

Civil Society Guide

Understanding Public Development Banks and their Operational Procedures in Nigeria.



Introduction

This guide aims to provide civil society organizations with a comprehensive understanding of Public Development Banks in Nigeria and their operational procedures. This guide also focuses on public development banks (PDBs), state-owned financial institution that has the overall objective, or mandate, to deliver on public policy objectives that normally support the economic development of a country or region.

This public policy mandate distinguishes these banks from other kinds of state-owned financial institutions, such as state-owned commercial banks or insurance companies. Although PDBs are concerned with financial returns, as financial institution, profit is not the overall goal of their activities.

Public Development Banks are important for two reasons, they were major players in the financial sector of many economies as they developed, and they continue to play an important role today, particularly in emerging markets.

World Bank researchers estimated in 2012 that state-financed institutions accounted for “25% of total assets in banking systems around the world” and that “in the so-called BRIC countries alone- Brazil, Russia, India, and China- the market share of state- financed institutions is substantially higher”. The same research shows that PDBs are typically the largest type of state-financed institution”.^[1]

Public Development Banks are run at different levels, which can be grouped into three categories:

- **National:** including sub-national institutions such as local or municipal PDBs, and provincial or state-level PDBs.

- **Regional:** including both continent-wide PDBs, and those focusing on a sub-region.

- **Global:** including institutions with a world-wide scope of operations. Regional and global PDBs, owned by a group of countries, are known as multilateral institutions

There are four main roles that PDBs can play to improve the impact of the financial sector on development:

- **To direct finance** – or provide it on better than market terms to sectors or regions that are important for a national development plan.

- **To build the financial sector**, either by filling gaps in the supply of credit (lending to households or businesses that cannot access credit from commercial banks), or by helping to create demand (helping businesses or other customers to develop bankable projects).

- **To promote economic stability**, by playing a counter-cyclical role (when the economy is slowing which would include increasing government spending or cutting taxes to help stimulate economic recovery), to ensure a supply of credit when a financial or economic crisis causes the commercial financial sector to seize up.

- **To improve standards**, by insisting on, for example, social or human rights safeguards in the projects or institutions they finance.

Table 1: Core Features of a Model Public Development Bank

Core features and key components	Explanation / Detail
A: MANDATE AND ROLE	
i. Strong development Mandate	The mandate of the PDB is to deliver sustainable development outcomes, avoiding vague or dual mandates
ii. Targeting finance where it is needed most	PDBs targets regions, sectors or clients that are most in need, or that have the highest development pay out.
iii. Responsible social and environmental standards	PDBs takes responsibility for the social and environmental outcomes of all its activities. The PDB ensures that companies they work with, as clients or partners, do not avoid or evade taxes.
iv. Stable, long-term perspective	PDB's focus is on long-term, sustainable, predictable, and counter-cyclical funding.
v. Support for national strategies	PDBs aligns its activities to democratically determined national plans, to ensure that the PDB helps to improve the financial sector.
B: OPERATIONAL STRATEGY	
i. Right mix of public and private funding	PDBs receives some public funding, so it is not a purely commercial institution.
ii. Careful choice of methods of investing	PDBs invests in ways that ensure their development mandate takes precedence over generating financial returns.
iii. Internal systems to focus, assess and monitor	PDBs has the internal capacity to assess and systematically show the impacts of their policies and investment decisions, and has effective due diligence procedures, accompanied by supervision and monitoring mechanisms.
C: FINANCIAL SUSTAINABILITY	
i. Prioritize development outcomes	PDBs ensures development outcomes take precedence over profitability.
ii. Reinvest any profits	PDBs should reinvest any profits to support the development focus of the institution.
iii. Take care with public grants	Strong public accountability must be in place if PDB operations are subsidized by public funds beyond initial capital injections.
iv. Incentivise staff to deliver for the public good.	PDBs draws on its development focus to recruit and motivate staff, without copying the bloated salary and bonus culture of parts of the commercial financial sector.

Core features and key components	Explanation / Detail
D: GOOD GOVERNANCE	
i. Equal borrower representation at multilateral PDBs	The multilateral PDBs has a governance structure that gives, as a minimum first step, equal voting power to borrowing countries.
ii. Strong transparency policies, based on the right to information	PDBs has a strong and carefully implemented transparency policy based on the right of access to information; automatic disclosure of information with limited exceptions; the right to request information; and public access to decision-making.
iii. Active participation of civil society and bank employees	PDBs has open channels for the meaningful participation of civil society groups, including trade unions and bank employee unions, in its decision-making processes.
iv. Insulation from political pressure	PDBs has governance arrangements that protect it from undue government pressures that might be contrary to the bank's mandated purpose.
v. Strong accountability systems	PDBs has well-implemented accountability systems including independent evaluations; meaningful participation of external stakeholders; and effective, user-friendly, independent complaints mechanisms.

Overview of National PDBs in Nigeria – What they do.

PDB's Name	Field of Support
i. Bank of Industry (BOI) 	Financial assistance for the establishment of small, medium, and large business projects.
ii. Development Bank of Nigeria (DBN) 	Foreign and Domestic investors
iii. Nigerian Export-Import Bank (NEXIM) 	Export diversification through the provision of short and medium term loans to Nigerian exporters.

PDB's Name		Field of Support
v. Federal Mortgage Bank of Nigeria (FMBN)		Estate development loan for housing developers.
iv. The Infrastructure Bank PLC (TIB)		Transportation, Power & Renewable Energy, Mass Housing, District Development, Urban Infrastructure and Municipal Finance Projects.
v. Transportation, Power & Renewable Energy, Mass Housing, District Development, Urban Infrastructure and Municipal Finance Projects.		Estate development loan for housing developers.
vi. Ibile Holdings Limited (IHL) An Investment Company of the Lagos State Government.		Agriculture, Building & Construction, Electricity & Energy, Real Estate, Transportation & Logistics, Medical Diagnostic and Services Scheme.
vii. Bank of Agriculture (BOA)		Agricultural credit facilities to farmers and other agro-allied businesses, Non-agricultural micro credit facilities to micro, small and medium enterprises.
viii. African Development Bank Group (AfDB)		Sustainable economic development and social progress of African countries



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Mapping of PDBs in Nigeria



Image 1: List of Public Development Banks in Nigeria.

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