

Policy Brief

The Influence of Public Development Banks to Strengthening the Financial Sector's Role in Sustainable Development.



Executive Summary

Public development banks (PDBs) are enjoying a resurgence. The global financial and economic crisis has stimulated new interest in PDBs, particularly given the important role they play in providing counter-cyclical financing when private capital is in short supply. In recent years, several countries have established new national and multilateral PDBs, and at the global level that have been recognized for the role they play in the United Nations Financing for Development process.

However, not all PDBs succeed, and even the successful ones carry the risk of major negative impacts on development. This may be due to external factors, but significantly, the reasons for their inconsistent performance can also be found in the institutions themselves, which vary considerably, with diverse mandates, roles, and operational strategies.

PDBs 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. The World Bank estimated in 2012 that state financed institutions accounted for “25% of total assets in banking systems around the world”. [1]

Although PDBs are concerned with financial returns, as financial institutions, profit is not the overall goal of their activities.

We need PDBs because the commercial financial sector is unlikely, of its own accord, to provide the finance needed to support rapid economic development.

There are four main ways PDBs can complement the commercial financial sector:

- Directing finance to important sectors or regions.
- Building the financial sector, by filling gaps in credit supply or demand.
- Promoting economic stability, by playing a countercyclical role.
- Improving standards, by insisting on, for example, social or human rights safeguards.

Despite the growing amount of work devoted to studying PDBs, a comprehensive approach to analysing these institutions is still missing.



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1. Introduction / Context

This policy brief focuses on public development banks (PDBs) that has the comprehensive objective, or mandate, to deliver on public policy objectives that normally support the economic development of a country or region. This policy mandate distinguishes these banks from other kinds of state-owned financial institutions. Such as state-owned commercial banks or insurance companies.

Public Development Banks (PDBs) exist in most countries. They play a critical role in financing economic activities that private sector commercial banks are unwilling and /or unable to finance. This includes small business, infrastructure, trade, or other social and development objectives in emerging markets (as well as many developed ones). These public sector entities (sometimes public-private partnerships PPPs) generally operate with a dual mandate- commercial returns and social impact.

The underlying rationale is that the commercial financial sector is unlikely, on its own, to provide the finance needed to support rapid economic development.

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).*
- *To promote economic stability by playing a counter-cyclical role, 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. The 'right type of finance' needs to flow through 'good institutions' if PDBs are to play an important role in financing development.[2]*

National Public Development Banks are government-owned financial institution that provides financing for economic development projects on a non-commercial basis through targeted investments. In Nigeria, these banks have the potential to drive sustainable development by financing projects that address social, economic, and environmental challenges.

Public development banks (PDBs) are public financial institutions initiated by governments with an explicit official mission to fulfill public policy objectives. They are potentially useful policy instruments for fixing market failures, incubating markets, and promoting structural transformation in an equitable and sustainable manner. [3]

National Public Development Banks are established and owned by the government to finance projects that would otherwise not be able to get financing from commercial lenders. They provide loans for projects that a government or nonprofit wants to encourage for non-commercial reasons. PDBs can be international, regional, national, sub-national or local.

PDBs are banks located within the public sphere by mandate, ownership, or governance. This dynamic definition comprise what public banks do, how they operate and why (WB 2018, FDC 2020, McDonald et al., 2021).

Unlike other kinds of state-owned financial institutions, such as state-owned commercial banks or insurance companies. PDBs have a specific mandate to deliver on public policy objectives that support the economic and social development of a country or region. In some cases, PDBs may also engage in commercial lending and lend to individuals.

2 - https://pop-umbrella.s3.amazonaws.com/uploads/50e4c938-cb3f-469c-a50d-0c4dccc7a869_1546743-public-development-banks-towards-a-better-model.pdf

3 - <https://www.sciencedirect.com/science/article/pii/S2666933121000460>

4 - https://en.wikipedia.org/wiki/Development_finance_institution

PDBs play a crucial role in channeling financial resources in financing private and public sector investments in developing countries towards sustainable development projects.

By integrating the SDGs into their operational procedures and investment decisions, PDBs can ensure their contribution towards the achievement of these global goals.

2. Investments in Relation to the SDGs

However, PDBs face considerable challenges in performing their role, and some of them have been rightly questioned about the negative impacts of their operations. A significant reason for the inconsistent performance of PDBs is the nature of the institutions themselves, which vary considerably, with diverse mandates, roles, and operational strategies.

To maximize the impact of National PDBs investments on the SDGs, National PDBs in Nigeria should consider the following:

a. Prioritize Key SDGs: PDBs should identify priority SDGs based on Nigeria's national development agenda and invest in projects that directly contribute to those goals. This approach will ensure a more targeted and effective allocation of resources.

b. Balance Social, Economic, and Environmental Objectives: PDBs should strive for a balanced investment portfolio that addresses social, economic, and environmental challenges. This approach will promote inclusive growth, poverty reduction, and environmental sustainability.

c. Partnerships and Collaborations: National PDBs should actively seek partnerships and collaborations with other stakeholders, including government agencies, private sector entities, and civil society organizations. These partnerships can leverage additional resources, expertise, and networks to achieve the SDGs more effectively.

d. Monitoring and Evaluation: PDBs should establish robust monitoring and evaluation frameworks to assess the impact of their investments on the SDGs. Regular reporting and transparency will facilitate learning, accountability, and continuous improvement.

3. Recommendations

This policy brief proposes a framework for institutional and governance reform—a comprehensive package of recommendations to enable PDBs to fulfill their potential as drivers of positive development.

It is intended as a major contribution to the discussion on this critical issue, but it is also a challenge to PDBs, and the governments backing them, to up their game. To meet the requirements of this framework, all PDBs will need to aim higher, be better and embrace reform.

For PDBs to carry out their objectives effectively they must reinforce their long-term efforts to create dialogue with civil society organisations, social movements, and indigenous communities to fortify the democratic principles of their work.

PDBs must prioritize civil society organisations and communities initiatives supporting state of programs of decentralization, security sector reforms and reconciliation. This will help reduce the vulnerability of populations and prevent violent extremism.

PDBs should have a normative core; they should start with rights framework. This means grounding all safeguards into all the various rights framework. This means grounding all safeguards into all the various rights frameworks that already exist.

There are rights instruments for indigenous people, the elderly women, youth, and people living with disability. Their approach should be grounded in those rights, then it will be on a very firm footing.

PDBs must be accountable to the communities impacted by their projects. All PDBs need to have an effective accountability mechanism to address concerns with projects and should commit to preventing and fully remediating any harm to communities.

4. Conclusion

Public development banks (PDBs) are in a unique and powerful position to deliver on public policy objectives. They can and should play a very significant role in development.

As this policy brief shows, PDBs can direct finance to important sectors or regions, build national financial sectors, promote economic stability, and improve standards for example, through environmental, social, or human rights safeguards.

National PDBs in Nigeria have a significant role to play in driving sustainable development and achieving the SDGs. By aligning their operational procedures and investments with the SDGs. PDBs can leverage their financial resources to address Nigeria's social, economic, and environmental challenges.

The government, in collaboration with relevant stakeholders, should provide the necessary policy support and incentives to enable PDBs to fulfill their potential in contributing to sustainable development in Nigeria.

This document was produced with financial support from The Forus International. Its contents are the sole responsibility of the Nigeria Network of NGOs and do not necessarily reflect the views of The Forus International.

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