

# The Scramble for Africa and the Origins of Financial Underdevelopment: Theory and Evidence

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December 16, 2018

## Abstract

This research theoretically and empirically investigates to what extent the partitioning of Africa during the Scramble for Africa which happened during the Berlin Conference of 1884-1885, has had a long-lasting effect on contemporary levels of financial development across countries and ethnic groups. Using differentiated products in the banking system à la Salop (1979), it shows that partition increased the distance between households/firms and banks, which led to more differentiated banks in terms of ethnicity; this negatively affects the equilibrium loan rate. Empirically, it uses the multilevel Bayesian method and shows that using private credit that the probability that the variable of partitioning captured by the Scramble of Africa is between -27.08 and -18.97 is 0.95, while using liquid liabilities and banks assets the coefficient lies between -24.01 and -16.73; and -17.11 and -11.34, respectively. In addition, it establishes a negative and significant association between ethnic financial inclusion and ethnic partitioning. Moreover, it finds that a one-unit change in ethnic partitioning decreases access to financial services as measured by financial inclusion by 61%.

**KEYWORDS:** Scramble for Africa, Financial development and inclusion, Ethnicity.

**JEL:** G21, F51, N27, J71, O16, O55

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