017/CB/C on the governance of credit institutions in the WAMU region. The appointment process must be formal and rigorous in the selection of candidates.
2. The government should pursue its efforts to formalize SMEs. Their current access to credit is constrained by their informality, lack of structure and weak management. Greater SME access to credit can still be facilitated without abandoning rigorous risk management by the development banks.
3. The state has to recapitalize the national development banks that are in difficulty. Opening up the shareholding to local capital could help strengthen their financial base.
4. The national development banks should seek long-term resources from multilateral banks such as the African Development Bank and the European Investment Bank. These resources would enable them to meet the financing needs of fragile SMEs.
5. The performance contracts between the state and the national development banks should include clauses for agricultural finance. The best idea would be to establish a national agricultural bank. In order to avoid the past errors of such specialized banks, the mandate should include product diversification, ranging from foodstuffs, cash crops and export crops to livestock products. Such a bank would also provide funding along the agricultural value chain.
6. National development banks should accelerate digitalization of their services in order to expand financial inclusion.
7. The government should establish a coherent set of policies and interventions in support of SMEs and facilitate their access to credit.

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Annex

Table 4: Financial sector reforms in Côte d'Ivoire

Specific objectives	Reforms
Specific objective 1	• Expansion of coverage of the population by a credit reference bureau • Improved funtioning of business information centers • Establishment of a mutual guarantee fund for SMEs • Limiting the number of company balance sheets • Better quality financial statements of SMEs • Refurbishment of accredited management centers
Specific objective 2	• Operationalize the Commercial Court • Set up a unified collateral registry at national level • Streamline land registration procedures
Specific objective 3	• Develop savings products suited to the Ivorian market • Finish setting up Caisses des Dépôts et Consignations
Specific objective 4	• Facilitate mobile money interoperability between mobile telephone companies • Test the pilot scheme for correspondant banks • Support at institutional level the development of innovative financial products • Support the long-term development of microfinance
Specific objective 5	• Esablish a national financial literacy campaign in partnership with the private sector • Set up a body to minor the quality of financial services • Strengthen consumer protection
Specific objective 6	• Support the growth of leasing activity • Develop the regional stock exchange

Source: OECD Development Center, 2018

Private Sector Development (PSD)

Challenges and Changes: The Political Economy of National Development Banks in Africa

Côte d'Ivoire Case Study

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