

The Next Generation of National Development Banks

Early Lessons from Ghana and Nigeria

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Abbreviations

AfDB	African Development Bank
AFD	Agence Française de Développement
BMUKN	Federal Ministry for the Environment, Climate Action, Nature Conservation and Nuclear Safety / Bundesministerium für Umwelt, Klimaschutz, Naturschutz und nukleare Sicherheit
COVID	coronavirus
CSO	civil society organisation
DBG	Development Bank Ghana
DBN	Development Bank of Nigeria
DFI	development finance institution
DP	development partner
EIB	European Investment Bank
E&S	environmental and social
ESG	environmental, social and governance
EUR	euro
FX	foreign exchange
GCF	Green Climate Fund
GDP	gross domestic product
ICGL	Impact Credit Guarantee Ltd
IDA	International Development Association
IKI	International Climate Initiative / Internationale Klimaschutz Initiative
IMF	International Monetary Fund
INED	independent non-executive director
KfW	Kreditanstalt für Wiederaufbau
KPI	key performance indicator
LCB	local-currency bond
LIC	low-income country
LMICs	low- and middle-income countries
LPRES	Livestock Productivity and Resilience Support
MDB	multilateral development bank
MSMEs	micro, small and medium enterprises
NDB	national development bank
NDC	Nationally Determined Contribution
PFI	participating financial institution
SDG	Sustainable Development Goal
SMEs	small and medium-sized enterprises
SOL	single obligor limit
UN	United Nations
USD	United States dollar

Executive summary

National development banks (NDBs) have regained prominence in recent years as important instruments for promoting sustainable development, supporting structural transformation and addressing financing gaps. In the aftermath of the global financial crisis in 2008 and the COVID-19 pandemic, governments and international development actors have increasingly recognised the role of NDBs in mobilising (domestic) resources, providing long-term and countercyclical finance for underserved sectors and market segments, and thus contributing to the achievement of the Sustainable Development Goals (SDGs). Against this background, the Development Bank Ghana (DBG) and the Development Bank of Nigeria (DBN) represent two recently established NDBs that operate primarily through wholesale banking models in collaboration with participating financial institutions (PFIs).

In order to analyse which factors enable NDBs to develop into independent and impactful institutions capable of fostering sustainable development, this study examines operational models, partnerships, sustainability and development contributions of DBG and DBN. It further analyses the collaboration between NDBs, PFIs and development partners (DPs) as well as the key challenges affecting the effectiveness and scalability of these institutions. The research employs a qualitative case study approach based on 55 semi-structured interviews conducted across Ghana and Nigeria with representatives from NDBs, PFIs, DPs, civil society organisations (CSOs) and other relevant stakeholders such as finance ministries, central banks and providers of technical assistance. The data are analysed through qualitative content analysis and triangulation.

Independence, funding diversification and scaling up

Independence in the context of NDBs is understood as operational autonomy and the ability to maintain and pursue their mandates. It is perceived as a fundamental prerequisite for efficiency, financial sustainability, and fulfilment of their mandates and development objectives. The study reveals that both DBG and DBN – with the assistance of DPs – have established governance structures and oversight and accountability mechanisms that, together with their wholesale lending model, generally shield the institutions from political interference. A central challenge identified across both institutions concerns the need to scale up their operations. Current asset sizes remain relatively small compared to the financing needs of the Ghanaian and Nigerian economies, limiting the transformative impact of both NDBs. The findings highlight the need to scale up activities and diversify funding sources in the medium term beyond government equity (and some DP equity in the case of DBN) and DP loans. The study identifies several measures for scaling up, including strengthening domestic resource mobilisation through domestic bond issuance and retaining profits to build institutional buffers, expand (concessional) lending capacity and strengthen guarantee mechanisms.

PFI–NDB collaboration

PFIs generally perceive the collaboration with DBG and DBN positively, as it provides them with access to concessional, long-term and predictable financing. Such funding enables PFIs to reduce funding costs, improve maturity matching, expand lending to underserved sectors and increase financing for small and medium-sized enterprises (SMEs). Additionally, the partnerships generate reputational benefits and contribute to institutional learning and capacity building among PFIs.

The onboarding process is widely regarded as transparent and well-structured, involving due diligence, compliance assessments and technical assistance. However, several operational challenges emerge in the PFI–NDB collaboration, including limited funding volumes, limited pricing advantages over market rates and sectoral restrictions. The findings further indicate that

fixed-rate NDB products may lose their comparative advantage in a declining interest-rate environment, such as Ghana's, while regulatory constraints such as the single obligor limit (SOL) restrict the scale of wholesale lending operations.

Collaboration with development partners

DPs play a critical role in the establishment, capitalisation and operationalisation of DBG and DBN. Beyond financial resources, DPs provide technical assistance, institutional capacity building, governance support and sustainability expertise. Their involvement contributes significantly to embedding governance and environmental and social (E&S) standards within both institutions and strengthening internal operational practices and capacities.

The findings reveal several challenges associated with DP financing, including foreign exchange (FX) risks arising from foreign-currency-denominated lending, fragmented reporting frameworks, differing monitoring requirements and the administrative burden of managing multiple DP engagements. Despite these challenges, both NDBs generally retain strategic autonomy in their relationships with DPs by prioritising partnerships that align with their institutional strategies and national development objectives.

Sustainability

Both DBG and DBN position sustainability as a core institutional priority by integrating E&S standards into lending operations, governance structures and strategic objectives. The findings indicate that both institutions exceeded their internal green financing targets (5 per cent for DBG and 10 per cent for DBN) and are increasingly positioned as sustainability leaders within their respective financial systems.

Through conditionalities, technical assistance and concessional green credit lines, the NDBs contribute to raising sustainability standards among PFIs and SMEs. The study shows that collaboration with DBG and DBN has contributed to the establishment or strengthening of sustainability frameworks among several PFIs. However, important constraints persist, including limited awareness among SMEs, perceived risks associated with green lending and difficulties in adapting international environmental, social and governance (ESG) standards to local institutional and economic contexts.

Development impact of DBG and DBN

Although this study cannot replace a rigorous impact evaluation, the findings suggest that DBG and DBN can generate substantial development value within their respective country contexts. Through wholesale financing models, the two NDBs contribute to improving SMEs' access to finance, extending loan tenors, reducing borrowing costs for final beneficiaries and supporting underserved market segments.

The findings further indicate that both NDBs contribute to strengthening sustainability practices within the banking sector and provide countercyclical financing during periods of economic stress, most recently during the COVID-19 pandemic. By providing relatively stable long-term financing, DBG and DBN contribute to financial sector resilience and stability. However, the lending volumes of both NDBs are minuscule relative to their respective countries' gross domestic product (GDP) (<0.5 per cent), and transformative effects can only be realised by scaling up current activities and impacts. This will require significantly larger lending volumes and balance sheets, expanded guarantee mechanisms and continued efforts to balance development mandates with long-term financial sustainability.

Policy considerations

The study has several policy implications. First, NDBs, governments and DPs should work together to expand NDBs' access to concessional and long-term funding, while NDBs adopt more flexible pricing strategies that remain competitive under changing market conditions. Flexible instruments such as floating-rate products may help maintain the attractiveness of NDB financing.

Second, risk-sharing mechanisms in Ghana, including guarantee schemes, should become operational to reduce the credit risk burden on PFIs and encourage lending to underserved sectors and SMEs. At the same time, technical assistance provided by DBG and DBN should be better tailored to the differing institutional realities of commercial banks, microfinance institutions, rural banks, and savings and loan companies.

Third, DPs should further harmonise reporting frameworks, timelines and monitoring systems to reduce administrative burdens on NDBs. Greater coordination among DPs could improve institutional efficiency and allow NDBs to focus on their core mandate of advancing development objectives.

Fourth, NDBs should continue strengthening their role as sustainability leaders by augmenting the share of green finance within their loan portfolios, expanding awareness and capacity among SMEs and PFIs and adapting international ESG standards to local contexts.

Finally, NDBs should prioritise development impact over profit maximisation, even as profitability remains essential for financial sustainability. Scaling up their balance sheets, mobilising domestic funding sources and strengthening guarantee facilities will be critical for expanding their long-term contributions to sustainable development and structural transformation in Ghana and Nigeria.

1 Introduction

National development banks (NDBs) have re-emerged as key institutions for financing long-term development, addressing market failures and supporting sustainable economic transformation. Reflecting their growing importance, more than 400 NDBs were operating worldwide by 2020, collectively managing an estimated USD 8.5 trillion in assets (Lasnick, 2021). NDBs are financial institutions wholly or partly owned or controlled by national governments and explicitly mandated to fulfil a country's socio-economic objectives in a particular sector or market (de Luna-Martínez, Vicente, bin Arshad, Tatucu, & Song, 2018). They fulfil this mandate by providing long-term finance for projects that the private sector is unable or unwilling to fund, supporting strategic sectors and underserved market segments, mobilising private investment and providing countercyclical financing during periods of crisis (Abor, 2023; Abor & Ofori-Sasu, 2024; Griffith-Jones, Ocampo, Rezende, Schclarek, & Brei, 2018; Gutierrez & Kliatskova, 2021; Marodon, Jacouton, & Ploen, 2025; Marois, 2021).

For terminological clarity, this paper uses the term “NDB” to refer to nationally mandated development banks operating primarily within the countries in which they are established. External institutions that provide financial or technical support to these NDBs are referred to collectively as development partners (DPs). These include bilateral development institutions, such as Kreditanstalt für Wiederaufbau (KfW) Development Bank and Agence Française de Développement (AFD), as well as multilateral development banks (MDBs), such as the World Bank and the European Investment Bank (EIB). Institutions such as KfW are therefore classified in this study as external DPs, rather than according to their broader institutional identity.

The mandates of development banks have changed significantly over the decades, from serving as critical tools for achieving rapid industrialisation and postwar reconstruction in Europe to pursuing a diverse range of objectives, including the United Nations (UN) SDGs and national climate objectives. Historically, new development banks were often established in the aftermath of an economic crisis, as they can serve as strategic instruments for economic response and recovery. For example, following the Second World War, government-supported financial institutions played a key role in the reconstruction of European countries, inspiring countries in Asia, Latin America and Africa to establish their own development banks following political independence in order to achieve industrialisation more quickly (Richards, 2024). Consequently, the number of newly established development banks rose steadily after the Second World War (apart from a decline in the 1980s due to free-market-oriented neoliberal policies) and increased again following the collapse of the former Soviet Union, peaking in the 1990s (Xu, Marodon, Ru, Ren, & Wu, 2021). The establishment of new development banks at the national and multilateral levels remained high during the 1990s and 2000s, leading to a plateau, with another small surge in the aftermath of the 2008 global financial crisis (Abor, 2023; Griffith-Jones, Barrowclough, Mishra, & Marodon, 2023a; Xu et al., 2021). The COVID-19 pandemic also contributed to the renewed interest in NDBs, as these institutions played a critical role in mitigating the pandemic's devastating economic effects and supporting economic recovery through countercyclical lending, the mobilisation and distribution of resources, and the facilitation of investments in production and employment (Griffith-Jones et al., 2023a).

NDBs are also increasingly seen as critical tools for helping countries achieve the SDGs and meet their climate objectives (Abor, 2023; Griffith-Jones, Attridge, & Gouett, 2020; Volz & Lee, 2024), as they are well-positioned to support the necessary transitions (Dalhuijsen, Gutierrez, Kliatskova, Mok, & Regelink, 2023; Griffith-Jones et al., 2020; Mazzucato, 2023). Furthermore, in the post-COVID-19 era – characterised by multiple global crises and declining official development assistance – governments, policymakers and scholars have increasingly recognised NDBs as critical institutions for mobilising long-term finance and advancing sustainable development. Consequently, many countries are establishing new government-supported financial institutions or strengthening existing ones. This renewed emphasis is further reflected in the *Compromiso*

de Sevilla, the outcome document of the Fourth International Conference on Financing for Development, which highlights the pivotal role of NDBs and calls for their establishment and strengthening (United Nations, 2025).

Despite this growing policy attention, important aspects of development banking remain insufficiently researched – especially with regard to African NDBs. Although the field of development banking has attracted greater attention since 2000, particularly in the aftermath of the 2007/08 global financial crisis, research has focused on larger NDBs in Brazil, Germany, China, South Korea, India, Mexico and other countries in Latin America and Europe – that is, primarily on high-income and (upper-)middle-income countries (e.g. Fernández-Arias, Hausmann, & Panizza, 2020; Griffith-Jones & Ocampo, 2018; Lazzarini, Musacchio, Bandeira-De-Mello, & Marcon, 2015; Marois, 2021; Mazzucato & Penna, 2016; Mertens, Thiemann, & Volberding, 2021; Sapienza, 2004). Although nearly half of the NDBs established since 2010 are located in Africa, research on NDBs in the region remains limited. Abor (2023) provides a general overview of the structures and characteristics of development banks in Africa, as well as the rationale for their establishment. Two cross-country econometric analyses shed light on specific aspects, namely the longer maturities of NDB loans (Ndikumana, Naidoo, & Perez, 2021) and the financial performance of NDBs in Africa, which is worsened by political influence on the banks (Attridge, Chen, & Mbate, 2021). Country-specific evidence is limited to a political-economy study on NDBs in Côte D'Ivoire using a subordinate-financialisation perspective (Quist, 2023), a research project on four case studies in Ghana, Rwanda, Tunisia and Côte D'Ivoire (Odoom & Abor, 2023), and a book with 17 case studies of national and regional African development banks.

These studies have provided a broad overview of the governance structures, business models, challenges and achievements of the respective development banks. However, they leave largely unexamined the internal dynamics of individual institutions, including decision-making processes, the evolution of governance arrangements, strategic partnerships with PFIs and DPs and the ways in which these relationships influence institutional effectiveness and scalability. Furthermore, even the work by Odoom and Abor (2023) – with the richest primary data among these studies – draws on fewer than 10 interviews in each country case, resulting in a severe lack of in-depth empirical case studies on African NDBs. This shortcoming is particularly significant, as findings from other regions may not be readily generalised to African NDBs, given their distinct characteristics and political and macroeconomic contexts: African NDBs have substantially smaller balance sheets and lending operations relative to national GDP (Attridge et al., 2021; Xu et al., 2021).¹ This reflects funding constraints due to weak capital markets, which in turn increases their dependence on long-term financing from DPs. In addition, the widespread insolvencies and failures of first-generation NDBs during the systemic banking crises between 1985 and 1995 affected most state-owned financial institutions (Brownbridge & Harvey, 1998; International Monetary Fund, 2004; World Bank, 1989) and were often related to political interference (e.g. Abor & Ofori-Sasu, 2024; Attridge et al., 2021).

Against this background, this study examines which factors enable the recently established DBG, which has operated since 2022, and DBN, which started in 2017, to develop into independent and impactful institutions capable of fostering sustainable development. In light of the distinct characteristics of African NDBs (size, funding, previous failures, political interference), the research explores how DBG and DBN diversify their funding sources and scale up operations to deliver meaningful development outcomes; how they understand, operationalise and maintain institutional independence, and how their relationships with PFIs and DPs affect their institutional growth and development; and how DBG and DBN foster sustainability. In doing so, the study contributes to the small but growing body of literature on NDBs in Africa by providing

1 Note that the Australia and Oceania region is the only one with similarly small development banks.

in-depth empirical case study evidence on the establishment and operationalisation of this new generation of African NDBs, which has replaced earlier public development banks that failed.

We focus on the case studies of DBG and DBN, using an extreme-case selection strategy (Gerring, 2017). First, the history of NDB failures makes Ghana and Nigeria least likely environments for the (re-)establishment of independent and effective NDBs. Therefore, these cases are especially informative for identifying factors associated with the successful establishment of NDBs in contexts with less adverse conditions. Second, several DPs have played a substantial and sustained role in establishing DBG and DBN, providing both financial and non-financial support from their inception. The depth of DP engagement in establishing DBG and DBN makes them extreme cases. Because the phenomenon appears in its most pronounced form in an extreme-case scenario, the mechanisms at work are more readily observed than in typical cases, where they may be muted or confounded. With this design, the study aims to identify lessons regarding best practices, operational challenges and potential pitfalls to guide policy-makers and practitioners – including DPs – in establishing new NDBs and improving the performance of existing ones. At the national level, it provides evidence-based insights to inform strategic reviews and policy adjustments undertaken by the management and stakeholders of DBG and DBN, as well as their respective governments and central banks. Furthermore, DPs have actively supported the establishment and growth of NDBs in low- and middle-income countries (LMICs). By focusing on two lower-middle-income countries, the study sheds light on the extent and nature of such engagements, how NDBs perceive this support and how it could evolve in the future.

This study adopts a qualitative approach and uses purposive sampling to identify key stakeholders relevant to the operations, governance and partnerships of both NDBs. Across Ghana and Nigeria, 55 semi-structured interviews were conducted with representatives from NDBs, PFIs, DPs, government institutions, regulators, CSOs and other relevant stakeholders. The interview data were analysed using qualitative content analysis to identify recurring themes and to compare perspectives across stakeholder groups. Published documents and other secondary sources were used to triangulate and contextualise the findings.

The remainder of the paper is structured as follows. Section 2 reviews the relevant literature on the role of NDBs in national development, their institutional independence, collaboration with DPs and PFIs, and NDBs' role in promoting sustainability and green finance. Section 3 outlines the methodology, including the research design, case selection, background information on DBG and DBN, sampling strategy, data collection approach and the analytical framework. Section 4 presents the findings, including key lessons for establishing new NDBs. Section 5 concludes. Finally, Section 6 presents policy considerations for DBG and DBN, DPs and other relevant stakeholders.

2 Literature review

This literature review focuses on the thematic areas addressed in this study for which a well-established body of literature exists, namely the role of NDBs in national development, their institutional independence, collaboration with DPs and PFIs, and NDBs' role in sustainability. The existing evidence in these thematic areas is reviewed in detail since the case studies of DBG and DBN contribute to these strands of the literature.

2.1 The role of NDBs in national development: functions, funding and development impact

Although the pivotal role of development banks in fostering sustainable development has been contested in the past (see Box 1 for more details on the changing views on development banks), mainstream economics literature generally regards NDBs as important instruments that can contribute to sustainable development by addressing market failures, while emphasising the need for strong governance, operational autonomy and accountability (e.g. de Luna-Martínez & Vicente, 2012; Griffith-Jones et al., 2018). NDBs are expected to address market failures, including by providing affordable long-term finance and engaging in countercyclical lending during economic downturns. In doing so, they perform crucial functions that support sustainable development. These include mitigating the effects of crises, such as the COVID-19 pandemic and its economic repercussions, and fostering economic recovery through countercyclical lending; filling financing gaps for investments with high social returns (e.g. climate action and other public goods such as education and health); financing infrastructure and innovation through long-term loans; extending finance to underserved sectors and market segments; and mobilising private finance and crowding in private investment (Griffith-Jones, Xiaoyun, Gu, & Spratt, 2017; Gutierrez & Kliatskova, 2021; Marodon et al., 2025; Marois, 2021). In this regard, Brazil's National Bank for Economic and Social Development (BNDES), Germany's KfW and the Business Development Bank of Canada are often cited as positive examples of development banks that have generated significant developmental impacts (Musacchio, Lazzarini, Makhoul, & Simmons, 2017; Torres & Zeidan, 2016). In LMICs in particular, NDBs are also expected to provide financing to underserved sectors and market segments that are underserved by private financial institutions and capital markets. Such financing may include investments in the green transition, local start-ups, SMEs, agriculture and rural transport infrastructure (Musacchio et al., 2017).

While most of the economics literature limits the role of NDBs to addressing market failures, several scholars envision broader and more proactive roles for development banks. The recent concept of “smart development banks”, for instance, highlights their potential to identify market failures in the first place (Fernández-Arias et al., 2020). Other contributions argue that public banks can be used strategically not only to correct market failures but also to shape and create markets (Marois, 2021; Mazzucato & Penna, 2016). From this perspective, development banks can provide mission-oriented finance that advances inclusive growth, innovation and green transitions (Mazzucato & Pena, 2016). This strand of literature thus positions NDBs as innovative, developmental and problem-oriented institutions that can complement and steer private finance rather than merely address its deficiencies (Marois, 2021).

Irrespective of the exact scope of NDBs' envisaged role, the size of the bank must be large enough to generate development impact that can have transformative effects on the economy and improve the socio-economic circumstances of individuals and households. Broadening and diversifying funding sources is central to increasing NDBs' balance sheets and lending operations. Based on a sample of 378 NDBs worldwide, Xu, Wang and Ru (2020) find the issuance of debt securities and government funding (equity, loans, grants or subsidies) to be the most important funding sources. About 46 per cent of the sampled NDBs issue bonds, and the prevalence of bond issuance increases sharply with bank size (e.g. all “mega” NDBs issue bonds). Bond financing by NDBs is often supported by explicit or implicit state guarantees, giving NDB bonds quasi-sovereign characteristics. These features increase investor confidence, enhance NDB bonds' attractiveness in domestic capital markets and lower funding costs (Marois, 2021; Xu et al., 2020).

Bond issuance can also support domestic resource mobilisation and the development of domestic financial systems by increasing the supply of (relatively) safe, local-currency-denominated assets. A key constraint in many LMICs is the shortage of safe domestic assets, which contributes to domestic savings being invested abroad in hard-currency-denominated assets (Volz, Lo, & Mishra, 2024). NDB bonds can create investable opportunities for

households and domestic institutional investors such as pension funds and insurance companies, while helping to mobilise domestic savings in the local economy and reduce capital outflows (Volz et al., 2024). Moreover, expanding the supply of local-currency bonds (LCBs) and improving market liquidity support the broader development of domestic capital markets, with potential spillovers for the private sector's access to risk finance and long-term funding (Volz et al., 2024). However, a weak sovereign credit rating may make bond issuance a relatively expensive source of financing due to the sovereign ceiling effect: NDB risk cannot be lower than sovereign risk, meaning that interest rates on NDB bonds cannot be lower than those of sovereign bonds (e.g. Almeida, Cunha, Ferreira, & Restrepo, 2016; Volz et al., 2024).

Box 1: Changing views on development banks since the Second World War

The role that NDBs can and should play in fostering sustainable development has been widely debated in the development literature. Historically, some of these views have been more influential than others in guiding political and institutional decision-makers. Three broad periods can be identified.

During the three decades following the Second World War (1945-1980s), NDBs were generally perceived as effective and valuable instruments for economic development (Abor, 2023; Griffith-Jones et al., 2018). Many developing and emerging economies adopted developmental policies in which state-led finance and development banking played central roles in promoting industrialisation and structural transformation (Abor, 2023; Griffith-Jones et al., 2018; Ndikumana et al., 2021; Torres & Zeidan, 2016).

This perception began to shift towards the end of the 1970s, as concerns about the inefficiency and political misuse of development banks became increasingly prominent. Government involvement in the financial sector came to be viewed more critically, while bank privatisation and financial liberalisation were increasingly encouraged (Abor, 2023; Madra, Akbulut, & Adaman, 2024; Marois, 2021). In its 2001 report, "Finance for Growth", the World Bank argued that state ownership of banks impeded financial sector development and economic growth (World Bank, 2001). This consensus view was further reinforced by the widely cited study of La Porta, Lopez-De-Silanes and Shleifer (2002), which found a strong correlation between government ownership of banks and slower financial and economic development.²

The 2007/08 global financial crisis exposed the limits of private banking and market self-regulation, triggering a decisive change in the discourse on public financial institutions and renewed interest in development banks (Griffith-Jones et al., 2018; Gutierrez, Rudolph, Homa, & Blanco Beneit, 2011). As financial markets faltered, public banks regained support, particularly for their counter-cyclical lending. This lending provided crucial finance for economic recovery by supporting investments in industry and infrastructure (Chandrasekhar, 2016). Renewed interest in public banks during periods of economic shock was also evident during the COVID-19 pandemic (Abor, 2023).

Even traditional critics of public banking, including the World Bank and the International Monetary Fund (IMF), softened their position and acknowledged that development banks can play an important role in supporting sustainable development if they have clear mandates, sound governance and effective risk management systems (de Luna-Martínez & Vicente, 2012). In 2015, the UN Addis Ababa Action Agenda endorsed development banks as essential actors in financing the SDGs and supporting investment in infrastructure and micro, small and medium-sized enterprises (MSMEs) (United Nations, 2015). More recently, the outcome document of the International Conference on Financing for Development, "Compromiso de Sevilla", called for the establishment of new NDBs and the strengthening of existing ones (United Nations, 2025).

2 More recent studies by Levy Yeyati, Micco and Panizza (2007) and Andrianova, Demetriades and Shortland (2011) have called the findings of La Porta et al. (2002) into question. They argue that La Porta et al.'s findings that public bank ownership has a consistently negative effect on growth is not robust and is sensitive to model specifications and omitted institutional factors. Once these factors are accounted for, government ownership of banks may be neutral or even positively associated with long-term growth in some contexts.

NDBs in low-income countries (LICs) and LMICs rely heavily on funding from DPs for on-lending, mostly through long-term loans on concessional terms or, in some cases, grants, given the limited availability of funding from domestic sources (Xu et al., 2020). This source of financing is central to DBG and DBN.

Retained earnings, that is, internal financing, and equity financing, are more important sources of funding for NDBs than for commercial banks. Internal financing plays a larger role for smaller NDBs and for NDBs with mandates focused on financing for SMEs, entrepreneurship and housing (Xu et al., 2020), including NDBs with profiles similar to those of DBG and DBN.

By contrast, domestic savings mobilisation through deposits is less common among NDBs because taking deposits can increase liquidity risks and exacerbate maturity mismatches. Nevertheless, roughly half of the NDBs in LICs take deposits, which might reflect the limited availability of alternative funding sources (Xu et al., 2020). Neither DBG nor DBN accepts deposits.

Beyond these common funding sources, NDBs can also draw on a range of additional instruments. For instance, NDBs can mobilise resources through public–private co-financing arrangements. By acting as anchor investors or providing initial risk-bearing capital, they can crowd in private domestic and international investment that would not have participated otherwise. In this way, NDBs can broaden the domestic financing base available for development projects (Marodon et al., 2025).

2.2 Independence of NDBs

Institutional independence has been widely regarded as an essential condition for the effectiveness, credibility and long-term financial sustainability of NDBs (Amoussou, Mabuza, & Bah, 2024; Attridge et al., 2021; Griffith-Jones et al., 2018; World Bank, 2015). Much of the existing literature on institutional independence in the financial sector focuses on central banks and defines independence primarily in terms of insulation from political interference (Bogari, 2020; Dudchenko, 2020; Garriga & Rodriguez, 2019; Segalotto, Arnone, & Laurens, 2006). While this literature offers useful insights, development banks differ fundamentally from central banks in their purpose and design. As instruments of development policy, their mandates are defined by the state (de Luna-Martínez et al., 2018) and they are expected to operate in line with government priorities and national developmental strategies (Abor, 2023; Lazzarini et al., 2015; Marois, 2021; Mazzucato & Pena, 2016).

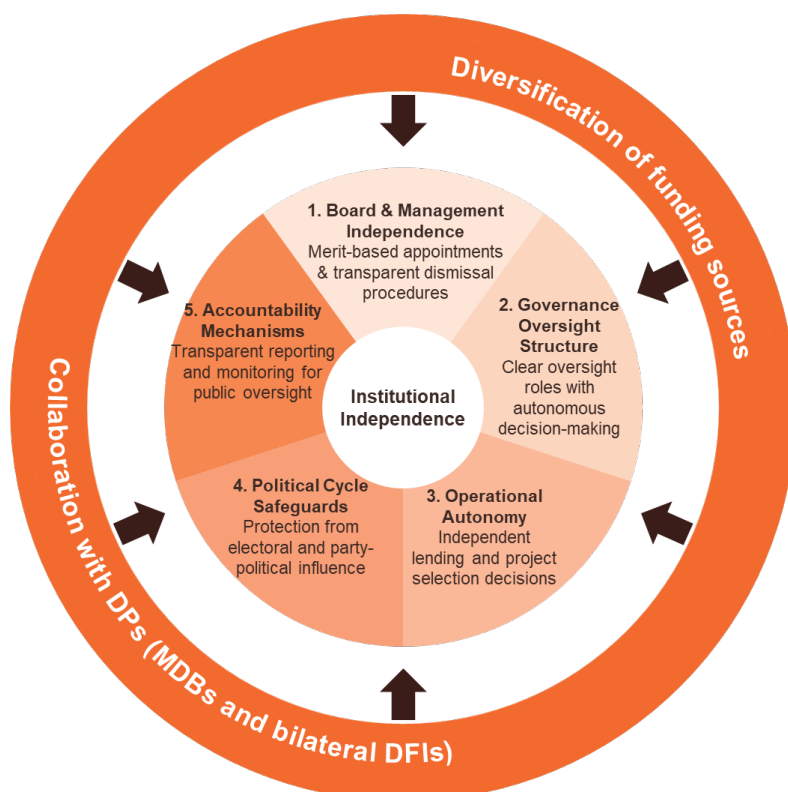
This close connection between NDBs and the state can signal the state's commitment to priority sectors and provide several important advantages. These include access to long-term funding from the state, coordination with national development strategies and enhanced credibility when mobilising private capital or cooperating with DPs (Abor, 2023; Marois, 2021). Nevertheless, close government ties also bear significant risks. Political influence over governance and oversight structures, lending decisions, and board and management appointments can severely compromise financial integrity and development impact (Abor, 2023; Huang, Xi, & Xu, 2020). These risks may be particularly pronounced in countries characterised by fragmented political systems and strong patronage networks (Huang et al., 2020; World Bank, 2015). In such contexts, NDBs could face intense political pressure to align resource allocation, executive appointments and other decisions with electoral cycles and the interests of influential groups (Abor, 2023; Attridge et al., 2021). For a sample of 21 African countries, Attridge et al. (2021) provide empirical evidence showing that political appointments compromise the financial performance and asset quality of NDBs. The positive effects of board independence are strongest in countries with weaker institutional environments, suggesting a moderating effect and indicating that safeguards for operational autonomy are particularly important where political risks are highest.

As public financial institutions entrusted with contributing to the progress of a country's development objectives, NDBs must balance political accountability with operational autonomy (Abor, 2023; Huang et al., 2020). Importantly, institutional independence refers not only to the legal separation of NDBs from government institutions, guaranteed through laws and covenants establishing their own corporate governance structures, but also to their operational autonomy. The latter implies NDBs' freedom to execute their mandates, for instance in relation to credit decisions, risk appetite, staffing, internal processes, product development and pricing without political interference, even though the mandates themselves – including sectors, target clients, broad strategic direction – are determined by government (e.g. Griffith-Jones, 2022; Gutierrez & Kliatskova, 2021). Their ability to strike this balance between political accountability and operational autonomy has significant consequences for their development impact and institutional resilience.

Some authors argue that the presence of DPs on the boards of NDBs could enhance institutional independence by functioning as a reputational shield against political influence (Attridge et al., 2021). Incorporating “strategic shareholders”, such as DPs, as equity partners is expected to increase expertise and credibility, while reducing political interference (World Bank, 2019, p. 40). Still, these relationships are often unequal, and funding from DPs can be subject to certain conditions that could generate tensions when the priorities of governments and DPs do not align (Marois, Woolford, Güngen, & Marodon, 2025). Consequently, increased cooperation may create additional constraints and accountability obligations that affect NDBs' independence (Mariotti, Kozul-Wright, Bhandary, & Gallagher, 2025).

Similar trade-offs exist with funding arrangements. Capital market financing, particularly through bond issuance, allows NDBs to mobilise large volumes of long-term funding by relying on sovereign creditworthiness (Xu et al., 2020). This type of funding introduces financial discipline, as market actors influence the price and scale of available funding. However, greater dependence on market-based funding may shift NDB lending towards projects that are more commercially viable, potentially reducing support for projects with high social or developmental returns but lower financial profitability (Xu et al., 2020).

Figure 1: Framework of institutional independence



Source: Authors

Box 2: Conceptualising and operationalising independence of NDBs

While institutional independence is widely recognised as crucial for NDB effectiveness and durability (Abor, 2023; Griffith-Jones et al., 2018; World Bank, 2015), the literature provides little systematic definition or operationalisation of the concept (Attridge et al., 2021; Xu et al., 2020). In this paper, independence is understood as comprising five interrelated dimensions.

The first dimension, board and management independence, includes transparent and merit-based appointment processes to mitigate political influence. It also encompasses transparent and clearly defined dismissal procedures for board and management members. The second dimension concerns NDB governance structures that clearly define oversight responsibilities while ensuring the autonomy of boards and management in operational decision-making. The third dimension entails operational autonomy in lending decisions to ensure that risk assessment and project selection are based on financial and developmental criteria instead of political favouritism. The fourth dimension comprises sound safeguards against political cycles that mitigate the influence of electoral party politics on institutional behaviour (e.g. fixed and staggered terms for the board and senior management). The fifth dimension comprises accountability mechanisms such as regular reporting requirements and monitoring and evaluation systems, which promote transparency and public oversight (Abor, 2023; Attridge et al., 2021).

NDBs can use partnerships with DPs and funding arrangements as strategic instruments to shape these dimensions, that is, the relevant institutional arrangements, and thus safeguard their independence (Mariotti et al., 2025). Diversifying funding sources or involving strategic shareholders may help protect NDBs from political interference by reinforcing credibility, introducing external oversight or strengthening governance standards (Attridge et al., 2021). However, such strategies can create new constraints and dependencies, highlighting that diversified funding and partnerships do not automatically increase independence (Mariotti et al., 2025).

NDBs may demonstrate autonomy in some dimensions while remaining more politically embedded in others. Furthermore, institutional independence is shaped and negotiated through interactions with domestic political actors and DPs. NDBs must thus strike “different types of equilibria with varying degrees of independence” in their interactions with different actors to achieve their development objectives (Huang et al., 2020, p. 6).

Figure 1 illustrates the connections between the various dimensions of institutional independence, as set out in the preceding paragraphs. Collaboration with DPs and funding diversification serve as external factors that (potentially) protect NDBs’ institutional independence, while board and management independence, governance and oversight structures, operational autonomy and safeguards against political cycles and accountability are the institutional dimensions that directly influence it.

2.3 NDB partnerships with PFIs and DPs

African NDBs that were established during the recent wave of new development banks over the past 15 years have predominantly adopted a wholesale or second-tier lending model and have frequently collaborated with DPs, that is, internationally operating bilateral development finance institutions (DFIs) and MDBs (see e.g. Abor, 2023; Abor & Ofori-Sasu, 2024). The wholesale or second-tier lending model – in which a development bank channels capital to retail lenders rather than lending directly to end-borrowers – rests on a specific rationale. According to Eslava, Maffioli and Arjona (2012), delegating the screening of borrowers to commercial banks and other private financial institutions improves the efficiency of credit allocation, as these institutions bear the ultimate default risk and are therefore incentivised to allocate resources efficiently. This delegation also minimises opportunities for political influence over credit allocation (Abor & Ofori-Sasu, 2024). Such a division of labour reflects a broader logic of comparative advantage in the development banking literature (see e.g. Griffith-Jones & Ocampo, 2018): Development banks are seen as best suited to providing countercyclical lending and long-term finance, while

commercial banks retain an advantage in international trade credit and financing for large firms. Lower-tier financial institutions, in turn, are best positioned to reach MSMEs. Consequently, the second-tier model is particularly effective for development banks with an MSME mandate, as it combines targeted MSME financing with the retail screening and last-mile distribution advantages of commercial banks, specialised microfinance institutions and other lenders focused on MSMEs. Beyond funds for on-lending, development banks may also provide guarantees, technical assistance or, in some cases, equity financing to PFIs.

Yet recent empirical evidence complicates the discussions on second-tier lending, since a study of DFI-intermediated lending programmes among African banks between 2010 and 2021 found that supported banks experienced roughly 8 per cent lower loan growth afterward. The study attributes this effect to limited absorptive capacity, which led banks to prioritise new clients over existing borrowers rather than expanding aggregate credit supply (Léon, 2025).

NDBs have a long history of partnering with other public banks to co-finance national economic and development priorities, a practice that dates back to the early twentieth century (Aghion, 1999; Clifton, Díaz Fuentes, & Howarth, 2021; Griffith-Jones, Marodon, Rochon, & Xu, 2023b; Marois, 2021; Mertens et al., 2021). After the Second World War, as several NDBs in advanced economies expanded their involvement into international development and foreign-trade finance, bilateral cooperation increasingly took the form of cross-border partnerships with domestic public lenders. In parallel, the emergence of MDBs broadened the scale of development-finance collaboration while also generating controversy linked to the unequal power and policy influence of institutions dominated by the Global North (Clifton et al., 2021; Kentikelenis & Babb, 2021). These tensions intensified from the 1980s onwards, when neoliberal structural adjustment priorities, including privatisation, liberalisation and market-oriented conditionality became central to multilateral development finance (Balassa, 1982).

Today, demands for accountability, inclusiveness and “green and just” development pathways, particularly in response to climate and governance challenges, increasingly shape collaboration between DPs and NDBs (Ray, Gallagher, & Sanborn, 2020; United Nations Inter-Agency Task Force on Financing for Development, 2024). These contemporary dynamics are reflected in initiatives such as the Finance in Common Summit, launched in 2020 to strengthen cooperation and knowledge-sharing among public development banks and mobilise sustainable finance (Marois et al., 2025). The 2025 Summit in Cape Town emphasised the need to deepen linkages between multilateral, national and subnational public development banks in order to scale up collaboration among public development banks and accelerate financing for green and just transitions (Marois et al., 2025).

Existing evidence from studies that map collaboration between MDBs and other development banks indicates that such collaboration is uneven across regions. Marois, Stewart and Marodon (2023) – based on their sample of nine MDBs, all of which are regional development banks – find that MDBs in Africa and the Middle East (Trade and Development Bank, African Development Bank (AfDB), the Islamic Development Bank) engaged with substantially fewer NDBs between 2017 and 2021 than MDBs in Europe (EIB; Council of Europe Development Bank), Latin America (Development Bank of Latin America and the Caribbean; Inter-American Development Bank) and Asia (Asian Development Bank; Asian Infrastructure Investment Bank) (Marois et al., 2023).

This uneven pattern is confirmed by portfolio-level evidence from Léon et al. (2025), which maps MDB financial support to other development banks totalling USD 108.5 billion between 2014 and 2024: Around one third of development banks receive MDB support. Financing volumes have increased in recent years and are geographically concentrated in Latin America and Europe. European MDBs (EIB; Council of Europe Development Bank) and the World Bank concentrate on fewer large-scale operations and beneficiaries. Across the overall sample, 20 development banks, representing around 3 per cent of the total, receive 50 per cent of MDB

financing to development banks. Latin American MDBs (Inter-American Development Bank; Development Bank of Latin America and the Caribbean) and African MDBs (AfDB), by contrast, support a larger number of smaller projects, reflecting more dispersed financing tailored to regional needs and capacities (Léon et al., 2025). Moreover, increases in MDB financing appear to be driven mainly by the “intensive margin”, that is, greater funding for already-supported public development banks, rather than through broad expansion to new beneficiaries, although the extensive margin plays a larger role in regions such as Africa and Asia (Léon et al., 2025). While Africa accounts for a smaller share of projects in global MDB portfolios, Léon et al. (2025) highlight that MDB-financed support in Africa tends to be comparatively large relative to the size of the beneficiary: On average, a single MDB-financed project represents about 17 per cent of the total assets of an African development bank, underscoring the importance of funding due to limited alternative funding sources (Léon et al., 2025).

DP support encompasses both financial and non-financial elements. Collaboration primarily takes the form of financial instruments, most commonly through non-concessional loans, concessional loans and grants, followed by guarantees and equity, across the nine MDBs sampled by Marois et al. (2023). Although access to hard-currency finance, particularly in USD and EUR, is a central motivation for NDBs in the Global South to collaborate with MDBs, the vast majority of NDBs report high cost and risk sensitivity, often judging MDB funding to be insufficiently concessional once compliance and reporting requirements, as well as currency risks, are considered (Marois et al., 2025).

Beyond lending, technical assistance has emerged as a near-universal pillar of collaboration: 16 of the 17 NDBs in the sample analysed by Marois et al. (2025) received technical assistance from MDBs. For NDBs in the Global South, such support can be as important as, or even more important than, financial assistance, since it can strengthen project preparation, governance, impact measurement, climate risk assessment and accreditation to access multilateral climate finance, such as the Green Climate Fund (GCF). Despite the technical assistance, MDBs report constraints that limit deeper cooperation, including currency and exchange rate risks, market competition, debt and fiscal constraints, and capacity limitations in some NDBs. These gaps relate, for example, to monitoring and reporting systems, governance and the strength of NDBs’ balance sheets (Mariotti et al., 2025; Marois et al., 2023).

A central observation in the development banking literature is that NDBs are not passive recipients of MDB support but essential implementation partners. NDBs contribute local market knowledge, borrower relationships, policy alignment with national development strategies and the ability to channel finance directly to domestic firms, municipalities and MSMEs. They are often better positioned than MDBs to translate global climate and development goals into locally appropriate projects, manage political and institutional risks, and ensure continuity over long investment horizons (Marois et al., 2025; Volz et al., 2024). Despite increasing attention to MDB–NDB collaboration, Marois et al. observe that “... the actual case study histories of public development bank collaborations are relatively unknown and under-explored” (Marois et al., 2025, p. 10).

This study contributes to filling this gap in the literature by tracing how such partnerships develop and evolve in practice within specific banks over time. Exploring how DBG’s and DBN’s collaborations with DPs shape their institutional development, funding diversification, institutional independence and sustainability performance helps to identify which elements of these partnerships are particularly beneficial for NDBs’ development. In addition, much of the existing literature focuses on how MDBs can support NDBs in LMICs to realise their full potential. However, bilateral DFIs, such as KfW and AFD, also work closely with NDBs. Compared with MDBs, bilateral DFIs are more flexible and have a greater risk appetite than MDBs owing to differences in financing structures and regulatory requirements (Attridge & Gouett, 2021; Attridge & Novak, 2022). This study further contributes to the development banking literature by shedding light on the collaboration between bilateral DFIs and NDBs in LMICs.

2.4 The role of NDBs in sustainability and green finance

The financial resources required annually to achieve the SDGs and to support the green transition are substantial and rising, with estimates running into trillions of US dollars (United Nations Inter-Agency Task Force on Financing for Development, 2024). Yet, redirecting investments and financial flows to support green projects remains a major global challenge (Griffith-Jones et al., 2020). There is a small but growing body of literature focusing on the role of NDBs in supporting countries' transitions to greener and more sustainable economies. The broad consensus is that NDBs have the potential to be key actors in fostering sustainability. Several studies have posited that NDBs are uniquely well-positioned to act as enablers of sustainability, given their capacity to provide long-term financing, capacity to absorb and mitigate risk, as well as their deep understanding of local contexts, strong ties with other local financial institutions, both public and private, and knowledge of local barriers to (green) investment (Abor, 2023; Dalhuijsen et al., 2023; Griffith-Jones et al., 2020; Mazzucato, 2023).

NDBs employ various instruments to foster the transition to a sustainable, carbon-neutral economy. They provide financial resources to fund green and sustainable projects through long-term concessional loans, thus making loans accessible even for underserved borrowers and supporting green investments with high upfront costs and long repayment periods (Abor, 2023; Attridge, Getzel, & Gilmour, 2023; Griffith-Jones et al., 2020; Xu et al., 2020). To scale such activities, NDBs can mobilise capital through green bond issuance, which channels capital from investors to environmentally sustainable projects (Alabi, Oguntinyinbo, Abioye, John-Ladega, 2024; Griffith-Jones et al., 2020). Moreover, NDBs may apply for accreditation to access international multilateral climate funds, such as the GCF, to secure the required financing to achieve national environmental and social objectives (Griffith-Jones et al., 2020). Several studies have highlighted the important role of NDBs as policy influencers in helping to shape broad and sector-specific policy frameworks to encourage and channel investment towards environmentally and socially responsible projects (e.g. Griffith-Jones et al., 2020; Volz et al., 2024). Along the same lines, Brockmann (2017) found that NDBs could foster sustainability by developing and enforcing institutional mechanisms, such as ESG frameworks and policies, and managing E&S risks at the portfolio level.

Griffith-Jones et al. (2018) emphasise that NDBs are at the centre of efforts to promote sustainable development, particularly by improving access to finance for MSMEs, thereby supporting both the social and economic dimensions of sustainability. Moreover, MSMEs are disproportionately affected by financial constraints despite their critical role in fostering inclusive development. They account for more than half of the formal employment in LMICs, provide livelihoods for semi-formal and informal workers, and create economic opportunities for disadvantaged groups such as women, youth and unskilled workers as well as for communities beyond major urban and economic hubs (Disse & Sommer, 2020). Hence, NDBs – especially those mandated to serve MSMEs, such as DBG and DBN – contribute to the social dimension of sustainability.

Despite the broad agreement on their potential as key actors in supporting sustainable development, empirical evidence shows that NDBs' engagement remains limited. Dalhuijsen et al. (2023) report, for instance, that the share of green assets in NDBs' portfolios remains low, accounting for only 14 per cent of NDBs' credit portfolios on average. Additionally, development banks are not immune to the green and growth contradictions of global financialised capitalism: Although they are investing significant resources in support of the transition to a green and sustainable economy, NDBs often continue to fund carbon-intensive economic activities (see e.g. Marois, 2021).

Furthermore, public ownership does not predispose NDBs to prioritise the financing of green and just development; contested social and political forces continuously shape the behaviour of NDBs, which can be redirected towards prioritising profit maximisation over sustainable development and green transitions (Barrowclough & Marois, 2025). Against this background, this study draws on in-depth case-study evidence to explore to what extent DBG and DBN contribute

to the social and environmental dimensions of sustainability. In particular, it examines whether sustainability ambitions translate into substantial portfolio shares allocated to green projects, and how these two NDBs contribute to mainstreaming green finance in the national financial system and the broader national policy arena. This adds to the existing literature by analysing how NDBs in an African LMIC context balance socio-economic and environmental objectives and examining the role that DPs play in strengthening their sustainability ambitions.

3 Methodology

3.1 Research design

This study employs a qualitative design to examine the overarching research question of what factors enable NDBs to develop into independent and impactful institutions capable of fostering sustainable development. To answer this, the study explores five dimensions: (i) the diversification of funding sources and the scaling up of operations as necessary conditions for achieving transformative impact; (ii) institutional independence, given that political interference led to the failure of previous NDBs; collaboration with (iii) PFIs and (iv) DPs, both of which are central to the operations of the new generation of NDBs and may help shield them from undue political interference; and (v) the role of NDBs in fostering sustainability. The specific research questions are presented in the Appendix.

Given the limited research on African NDBs, this study is primarily exploratory and therefore adopts a qualitative approach. It uses two case studies, DBG in Ghana and DBN in Nigeria, in which semi-structured interviews were conducted with relevant stakeholders. These two NDBs are particularly informative for identifying factors for the successful establishment of new NDBs. Both are comparatively extreme cases because DPs were deeply involved from their inception (role of external partners) in an environment where previous NDBs had failed (least-likely environment).

3.2 Case selection and background on DBG and DBN

The study focuses on two African NDBs, DBG in Ghana and DBN in Nigeria. These two NDBs belong to a new generation of NDBs established in the 21st century, amid renewed recognition of and political support for development banks – especially in the aftermath of the 2007/08 global financial crisis (e.g. Griffith-Jones et al., 2018; UN, 2025). The focus on Africa is especially relevant because this resurgence has been particularly pronounced there. According to the Public Development Banks and Development Financing Institutions Database, nearly half of the NDBs established worldwide since 2010 are located in Africa (Xu et al., 2021).

Following the case selection typology of Gerring (2017), DBG and DBN were selected as extreme cases. They constitute extreme cases among African NDBs in two respects. First, both Ghana and Nigeria had experienced poor performance and the failure of predecessor institutions, making them least likely environments for the successful (re-)establishment of NDBs. Second, the intensity of DP engagement far exceeds that in comparable institution-building efforts, allowing the role of external support to be observed in its most pronounced form: A consortium of DPs was engaged from the very beginning, through both financial and non-financial support, whereas in other African countries, DPs either were not involved in establishing new NDBs or provided only technical assistance.³ Extreme cases are, as Gerring (2017)

3 In some African countries that had established NDBs since 2010, DPs provided support some years after NDBs started operations, for example through additional funding or technical assistance.

notes, particularly suited to exploratory, mechanism-oriented research, since the phenomenon of interest manifests with maximal clarity: Factors that enable the successful establishment of impactful NDBs under adverse conditions are especially informative, as they are likely to facilitate successful establishment in environments that are more favourable. The selection is therefore not intended to be statistically representative; rather, it maximises analytical leverage to identify success factors and derive key lessons and best practices for the establishment of new NDBs and improving the effectiveness of existing ones.

Furthermore, for the analysis of the subtopic of DP engagement, the selected cases approximate the logic of pathway cases for exploring causal relationships (Gerring, 2017). Both DBG and DBN exhibit extreme values for one of the explanatory conditions of interest, that is, the density and breadth of DP support in the NDB establishment. At the same time, the previous failure of predecessor institutions renders Nigeria and Ghana least likely environments for the establishment of independent and effective development banks, and it weakens the plausibility of the principal rival explanation – a favourable domestic institutional legacy. Hence, the mechanism linking DP support to NDBs' institutional independence and effectiveness can be observed with minimal confounding. As with the extreme-case logic, the aim of the selection is not statistical representativeness but analytical leverage: The cases permit close examination of whether, and through which mechanisms, DP engagement fosters institutional independence, effectiveness (e.g. size and development impact) and sustainability performance of newly established development banks under adverse initial conditions.

DBG was established in 2020 under Ghana's Development Finance Institutions Act (DFI Act 1032), marking a departure from the country's earlier NDBs. Previous NDBs, such as the National Investment Bank, adopted a retail model and provided loans directly to individuals and enterprises (Abor & Ofori-Sasu, 2024). This model exposed them to greater political interference and contributed to elevated levels of non-performing loans, thereby undermining their development objectives (Abor 2023; Chukwu, Mbanefo, & Doris, 2024). In contrast, DBG was designed as a wholesale, market-oriented DFI that channels long-term finance through PFIs rather than engaging in direct lending. This institutional design is intended to limit opportunities for political interference and to reduce DBG's credit risk through risk-sharing and risk-transfer mechanisms (Abor & Ofori-Sasu, 2024). Furthermore, DBG was established in collaboration with MDBs and bilateral DFIs (referred to by DBG as DPs), namely the World Bank, AfDB, EIB and KfW. In terms of its funding structure, DBG is capitalised through a combination of government equity and financing provided by these DPs.

DBN, which became operational in 2017, likewise represents the new generation of African NDBs established in the last two decades. Mandated to serve MSMEs, DBN operates using a wholesale lending and credit guarantee model, channelling long-term finance through PFIs rather than direct lending (Development Bank of Nigeria, n.d.; World Bank, 2024). This approach aims to reduce credit risk, limit political interference and leverage the reach of commercial financial institutions to expand financial inclusion. DBN was also established with the support of MDBs and bilateral DFIs (which DBN also refers to as DPs). These include KfW, AfDB, EIB, AFD and the World Bank. Since its inception, DBN has maintained close collaboration with DPs through both financing arrangements and a range of non-financial initiatives aimed at strengthening technical and institutional capacity and promoting sustainable development (AfDB [African Development Bank], 2025; Gbahabo, Agyeman, & Ikhida, 2024; World Bank, 2018).

3.3 Sampling and participants

The selection of interviewees was based on the interviewees' professional positions, specialised expertise and unique perspectives acquired through these positions. As the number of senior decision-makers with knowledge and experience relative to the study is limited, our sampling strategy consisted primarily of non-random purposive sampling of stakeholders. This approach

is most suitable because the purpose of our research is not to achieve statistical representativeness but to gain in-depth knowledge of NDBs' governance and growth, institutional independence, contributions to sustainable development and their interactions with DPs and PFIs (Palinkas et al., 2015).

Interviews were conducted with a broad range of stakeholders involved in the (development) finance sector in Ghana and Nigeria. These included senior representatives of the two NDBs fulfilling financial, legal and strategic functions, as well as senior representatives of DPs (the World Bank, EIB, KfW and AFD). Interviews were also conducted with PFIs, non-PFIs and SME managers representing final borrowers. Non-disclosure agreements between PFIs and SMEs made it difficult to access final borrowers; nevertheless, a small number of SMEs were interviewed in Nigeria. In one country, representatives from the central bank and Ministry of Finance were also interviewed. In total, 55 interviews were conducted: 29 in Ghana and 26 in Nigeria. These comprised interviews with 7 DPs, 13 NDB representatives, 17 PFIs, 4 non-PFIs, 4 CSOs, 6 SMEs and 4 additional stakeholders (representatives from the central bank, the Ministry of Finance and implementing agencies of development cooperation). An overview table of the interviewees and the distribution across stakeholder groups is presented in Table A1 in the Appendix. Interviewing stakeholders across different institutional levels and roles enabled a deeper understanding of how NDB practices are understood, enacted and governed.

3.4 Data collection and data management

Primary data were collected through semi-structured interviews using interview guides. This allowed us to cover the key thematic areas of this study while providing sufficient flexibility to explore topics in greater depth and address new or unexpected themes that emerged. The interview guides were tailored to the expertise and knowledge of the individual interviewees. Although the same questions were used to allow for comparability across interviewees, the interviewees were asked only those questions relevant to their position and responsibilities. NDB representatives from the legal department, for instance, were not asked questions on sustainability, while representatives of the sustainability unit were not asked about legal matters concerning institutional independence.

Most interviews were conducted in person and audio-recorded with the consent of the interviewees. Online interviews were conducted where in-person interviews were not possible and were likewise audio-recorded with participants' consent. All 55 interviews were conducted in English and lasted between 30 and 90 minutes, with most taking between 60 and 75 minutes. To ensure data quality and provide a full and accurate basis for the analysis, interviews were transcribed verbatim using f4 transcription software. In the very few instances where interviewees did not consent to audio-recording, detailed notes were taken instead and transformed into a transcript. Subsequently, at least two researchers verified the quality of each transcript by checking it against the audio recordings or, where applicable, the detailed interview notes.

Regarding the informed consent, all interviewees – prior to participating – received a detailed participant information sheet outlining the purpose, duration and procedures of the research, as well as their role in it. Informed consent was obtained in writing in most cases and orally where this was not possible; separate consent was requested for audio recording. Interviewees were informed that they could pause or withdraw from the interview at any time without facing any negative consequences.⁴ Furthermore, the research team guaranteed confidentiality and pseudonymised all data.

4 The research was granted research ethics clearance by the IDOS Research Ethics Committee under number 2025-PGP61-RT3.

3.5 Data analysis

The data were interpreted and analysed using a qualitative content analysis framework (Kuckartz, 2012). Prior to the data analysis phase, a codebook was developed using deductive and inductive approaches. Initial codes were deductively derived from the pre-defined research questions and the relevant literature, while additional codes (inductively) emerged during data familiarisation (transcript quality checks) and the coding process. Furthermore, the codes were organised hierarchically into categories and sub-codes based on the research topics covered by the research questions.

Approximately 30 per cent of the interview transcripts were used to develop the final codebook, which comprised 155 codes and was constructed using the deductive and inductive approaches described above. Ultimately, all 55 transcripts were analysed using the 155 codes aligned with the thematic focus of the study. Finally, the findings were triangulated using publicly available documents such as annual reports, legal frameworks and the relevant literature.

4 Results and analysis

4.1 Independence of DBG and DBN

4.1.1 Defining independence: meaning and importance

Our interview data indicate that, in the context of DBG and DBN, independence is primarily understood as the banks' ability to operate without undue interference from government or shareholders, including DPs, particularly in decision-making processes such as for lending, project selection and strategic goal-setting (NDB 4, NDB 8, PFI 11 and NDB 12). This includes the capacity of boards and executive management to exercise their roles free from political pressure, thereby ensuring that decisions are guided by technical, financial and developmental considerations rather than external influence (CSO 2, Others 3, NDB 11 and NDB 12). Managerial decisions influenced by political connectedness rather than business or project viability can result in high levels of non-performing loans at NDBs. As a result, a high degree of managerial autonomy is essential for enhancing the banks' ability to withstand undue political interference (Abor, 2023; de Luna-Martínez et al., 2018). The absence of non-performing loans at both NDBs buttresses the belief that there is likely no political interference – at least distortionary interference that could adversely affect NDB performance.

Furthermore, the interviews indicate that independence requires a clear separation of authority among shareholders, boards and executive management (NDB 12). As one respondent explained, institutional independence involves “drawing the fine line between the shareholders' authority, the board's authority, and management's authority [...] You want to make sure that the board and executive management are exercising their roles clear of any interference from the shareholder” (NDB 12). This highlights that independence does not entail the absence of ownership or oversight; rather, it requires a separation between ownership, governance and operations, particularly in critical areas such as lending and investment decisions. This suggests that independence is shaped by institutional arrangements and governance practices.

However, the findings also reveal conceptual ambiguity, as a stakeholder (CSO 4) noted that independence is not clearly defined, making it difficult to assess or operationalise consistently. Attridge et al. (2021) and Xu et al. (2020) also observe this lack of a systematic definition of independence, which can hamper efforts to safeguard the institutional independence of the NDBs.

When questioned about the importance of independence, several respondents stated that it is a fundamental prerequisite for enabling NDBs to fulfil their development mandates effectively

and avoid institutional failures documented in historical cases (Others 4, DP 6, NDB 1, NDB 5, NDB 7 and NDB 8). As one participant noted:

A lot of times we've observed that political interference has been one of the reasons ... why these development banks have failed in the past ... because of the history ... specifically political interference, poor corporate governance, and poor resource management broadly. That is why independence is critical. (NDB 8)

Furthermore, a few interviewees emphasised that independence helps ensure that NDBs fulfil their mandate rather than catering to political interests or short-term electoral considerations (NDB 8, Others 4).

A small number of participants linked independence to the financial sustainability of NDBs (DP 6, NDB 12). From this perspective, independence matters because it helps protect lending and investment decisions from short-term political considerations that may lead to inefficient resource allocation, weak repayment discipline and the accumulation of non-performing loans. Some respondents also linked independence to improved corporate governance and resource management (NDB 4, NDB 8), suggesting that clear governance structures and professional decision-making are essential for maintaining the balance between development objectives and financial viability.

This is particularly important given the historical performance of development banks in Ghana and other African contexts, where political interference and weak governance have contributed to institutional failure and financial fragility (Abor, 2023; Attridge et al., 2021; Huang et al., 2020). Overall, the interview data align with existing evidence that independence is not only important for protecting NDBs' development mandates but also for safeguarding their long-term financial sustainability. The two case studies provide new and complementary insights into the importance of institutional arrangements and governance practices for institutional independence, which are shaped by the covenants and their day-to-day implementation and operationalisation.

4.1.2 Safeguarding against political interference: mechanisms and challenges

Given that institutional independence is crucial to the performance and sustainability of NDBs, this paper examines how independence is institutionalised and operationalised within DBG and DBN. The results provide important insights into the mechanisms that safeguard DBG and DBN from political pressures, as well as the challenges they still face in enhancing their autonomy in order to withstand undue political interference.

Relations with DPs (MDBs and bilateral DFIs)

The interview data show that NDBs can use partnerships with DPs as a strategic instrument to insulate themselves from political pressure, safeguarding their independence. Most NDB representatives interviewed pointed out that collaboration with DPs plays a major role in safeguarding the NDBs' institutional independence (NDB 1, NDB 5, NDB 8, NDB 7, NDB 9, NDB 11, NDB 12, NDB 13). DPs are currently the primary source of funding for the two NDBs, and DPs have made autonomous operation free from political interference a key condition of their support. One key role of DPs in shielding the NDBs from political interference is their observer status on the NDBs' boards (Others 3, Others 4, NDB 4, NDB 7, NDB 9, NDB 12, NDB 13). The interviewed DP representatives also generally concur with the NDB representatives that their presence has helped to insulate the NDBs from political interference (DP 1, DP 2 and DP 7). A DP representative expressed that they had put in place a "ring-fenced corporate governance structure" that insulates the banks from political interference (DP 2). This finding aligns with Attridge et al. (2021), who argue that the participation of DPs on the boards of NDBs enhances independence by serving as a reputational safeguard against political influence.

Nevertheless, partnerships with DPs can also create new constraints. A small number of participants – especially from outside the NDBs – saw funding from DPs as an infringement on the NDBs’ operational autonomy (CSO 1, NDB 1, Others 2, CSO 4). In principle, operational autonomy includes the ability to channel funding to targeted sectors. Yet, financial support from DPs comes with covenants that specify which sectors may or may not be supported. As one respondent stated:

The development partners are partners, and most of these funding sources come with the covenants that they need to achieve. Therefore, you have to go by those covenants [...] There are trade-offs [...] They are very categorical. [DPs might say], we do not want our money to fund this sector. We do not want our money to fund this sector. [The NDB has] to be in line with those covenants. (NDB 1)

Although the findings suggest that both DBG and DBN cooperate with DPs based on shared interest and that DPs’ contribution to safeguarding independence is widely believed to outweigh the risk to operational autonomy, such collaboration may nonetheless limit the operational autonomy of the NDBs. In practice, these constraints may take the form of narrow, facility-specific terms, such as earmarking a credit line for a specific sector (e.g. green finance) or target group (e.g. youth-led businesses). Additionally, relations with DPs can become problematic when an NDB is heavily dependent on DP funding. In such cases, NDBs could be pressured to accept the priorities set by the DPs or be unable to decline the conditions for fear of losing an important source of funding. The DPs can indirectly influence the strategic direction of the NDBs, potentially reducing them to mere implementing partners rather than allowing them to set their own strategies and priorities.

Board and management independence

This research contends that the independence of NDB boards and management is essential to mitigating political interference. In this regard, the results suggest that the presence of a majority of independent non-executive directors (INEDs) on the boards of DBG and DBN is an essential element of their governance structures and safeguards their independence (Others 4, NDB 5, DP 6, NDB 7, NDB 8, NDB 9, PFI 11, NDB 12). Reflecting this broader consensus, an interviewee stated, “having a preponderance of independent directors on the board insulates the NDBs from politics and political administrations” (NDB 9). In fact, Ghana’s DFI Act requires that at least 60 per cent of DBG’s board members be INEDs (DFI Act, p. 30), while a similar requirement for DBN is set out in the Shareholders’ Agreement. The inclusion of independent directors is a corporate governance best practice for NDBs, strengthening their institutional frameworks to withstand political pressure (Abor, 2023).

Merit-based appointments of senior management and board members are another key element of safeguarding the independence of boards and management. The results indicate that one way to ensure senior management and board members are appointed on the basis of qualifications is through competitive recruitment (NDB 2, Others 4, NDB 4, DP 7, NDB 8, NDB 9, NDB 11 and NDB 12). At DBG and DBN, appointments to the banks’ senior management follow strict rules and procedures. Participants argued that recruiting senior management personnel through a rigorous and highly selective process conducted by a third party (e.g. consulting firms) helps ensure that these positions are filled on the basis of merit and qualifications rather than through politically motivated appointments.

The study’s results provide further empirical evidence on the significance of board and management independence in safeguarding an NDB’s institutional independence. In line with existing research, this study concludes that having a majority of independent board members limits political influence over the board of directors, thereby promoting board effectiveness (see Abor & Ofori-Sasu, 2024; Attridge et al., 2021). Moreover, it is crucial that the board members are appointed through a rule-based and transparent process that is based on applicants’

qualifications and competencies. These results are consistent with the findings of previous research on board independence (e.g. Abor & Ofori-Sasu, 2024; Attridge et al., 2021) in underscoring the need for transparent, merit-based appointments to senior management rather than politically motivated appointments.

Operational autonomy: wholesale lending model

This study argues that operational autonomy, particularly over lending decisions, is critical for independence, as it ensures that loan allocations are grounded in financial and developmental criteria instead of political favouritism. The findings suggest that the wholesale model, whereby DBG and DBN channel funding through PFIs rather than lend directly, is seen as an effective means of insulating the NDBs from political pressures (CSO 1, NDB 1, DP 7, NDB 11). As one participant noted:

As I said earlier, political interference, that one is quite evident in leadership. However, when it comes to the operation, it is a bit limited because their on-lending is done [...] by the banks. When it comes to selecting businesses or agribusiness that qualify for certain credit and all that, banks do the normal due diligence and the scrutiny. [...] So that political hand is limited. (CSO 1)

Lending through intermediaries allows the NDBs to resist political pressure to directly lend to borrowers who fall outside their mandated target groups or whose enterprises do not contribute to sustainable development (de Luna-Martínez et al., 2018). The results are consistent with Abor and Ofori-Sasu (2024), who argue that the wholesale model is intended to insulate lending decisions from political pressures.

Governance structure and oversight

This research recognises the importance of good governance and oversight in ensuring that NDBs can withstand political pressure. NDBs must put in place structures and processes to oversee their direction and management and enable them to fulfil their mandates and objectives effectively (de Luna-Martínez et al., 2018). A key finding concerns the importance of a shareholder agreement or compact, a contract between the NDB's board and the shareholder that clearly "stipulates the powers, duties, and roles of each shareholder" (NDB 9). For DBN, the shareholder agreement is cited as instrumental in preserving the bank's independence through provisions that safeguard its independence, including provisions on recruitment processes and the terms of office of the board members and senior management (NDB 4, NDB 9). For DBG, the lack of a compact between DBG and its sole shareholder, the government, was identified as a weakness in terms of institutional independence. Some participants argued that, without such a compact, it is difficult to limit government interference in DBG's operations, as there is no clear definition of the government's role (DP 7, DP 6, NDB respondent). As one respondent put it:

There should be a compact between the shareholder and the board and management. That compact would clearly allow the bank, the government, to sign on to the fact that we would allow the bank to operate with needless interference [...] though it is owned by [the] government, but we know government changes, institutions should not be subjected to changes whenever there is [a] change in government. (NDB respondent)

A shareholder compact is a key governance instrument as it sets out shareholder performance expectations and defines the governance standards applicable to the NDB and clarifies the relationship between the shareholder and the board, thereby supporting effective oversight (Abor & Ofori-Sasu, 2024). Additionally, it complements other governance instruments, such as the DFI Act, to support effective oversight and thereby help insulate NDBs from political interference.

Another important aspect of governance and oversight that emerged from this study is the NDBs' ownership structure. In Ghana, the Ministry of Finance represents the national government as DBG's sole shareholder, while in Nigeria, the Ministry of Finance Incorporated and the Nigerian Sovereign Investment Authority represent the national government as majority shareholders of DBN, holding a combined 75 per cent share. The findings show that the national government oversees DBG and DBN to ensure they operate within their mandate and adhere to the laws and regulations governing them, as well as to promote sound corporate governance (DP 2, NDB 6 and NDB 12). Nonetheless, the results also indicate that government ownership is perceived as a challenge to maintaining institutional independence (CSO 1, DP 1, Others 3, Others 4, CSO 4, DP 5, DP 7, PFI 10 and NDB 11). As a respondent noted, it is challenging "to decouple government interest from the work of a national development bank" (Others 3) because, as state-owned institutions, DBG and DBN can be "relatively independent, but not fully", as they are "a tool of the government to pursue development" (DP 5).

Absolute decoupling from the government is neither feasible nor sought by DBG and DBN, because it would be inconsistent with their design and purpose as publicly funded development agencies with mandates determined by the government. Instead, operational independence is desirable. However, some respondents stated that majority government ownership may be used to undermine the operational independence of the NDBs (CSO 1, Others 3, CSO 4, Others 4, DP 5, DP 7, PFI 10, NDB 11). In line with Abor and Ofori-Sasu (2024), government involvement as a majority or sole shareholder can lead to political interference, weakening the institution's independence and diminishing its credibility. Thus, NDBs must balance accountability to the government and alignment with national development agendas with the safeguarding of their operational autonomy.

A particular challenge associated with majority government ownership identified in the study concerns the involvement of the government in the appointment of board members and senior management. Respondents expressed concern about government approval of appointments to senior management (NDB 1, Others 4). DBG and DBN must seek approval from the central banks, in their role as regulators, and obtain a letter of no objection from the Ministry of Finance before appointing members of the board of directors and key management personnel, such as CEOs. This process provides an opportunity for the government to exercise political influence. In Ghana, for instance, leadership changes at DBG following the 2024 election raised questions about DBG's institutional independence in the context of electoral transitions.

Notably, a few CSO interviewees also highlighted the important role that CSOs can play in public oversight. A recurring theme in the interviews was the CSOs' role in ensuring that the NDBs are fulfilling their mandates. To achieve this, CSOs can investigate the NDBs' contribution to the SDGs and communicate the performance of the NDBs to the public, particularly with regard to whether they are operating in accordance with their mandates (CSO 1, CSO 4). However, CSOs can be a destabilising factor if they do not understand what the NDB stands for or if their perception of the bank's role does not align with the interests of the government (NDB 1).

The results suggest that oversight by relevant actors, such as regulators, shareholders and DPs, is necessary to ensure the NDBs operate in a manner conducive to fulfilling their mandates and supporting their sustainability. As state-owned institutions, oversight by the state is essential to ensure the NDBs' strategies align with the country's development priorities.

Safeguards against political cycles

This paper also proposes sound safeguards against political cycles to mitigate the influence of electoral politics on governance, management and operations of DBG and DBN. The results suggest that dismissal safeguards and the terms of office for board members and senior management also play a key role in safeguarding the independence of NDBs' governance. Some respondents emphasised that fixed terms provide stability for board members (NDB 9,

PFI 11 and NDB 12). At both DBG and DBN, board members serve four-year terms and are eligible for re-election for one additional term. A common view among respondents is that such arrangements protect boards and management from politically motivated dismissals (PFI 3, NDB 9 and NDB 12). Respondents also argued that establishing and enforcing dismissal safeguards protect the independence of the board and management. Such safeguards require due process and oversight of the dismissal of board members and senior management. To illustrate, when a member of senior management (e.g. the CEO) is dismissed, all relevant stakeholders, including regulators, the government and DPs, must be notified and provided with reasons for the dismissal (NDB 12).

DBN illustrates how such arrangements are enforced, as there have been two presidential elections in Nigeria since its inception. However, because of the security of tenure backed by DPs and covenants, government actors, including ministers and presidents, have not removed board members and senior management following changes in government, even though leadership at other public institutions changed (NDB 9). A few participants pointed to the termination of DBG's CEO and changes to the board of directors following the most recent change of government in 2024. Although the dismissals were attributed to allegations related to procurement issues that had already been raised under the previous government, the situation might still have been instrumentalised for political purposes. The dismissals occurred after the new government took office. The timing may have been coincidental, given the ongoing allegations, according to interviewees (NDB 1, DP 6, DP 7, NDB 12).

In addition, participants highlighted that DPs and DBG have put safeguards in place to protect the board and management from such political interference and insisted on proper recruitment procedures (NDB 1, DP 6, DP 7, NDB 12, NDB 13). Nevertheless, because the events following the 2024 election remain open to interpretation, future elections will provide an important test of whether DBG's institutional independence can be maintained even during electoral transitions and changes of government.

A surprising finding concerning political safeguards is the importance of active commitment from senior government leadership to respect the governance structures and operational autonomy of DBG and DBN. This commitment provides the "political shield" necessary to withstand the pressures of electoral cycles and partisan interests. One DP representative noted that, during the design phase of the NDB, the Minister of Finance's demand that the bank be "designed the right way" gave them the confidence that they had "a shot in creating something ... that is sustainable" (DP 2). Similarly, another DP representative shared that, during the inauguration of one of the NDBs, the then president pledged to "ensure that [the bank] is an independent institution", a promise that the participant considered to have been honoured (DP 7).

Such a commitment by political leadership helps ensure that independence is not just an empty promise but also an operational reality. In Nigeria, this commitment is evidenced by ongoing non-interference, as the federal government "lived up to its undertaking ... to stay away"⁵ from day-to-day management. Ultimately, when leaders at the top prioritise the operational autonomy of the NDBs over political control, they demonstrate a clear commitment that allows NDBs to focus on fulfilling their mandates. This commitment can be complemented by multi-year strategic planning to reinforce institutional continuity. Both DBG and DBN operate under five-year strategic frameworks that align their activities with national development priorities while extending beyond electoral cycles. Such an approach offers a stable, long-term perspective, helping to shield NDBs from shifting political pressures across electoral transitions and ensuring that the priorities of DPs are incorporated into, rather than dictate, the development mandates of NDBs.

5 No reference is provided to prevent identification.

However, while commitment from political leadership is a significant contributing factor in insulating NDBs from political capture, it is not a sufficient condition for safeguarding independence. This commitment must be paired with institutional mechanisms, such as shareholder compacts and other covenants, collaboration with DPs, competitive recruitment processes and a preponderance of INEDs to safeguard independence effectively. After all, NDB independence must also be resilient to changes in government leadership.

Accountability mechanisms

An important mechanism for safeguarding independence put forward in this paper is the need for accountability mechanisms within DBG and DBN. Respondents perceived accountability mechanisms as critical safeguards against political interference, thereby creating a structured environment for oversight and compliance. The study identified several such mechanisms. For instance, by leveraging robust internal reporting structures, DBG and DBN can meet the reporting requirements of external oversight bodies, in particular, the central banks and the DPs, which require frequent reporting (CSO 3, CSO 4, NDB 8, NDB 9). This is reinforced by the existence of compliance departments in both banks, which ensure compliance with all relevant oversight requirements by conducting internal audits and facilitating external audits (Others 2, NDB 8, NDB 9, NDB 11, NDB 12). Some participants also highlighted that both banks are transparent about their eligibility criteria for PFIs and lending procedures (NDB 9, NDB 11, NDB 12). Lastly, to remain accountable to the public, both NDBs publish reports and maintain websites with informative information, thereby facilitating public oversight. Another important internal accountability mechanism identified by some respondents was multi-layered governance, such as a clear separation of roles and responsibilities between the board and management, which delimit the powers exercised by each (DP 1, NDB 1, NDB 9, NDB 12).

While these structures were consistently described as enhancing accountability and transparency, the findings do not directly demonstrate their effectiveness in insulating DBG and DBN from political interference. According to Abor and Ofori-Sasu (2024), accountability and transparency promote sound financial practices and contribute to the stability of the NDBs, which in turn provides assurance and builds trust among stakeholders. Furthermore, by making evidence-based information on the outcomes and impact of their activities and operations publicly available, the NDBs enable stakeholders, such as government, regulators, DPs and the public, to hold them accountable for their actions.

4.1.3 Key lessons for establishing new NDBs

The findings discussed above yield several critical lessons for establishing and strengthening NDBs.

A central lesson is the importance of the independence of boards and management. A high proportion of INEDs, combined with competitive, merit-based recruitment and transparent dismissal procedures, reduces political interference and enhances institutional credibility. Frequent or arbitrary leadership changes after elections undermine institutional continuity, weaken governance structures and erode the credibility of NDBs. Formal dismissal safeguards must therefore be paired with strict adherence to tenure protections and due process, helping to ensure that leadership changes reflect performance rather than political cycles. These mechanisms prove their worth particularly when new governments take office.

DPs also play a pivotal role in safeguarding independence. Their role extends well beyond observer status; as key financiers, they hold the authority and credibility to shape governance arrangements through formal agreements with governments. By embedding transparency, accountability and performance standards into covenants and financing agreements, DPs provide an external disciplinary mechanism that constrains political interference and reinforces

institutional autonomy. A DP representative on the board of directors as an observer further strengthens oversight and accountability. Diversifying the base of DPs further strengthens this role. A broad base of DPs reduces dependence on any single actor, increases scrutiny and enhances the bargaining power of the NDBs in governance arrangements, reinforcing external discipline and thereby discouraging political interference.

The importance of formal governance frameworks constitutes another key lesson. Clearly defined covenants among NDBs, governments and DPs delineate roles and responsibilities, limiting undue influence. Robust legislative frameworks, such as shareholder covenants or agreements or a Development Finance Institutions Act, provide legal backing for NDB independence and guide institutional operations, creating a rules-based environment that enhances accountability and predictability.

A wholesale banking model, in which NDBs lend through PFIs, significantly reduces the risk of direct political involvement in lending decisions and promotes objective, technically informed project selection. This model is particularly suited to contexts with weak regulatory, oversight, supervisory and judicial institutions and high levels of corruption. As NDBs' institutional independence solidifies, direct lending may be introduced and expanded over time – potentially transitioning towards a hybrid or retail model.

Finally, insulating NDB leadership from electoral cycles is critical for long-term sustainability. Beyond strong DP backing, aligning NDB activities with national development agendas and securing commitment from political leaders across both government and opposition helps maintain continuity across administrations. This continuity can be further reinforced by adopting NDB strategic planning cycles that extend well beyond electoral cycles, reducing the influence of political turnover on long-term development priorities.

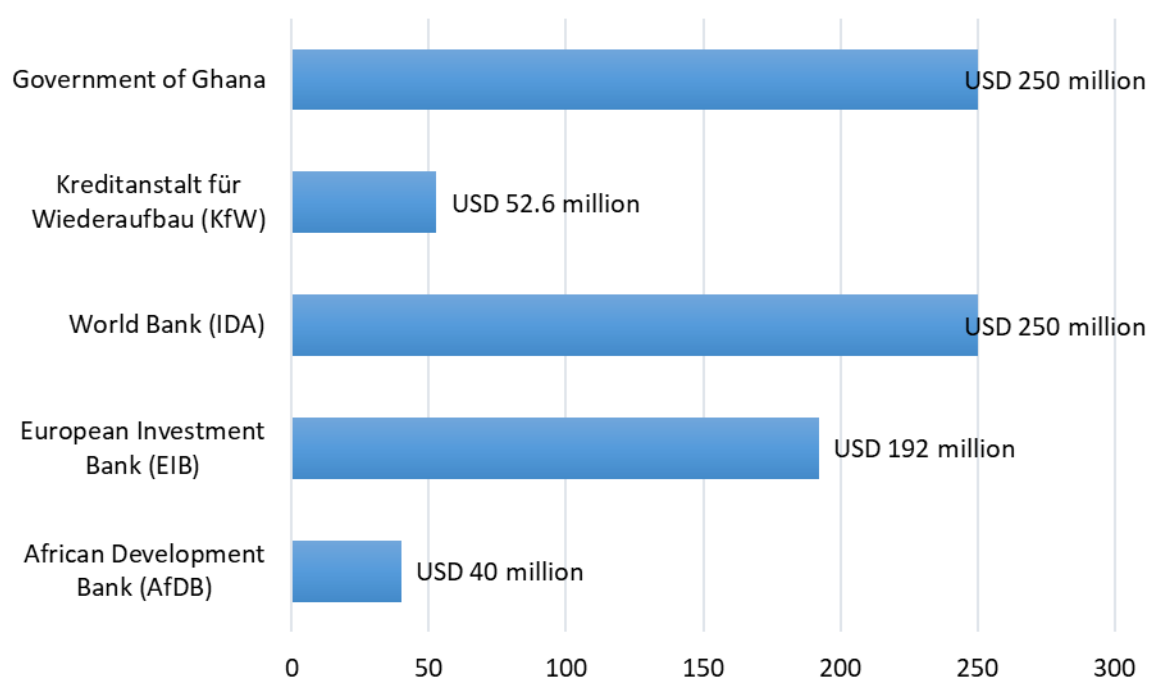
4.2 Diversification of funding sources and scaling up

4.2.1 Diversification of funding sources

The research explored how DBG and DBN scaled up their activities and broadened and diversified their funding sources.

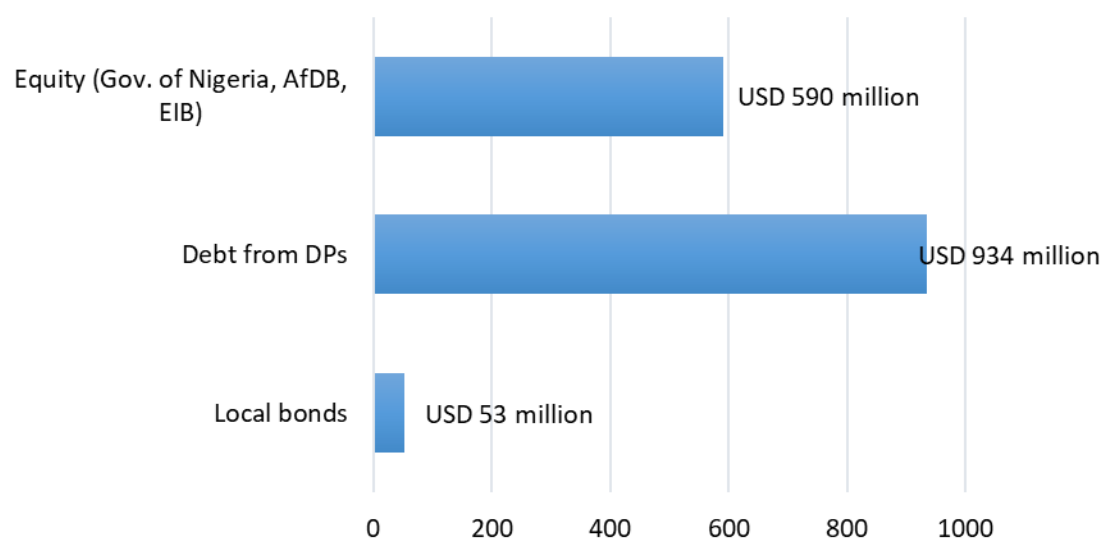
Funding sources of DBG and DBN

DBG is capitalised through a combination of government equity and multilateral support, with the Government of Ghana contributing USD 250 million and DPs USD 534.6 million through loans, grants and technical assistance, as shown in Figure 2 (Amoah-Darkwah & Owusu-Mante, 2022).

Figure 2: Funding structure of DBG in 2022

Source: Adapted from Amoah-Darkwah and Owusu-Mante (2022, p. 9)

On the other hand, the operations of DBN are financed through equity capital, sovereign-backed loans from DPs, bond issuances and retained earnings (Development Bank of Nigeria, 2024). As shown in Figure 3, in 2024, DBN's total assets amounted to USD 1.65 billion, of which the largest share consisted of long-term loans from DPs (USD 934 million), followed by equity capital (USD 590 million), of which 75 per cent is held by the Federal Government through the Ministry of Finance (60 per cent) and the Nigeria Sovereign Investment Authority (15 per cent), 18 per cent by AfDB, and 7 per cent by the EIB (Development Bank of Nigeria, 2024; Gbahabo et al., 2024), as well as market-based debt financing through LCBs (USD 53 million) (Development Bank of Nigeria, 2024).

Figure 3: Funding structure of the Development Bank of Nigeria

Source: Based on financial report from DBN (2024, p. 79)

Broadening and diversifying funding sources

This research confirms the importance of concessional funding from DPs: All thirteen NDB interviewees emphasised that funding from DPs was necessary to help the NDBs fulfil their mandate of providing finance to SMEs; they also called for an increase in concessional funding. As NDB representatives noted, concessional funding is “extremely important” (NDB 4) and the “lifeblood” (NDB 8) of their operations, since “you can’t play in the SME space without incentivisation or concessionality” (NDB 8). This refers to the fact that PFIs are willing to provide NDB loans only where conditions require them to serve SMEs and the NDBs’ priority sectors (e.g. agriculture, sustainable investments) that were previously beyond PFIs’ risk appetite if respective price incentives (concessionality) and risk-sharing mechanisms (guarantees as incentivisation) are offered.

Respondents from both development banks noted that diversifying funding sources is crucial because depending on concessional funds alone may not be sustainable or viable in the long term. Concessional funding from DPs is essential in the near term, helping NDBs build their balance sheets during their formative years and improving pricing for PFIs; nonetheless, it should be regarded as a transitional instrument, with a clearly defined transition towards capital market funding, rather than a permanent solution. Even the DPs acknowledged that for such (relatively) young NDBs, the level of balance sheet diversification is naturally limited, such that the current mix of funding from different DPs through debt and equity financing and grants (and in the case of DBN, small-volume bond issuance) is considered sufficient at this stage (DP 4, DP 5, NDB 8). Nevertheless, all stakeholder groups agreed that NDBs will eventually have to look for market-based financing as they mature in order to further scale up their activities and achieve transformative effects. In addition, financial support from DPs is subject to risk and cost considerations and may at times be insensitive to local circumstances (Marois et al., 2025).

Furthermore, LCBs present strong opportunities to diversify funding sources, mobilise domestic resources (in addition to international investors) and circumvent FX risks. Despite their potential, DBG has not yet issued any local bonds and continues to express reservations. Meanwhile, DBN recently raised 23 billion Nigerian naira (around USD 53 million) through an oversubscribed LCB issuance. However, existing structural constraints limited the contribution of LCBs to only 6 to 8 per cent of its total financing activities (NDB respondent). Most importantly, the sovereign credit rating affects the ability of NDBs to secure more favourable bond terms, effectively setting a price floor (sovereign ceiling effect) that makes bond issuance a relatively expensive funding source for NDBs. Hence, both DBN and DBG regard LCB issuance as a feasible option only if interest rates on sovereign bonds decrease significantly and DPs support LCB issuance both through technical assistance and guarantee schemes.

4.2.2 **Scaling up of activities: strategies and constraints**

Broadening and diversifying funding sources goes hand in hand with larger balance sheets, thereby scaling up lending operations. The foundation is financial sustainability, secured through profitability and asset quality, as reflected in negligible non-performing loans (e.g. DBG: 0 per cent according to the 2023 annual report; DBN: 0.27 per cent according to the 2024 annual report), which are well below regulatory requirements.

DBN implemented both wholesale and direct lending. While a 20 per cent direct lending window was included from the very beginning, it has only recently been used to finance SMEs through aggregators, such as fintechs, that are not regulated by the Central Bank of Nigeria. Potential strategies for scaling up also involve non-interest banking to target the Muslim community and engaging venture capital firms to expand investments in sustainable and green start-ups. Scaling up requires decisions on how to allocate loans across financial institutions, regions and potential beneficiaries.

For DBN, key performance indicators (KPIs) guide loan portfolio allocation towards underserved areas, MSME support, equitable fund disbursement and high-value sectors. While most financing was directed to MSMEs, DBN ensured that more than 70 per cent of disbursements supported women entrepreneurs. DBN implemented annual reviews of all sectors and regions in the country to identify financially excluded regions, which were subsequently prioritised for funding. Some of these regions experience recurrent violent conflicts, while others have topographies that discourage business activity. Accordingly, and in line with DBN's KPIs, at least 6 per cent of funds were allocated to each of Nigeria's six regions. Yet this KPI still allows for highly unequal allocations of DBN's portfolio across Nigeria. The KPIs for channelling funds to disadvantaged regions could therefore be increased in future. In accordance with DBN's current strategy, the loan portfolio is directed to industries with high development impact: agriculture, healthcare, manufacturing, renewable energy, green ventures, financial services, technology, education, climate mitigation and energy efficiency.

For DBG, its portfolio allocation is also guided by its internal strategy that targets sectors with high development impact, such as manufacturing, agriculture, information and communication technology, and high-value businesses and other SMEs whose operations are tied to job creation. Priorities are updated annually. For both DBG and DBN, this is also informed by regular stakeholder engagement – for instance, annual exchanges with PFIs to learn about market needs and challenges (NDB 10, NDB 11). Furthermore, DBG ensures that development impact extends beyond major cities and commercial hotspots to rural communities by working with savings and loans companies and rural banks. Although these strategies demonstrate that DBG and DBN have established mechanisms to expand their reach and target underserved markets, the results point to important regulatory and structural constraints that continue to limit the scale of these initiatives.

In both Ghana and Nigeria, the regulatory requirements regarding the single obligor limits (SOLs), which cap the maximum amount a bank is allowed to lend to a single borrower relative to its total shareholders' funds, constrain both the scale of NDB activities and the volume of funding that PFIs can receive from DBG and DBN. Although intended to prevent credit-concentration risks in banks' loan portfolios, DBG, DBN and PFIs reported that SOLs are restrictive and not well suited to the wholesale lending model used by DBG and DBN. At the time of data collection, SOLs capped DBG's and DBN's maximum exposure to an individual PFI at 20 per cent of their respective shareholders' funds in both Ghana and Nigeria (PFI 13).

However, respondents noted that because DBG and DBN serve a relatively small number of customers (PFIs), loans are generally much larger than those provided by commercial banks, making exposure limits designed for retail banking particularly constraining. Consequently, the SOL restricts the funding that NDBs can provide to individual PFIs, limiting the scale of PFI–NDB collaboration and, ultimately, the ability of DBG and DBN to scale up their financing and increase development impact. DBN reported taking steps to address this issue: The central bank reviewed the SOL and substantially increased it from 20 per cent to 35 per cent in 2026. Because this change occurred after our data collection, several PFIs in Nigeria raised concerns about the SOL and limited funding volumes.

Beyond the SOL, the findings indicate that the relatively small size of DBG's and DBN's balance sheets constitutes another challenge to scaling up. Despite enabling them to attain their immediate objectives, their balance sheets remain small, amounting to less than 0.5 per cent of the respective countries' GDP (0.38 per cent for DBG and 0.20 per cent for DBN in 2024). This makes them micro-development banks compared to other DFIs such as KfW (15.4 per cent), Brazil's National Bank for Economic and Social Development (14.1 per cent) and China Development Bank (16.3 per cent) (Musacchio et al., 2017). This comparison remains valid even though other DFIs operate in Ghana and Nigeria alongside DBG and DBN: Including these institutions would not materially alter the overall picture, as their combined scale would remain small relative to the size of the respective economies. Thus, although DBG and DBN have

developed strategies to scale up their activities, expanding their balance sheets and lending capacity will be essential if they are to become significant players in the financial system and generate transformative effects.

4.2.3 Key lessons for establishing new NDBs

Early and regular stakeholder engagement is essential for understanding market needs and designing relevant products. Maintaining partnerships with relevant stakeholder groups should be prioritised in the formation of new NDBs. In their early years, NDBs should consult with government, banks, MSMEs, industry associations and the broader private sector. These exchanges can be institutionalised as part of NDBs' annual activities, as practised by DBG and DBN. After all, NDBs benefit from regular, broad stakeholder engagement, as it allows them to continually improve their understanding of the market and adjust their operations and products accordingly.

Newly established NDBs should have a clear and narrowly defined mandate – like DBG and DBN. It should be acknowledged that NDBs need time to develop. Focusing first on a narrowly defined mandate with limited responsibilities within a specific sector or segment of the economy will allow the institution to build strong structures, capacities, expertise and operational routines. As a DP respondent emphasised:

It's important that new development banks grow naturally. You cannot do everything at the same time. The barriers in a financial system are a lot, and one institution cannot do it all. You can only ... bite your piece of the cake and eat it and make sure you are chewing it well. (DP 7)

Hence, a newly established NDB should not be overwhelmed with responsibilities across too many underserved sectors and market segments but instead be allowed to build its capacities before extending its mandate, balance sheet and operations.

Nurturing a favourable institutional culture that supports development banking, agility and innovation is important. New NDBs recruit most of their staff from commercial banks, where bankers operate under a different logic guided by financial returns, which encourages risk aversion and shorter loan tenors. This requires a shift and reprogramming of bankers' mindsets since development banking involves risk-taking by providing long-term financing to underserved sectors and market segments, while balancing financial sustainability with development impact. DPs, together with the NDB's senior management, have to nurture such a development-banking culture and identity – supported by DPs' continued technical assistance, based on their rich expertise and first-hand knowledge. In addition, new NDBs should develop an agile and adaptive institutional culture that rewards reform and innovation, enabling the new institution to adapt its operations and meet the changing needs of business partners. One best-practice example of DBN, for instance, is the innovation challenge: The entire bank commits five days to identify and resolve operational challenges. The best solutions are rewarded, and the NDB benefits from the agile and innovative improvements, which enhance efficiency, institutional capacity and performance.

Diversification of funding sources is crucial. While newly established NDBs will necessarily depend on funding from government and DPs in the initial years, NDBs should aim to gradually build a track record that allows for the diversification of funding sources. This could include adding new DPs or diluting government ownership by acquiring impact-oriented equity investors. The medium-term objective should be to diversify funding sources through capital-market financing and access to international funds such as the GCF. If the price floor set by sovereign bonds (sovereign ceiling effect) is not too high, NDBs should consider issuing LCBs. To ensure that market-based debt is not too expensive, DPs need to support such efforts through guarantee schemes and facilitate bond issuance through technical assistance. If the price floor set by sovereign bonds remains high (sovereign ceiling effect), targeting households

with bonds that have low minimum investment amounts while also targeting impact-oriented investors might be more cost-effective and thus more feasible, as outlined in Section 6, “Policy considerations”.

4.3 PFI–NDB collaboration

4.3.1 Onboarding experience of PFIs

The onboarding process for becoming a PFI involves multiple stages, including due diligence and comprehensive risk assessments. These assessments typically involve a review of financial performance, capital adequacy, asset quality, governance structures and management capabilities (PFI 3, NDB 2). The process also involves on-site visits to verify documentation and evaluate internal processes (PFI 2, PFI 17). In addition, DBG and DBN apply strict eligibility criteria, particularly regarding E&S standards, which often require PFIs to adjust their internal systems and policies prior to approval (PFI 7, PFI 8, NDB 3). DBG and DBN also provide technical assistance to facilitate compliance and strengthen PFIs’ risk management capabilities (PFI 6, PFI 10, NDB 3; NDB 6). Once all requirements are met, a master agreement is signed, followed by ongoing monitoring and annual due diligence (DP 5, PFI 10, PFI 15).

Respondents generally perceived the onboarding process as smooth, efficient and well-structured (e.g. PFI 3, PFI 4, PFI 8, PFI 11), particularly highlighting clear communication regarding procedures, timelines and expectations (PFI 2, PFI 3, PFI 4). The duration of onboarding typically ranges from one to three months, depending on how quickly PFIs meet the required criteria (PFI 4, PFI 5, PFI 10, PFI 17). Initial disbursements take longer because they depend on completing onboarding and finalising contractual agreements, whereas subsequent disbursements are typically made within 24 to 72 hours (PFI 3, PFI 9, PFI 10, PFI 12, PFI 13, PFI 16). However, the onboarding experience was not uniform across all PFIs. While commercial banks generally perceived the process as relatively straightforward, smaller and non-bank financial institutions reported greater difficulties in meeting onboarding requirements and aligning their operations with the lending frameworks of DBG and DBN (PFI 1, PFI 6, PFI 13). Respondents attributed these challenges to compliance requirements that did not always align with the realities of their client bases (e.g. informal borrowers) and to differences in lending models, particularly where PFIs specialised in short-term lending (PFI 6). Nevertheless, some respondents also noted that onboarding requirements were implemented flexibly in practice, including the temporary waiving of certain standards (PFI 10). Overall, onboarding timelines and processes vary considerably depending on the institutional capacity, business model and compliance readiness of PFIs.

The findings align with the development finance literature emphasising the importance of rigorous due diligence, risk assessment and compliance with E&S safeguards when working through financial intermediaries (Organisation for Economic Co-operation and Development, 2022; World Bank, 2017). The findings further support evidence that ESG requirements and technical assistance are integral to strengthening financial intermediaries and implementing development objectives (Attridge et al., 2023).

4.3.2 PFI engagement with NDBs: motivations, benefits and challenges

This section discusses the motivations of financial institutions for becoming PFIs of DBG and DBN, as well as the benefits they derive and the main challenges that arise in this relationship.

Pricing

The results confirm that a central motivation for PFIs to engage with DBG and DBN is access to concessional financing. PFIs particularly emphasised that accessing concessional funding at below-market rates improves their competitiveness by lowering funding costs and increasing profit margins, while also providing more predictable and stable funding flows that support portfolio planning and liquidity management (PFI 1, PFI 3, PFI 6, PFI 7, PFI 8, PFI 11, PFI 12). Evidence from both countries confirmed that this concessionality enables PFIs to offer more favourable rates to SMEs. In Ghana, two-thirds of the PFIs (six out of nine) indicated that their engagement with DBG allowed them to offer better pricing to final borrowers. For rural banks and microfinance institutions, the interest rate reductions can be as high as five to eight percentage points, which substantially improves the affordability of loans for MSMEs. The attractiveness of these funds was further reflected by the fact that two of the three non-PFIs interviewed said that they would be interested in becoming PFIs due to the favourable rates offered by DBG. In Nigeria, half of the PFIs reported charging lower interest rates through DBN financing. This lower share likely reflects the presence of other DFIs offering similarly low rates: Four out of eight PFIs stated that DBN is only one among several providers of cheaper financing. Overall, this suggests that SME financing is more competitive in Nigeria than in Ghana, given the presence of other DFIs.

Despite these benefits, pricing emerged as one of the main challenges affecting the attractiveness of DBG and DBN funding. Respondents reported that interest rates charged by DBG and DBN are often perceived as insufficiently competitive relative to alternative funding sources. This concern is particularly pronounced in Ghana, where NDB financing is increasingly perceived to be losing its comparative advantage as market interest rates decline, making alternative sources of finance relatively more attractive, especially as these are typically associated with fewer conditionalities (PFI 1, PFI 2, PFI 7, PFI 9, PFI 10, PFI 11, PFI 13). Although NDBs have traditionally provided long-term loans at fixed interest rates – an arrangement that is advantageous when interest rates are rising or volatile – this structure may become less appealing in a declining interest-rate environment. In such cases, borrowers may be locked into comparatively higher fixed rates over extended periods, thereby reducing the attractiveness of NDB financing (PFI 1, PFI 2, PFI 9, PFI 10, PFI 13).

At the same time, discussions at the stakeholder workshop held in Accra on 14 April 2026, also highlighted that PFIs may need to more fully recognise the value of long-term financing at a fixed interest rate, particularly in contexts with recurring economic shocks, as in Ghana. Following Ghana's exit from the IMF programme in August 2026, public spending may increase, contributing to rising market interest rates, thereby restoring the comparative advantage of DBG financing and the value of long-term fixed-rate loans. In response to changing market conditions, DBG has also begun introducing more flexible financing options, including lending windows with floating interest rates.

Nevertheless, the findings indicate that pricing remains the decisive factor for many SMEs. Although longer tenors are generally valued, several PFIs noted that final borrowers tend to prioritise lower interest rates over extended repayment periods. Where concessional funding is insufficient to deliver lower pricing, SMEs may be discouraged from borrowing and ultimately limit development impact (PFI 10). As one respondent noted:

[The NDB] is giving you [funds] at 18 per cent when lending to a customer, who is carrying a risk of default. How much margin can I add to it? So that becomes a bit tricky [...] and that is the reason why we've not seen the growth that we anticipated. (PFI 7)

These findings are consistent with existing literature, which highlights the inherent complexity and context dependence of determining the appropriate level of concessionality. As market conditions evolve, concessionality may not always translate to competitive pricing for either PFIs

or final borrowers, reducing its attractiveness (Attridge, Dahan, & Getzel, 2025). Conversely, excessive concessionality may generate deadweight effects, such as wasted scarce subsidised capital and distorted local financial markets, since concessional resources are given to projects that would have obtained financing from commercial sources regardless of whether NDBs intervene or not (Carter, Van De Sijpe, & Calel, 2021; Flammer, Giroux, & Heal, 2026; Mutambatsere & Schellekens, 2020).

Tenor terms

The availability of long-term funding was frequently identified as a key advantage of collaboration with NDBs, as it enables PFIs to better align the maturities of their assets and liabilities (PFI 1, PFI 7, PFI 8, PFI 10). Access to longer-term funding further allows PFIs to offer loans with longer tenors and, in some cases, more favourable financing conditions to final borrowers, which would otherwise be difficult to provide through short-term commercial funding structures (PFI 3, PFI 5, PFI 8, PFI 12).

In both countries, PFIs reported offering better credit terms to final borrowers as a result of their engagement with DBG and DBN. DBG in particular stood out for incentivising PFIs to provide longer tenors, as reported by almost all interviewed PFIs. The longest tenor DBG offers is a 10-year loan, which, according to one respondent, could not be obtained elsewhere, as most commercial banks offer loans with maximum tenors of two to three years.

However, it is noteworthy that pricing such long-term loans appropriately can be challenging in a highly volatile environment. To illustrate, DBG has seen the central bank policy rate rise from 13 per cent to 30 per cent and fall again over its five years of operations, making DBG reluctant to adjust interest rates quickly. Funding and operating costs further limit NDBs' ability to reduce rates below a certain threshold. This has prompted complaints from a number of PFIs, and some final borrowers have even chosen to refinance their loans since short-term loans priced below the current policy rate are cheaper for them. Although long-term loans are beneficial, pricing matters much more to SMEs than loan tenor. DBN, facing similar monetary policy rate swings, offers adjustable rates indexed to market rates for its long-term loans – a feature that has recently become available to DBG clients.

DBG and DBN's provision of longer tenors than commercial banks is consistent with evidence that African NDBs systematically concentrate their lending on medium- and long-term maturities to fill the structural gap in patient capital (Ndikumana et al., 2021; Schclarek, Xu, & Yan, 2023). Similarly, the pricing difficulties observed in Ghana's volatile interest-rate environment reflect the broader recognition that long-term lending by NDBs faces acute interest rate risks, often making tenor secondary to pricing for SME borrowers (Griffith-Jones & Ocampo, 2018). DBN's use and DBG's recent adoption of adjustable rates indexed to market rates exemplify the flexible pricing instruments that the policy literature recommends to sustain NDBs' long-term lending operations under macroeconomic instability (Amoussou et al., 2024).

Reaching underserved sectors and market segments

The broader rationale for PFIs to collaborate with NDBs lies in a shared interest in providing financial services to SMEs, which is central to inclusive development (PFI 1, PFI 4, PFI 6, PFI 14). Furthermore, cooperation with NDBs is particularly beneficial since NDBs tend to be more responsive to SME needs and constraints given their mandate-driven focus, specialised instruments and greater engagement with underserved sectors and market segments (PFI 2, PFI 17). This is especially salient given the significant share of SMEs in both economies and the persistent lack of access to (formal) finance (PFI 2, PFI 6, PFI 7, PFI 9). This is consistent with evidence that SMEs are central to economic development, yet disproportionately

constrained in accessing affordable finance, particularly in developing economies (Oyegbade, Igwe, Ofodile, & Azubuike, 2022).

Evidence from both countries suggests that DBG and DBN have incentivised PFIs to lend to underserved sectors and market segments. In Ghana, eight of nine PFIs reported that collaboration with DBG encouraged them to serve underserved sectors and market segments, while in Nigeria, half of the PFIs (4 out of 8) reported similar outcomes. Respondents further noted that these financing conditions enable PFIs to expand lending to SMEs and to sectors such as agriculture and manufacturing, while also facilitating lending to underserved or higher-risk segments, including green-finance activities and rural enterprises, which they might otherwise avoid, thereby supporting broader development objectives (PFI 6, PFI 8, DP 2, NDB 3). These findings support the evidence that NDBs can help alleviate market failures that leave SMEs with unmet demand for credit (see Abor, 2023; Ndikumana et al., 2021).

The evidence identified two instruments underpinning this outcome. The first is pricing rebates, determined through DBG's pricing matrix or its pre-disbursement impact assessments. Given DBN's strong focus on gender, for instance, women-led businesses benefit from larger pricing rebates, while DBG's pricing matrix, consisting of 81 indicators, favours rural, women-led, import-substituting and value-chain-upgrading businesses, among other criteria (PFI 1, PFI 6, PFI 10, PFI 11, PFI 12, PFI 17). The second instrument is risk sharing. DBG and DBN create further value by providing portfolio-, credit- and individual guarantees, which reduce lending risks for PFIs and facilitate increased financing for final borrowers, particularly in underserved segments (PFI 4, PFI 7, PFI 8, PFI 12). In practice, however, the effectiveness of this approach differs markedly between the two countries.

In Nigeria, DBN offers credit guarantees through its subsidiary, Impact Credit Guarantee Ltd (ICGL), enabling PFIs to lend beyond their usual risk appetite, for instance, by providing loans without collateral to SMEs in the agricultural sector, which most financial institutions consider especially risky. By contrast, DBG's guarantee facility is still under development. As a result, Ghanaian PFIs remain the primary bearers of credit risk, since repayment obligations remain with the PFI in the event of borrower default. Several respondents argued that this concentration of risk limits their willingness and ability to expand lending to higher-risk but developmentally important sectors (PFI 1, PFI 2, PFI 7, PFI 10, PFI 13).

These findings therefore are consistent with existing evidence that partial credit guarantees are essential for overcoming collateral constraints and perceived lending risks, thereby unlocking commercial bank lending to previously excluded sectors and groups, such as agricultural and women-led SMEs (Beck, Klapper, & Mendoza, 2010; Honohan, 2010). Moreover, the impact-based pricing matrices, with rebates for rural, women-led and import-substituting businesses, mirror evidence that transparent, rule-based subsidies can steer NDB credit towards firms with high development impact without compromising portfolio quality (Ndikumana et al., 2021). However, they also suggest that these instruments need to be sufficiently operationalised to shift part of the credit risk away from PFIs if lending to underserved sectors is to be significantly expanded.

The results further indicate that targeting underserved sectors requires balancing development objectives with operational flexibility. Respondents in both Ghana and Nigeria reported that sectoral and industry-specific facilities sometimes require PFIs to adjust their lending practices by prioritising clients within predefined sectors, rather than responding directly to broader market demand (PFI 9). While these restrictions are consistent with development mandates of NDBs and help direct limited resources towards priority sectors (NDB 2, DP 7, NDB 11, PFI 11), they constrain PFIs' lending flexibility. Respondents suggest that DBG and DBN periodically review sector eligibility and consider adding industries and sectors to the eligibility list, as long as they are aligned with broader development objectives and their mandates (PFI 5, PFI 6, PFI 9, PFI 16).

This finding is consistent with the literature emphasising that NDBs often operate with sector-specific mandates and prioritise investments based on development objectives rather than purely financial returns (Griffith-Jones & Ocampo, 2018). However, the results suggest that there are trade-offs between directing finance towards strategic priorities and maintaining responsiveness to market demand.

Furthermore, respondents stressed that achieving development objectives requires not only financing but also strong technical capacities. PFIs particularly emphasised the need for more sector-specific training and guidance, particularly when entering new sectors or higher-risk segments (PFI 10). Such support includes developing the capacities of PFIs to assess sector-specific risks and design appropriate financial products. Although both DBG and DBN already provide capacity-building support and technical assistance in areas such as compliance and risk assessment, respondents reported that more specialised technical support in specific sectors (e.g. agriculture) is needed (PFI 6, NDB 6, PFI 10). This was especially emphasised in sectors such as agriculture, where sector-specific risks and business models may require additional expertise (PFI 10). The Livestock Productivity and Resilience Support (LPRES) project by DBN provides a positive example, combining capacity building for PFIs and SMEs with financial services; importantly, DBN tailors training to different types of financial institution, reflecting their respective knowledge, capacities and needs.

In any case, it should be acknowledged that PFIs might express interest in and suggest further technical assistance from NDBs even where substantial support (potentially even enough support) is already available. PFIs generally perceive such training and advisory services as valuable, low-cost opportunities to strengthen institutional capacity and reduce operational and lending risks.

Financial sector development and reputational effects

Both DBG and DBN have – through their engagement with PFIs – promoted financial sector development by providing countercyclical lending and fostering the functioning and resilience of national banking systems. Although DBG and DBN are relatively young, both have already engaged in countercyclical lending during and in the aftermath of the COVID-19 pandemic. DBN respondents reported that – instead of waiting for government proposals – they took countercyclical measures at their own discretion. In March 2021, DBN created the “Long-Term Product” to support SMEs’ access to liquidity. At a time when commercial banks were largely unwilling to lend to SMEs at all, DBN was able to provide long-term financing to SMEs without collateral (NDB respondent). Even though DBG commenced operations after the height of the COVID-19 pandemic, it rapidly responded to the post-pandemic inflationary crisis in Ghana, for instance, by using retained earnings and blending these with concessional funding from DPs to extend concessional funding to businesses in the agricultural and tourism sectors (NDB respondent).

There is suggestive evidence that DBN and DBG make further important contributions to the functioning and resilience of their respective national financial systems. Some respondents indicated that the two NDBs foster the resilience and stability of the banking sector and credit market by providing predictable long-term finance to various PFIs. Some PFIs mentioned the value of this reliable source of long-term funding for their operations, maturity matching and risk management, resulting in positive effects for resilience and stability (e.g. PFI 3, DP 6).

Finally, these partnerships also generate additional benefits, notably through the reputational advantages associated with NDBs, which can attract new investors and business opportunities and thus strengthen the market position of PFIs (PFI 1, PFI 5, PFI 6). This effect is particularly pronounced for younger and smaller financial institutions, such as microfinance institutions.

4.3.3 Key lessons for establishing new NDBs

Based on the motivations and challenges faced by PFIs, the analysis identifies several key lessons for the establishment of new NDBs.

Providing accessible and predictable financing is critical. This can be achieved, for example, through affordable, long-term loans in local currency supported by concessional funding from governments and DPs. In the early stages, adopting a wholesale model that leverages local financial institutions appears particularly advantageous, especially in contexts with weak regulatory, oversight, supervisory and judiciary institutions and/or widespread corruption. As institutional capacity and governance structures strengthen, direct lending can be introduced and scaled over time.

Strengthening communication with PFIs is essential. Clear and transparent communication on onboarding requirements, eligibility criteria, expectations and potential challenges helps to build trust and supports efficient collaboration between NDBs and PFIs. Beyond onboarding, communication is most effective when it remains ongoing and inclusive to ensure that all financial institutions in the country are aware of the NDB, understand how to access available funding, and know about relevant procedures and opportunities.

Providing targeted and differentiated technical assistance to PFIs is another key lesson. Capacity building in areas such as risk management, sector-specific lending and internal systems helps PFIs to effectively implement NDB requirements and expand lending to underserved segments. As PFIs differ significantly in terms of institutional capacity, operational focus and existing expertise – ranging from commercial banks to rural banks and microfinance institutions – technical assistance and onboarding support are most effective when tailored to PFIs' specific needs and levels of sophistication. Providing context-specific and capacity-appropriate support can strengthen implementation, improve risk assessment capabilities and enhance the effectiveness of PFI–NDB collaboration.

4.4 Collaboration with development partners

4.4.1 The role of DPs in the establishment and evolution of DBG and DBN: contributions and trade-offs

Development partners (e.g. MDBs and bilateral DFIs) played a pivotal role in the establishment and evolution of DBG and DBN. For new NDBs that must balance financial sustainability with development mandates while operating in challenging market environments, access to DP capital and expertise can be decisive in the early stages of their development (Griffith-Jones et al., 2020; Marois et al., 2023; Marois et al., 2025; Ocampo & Ortega, 2021). As our case studies show, DP engagement goes well beyond financing, shaping institutional structures, operational practices and approaches to sustainability.

Financing and equity partnership

A central contribution of DPs is their role as equity partners and long-term financiers. DPs have provided DBG and DBN with access to long-term, concessional funding (NDB 8, NDB 10, DP 5) and support for issuing bonds and other capital-market instruments (NDB 5, NDB 8). In DBN's case, where AfDB and the EIB are equity shareholders, their involvement has further strengthened DBN's balance sheet (NDB 5, DP 2), enhanced its reputational standing (NDB 5, NDB 9) and boosted the trust of (potential) investors through association with DPs' international credit ratings (NDB 8). Their early-stage involvement was therefore critical to the establishment of DBG and DBN, providing not only capital but also credibility and confidence to other stakeholders (CSO 1, NDB 9).

Despite these significant contributions, the funding provided by DPs is not without trade-offs, particularly where long-term foreign-currency financing creates risks that may affect the financial resilience and operational independence of NDBs. DP funding is denominated in foreign currency, while both DBG and DBN lend in local currency. This currency mismatch is widely recognised in the literature as a broader issue in the development finance system, where most funding is still provided in foreign currency despite increasing awareness of the risk it creates for recipient countries (Ahlgren, Reyes, Chin, Bagnera, & Pinko, 2023; Horrocks et al., 2025; Marois et al., 2025). In both Ghana and Nigeria, FX risk associated with most DP funding is largely absorbed at the government level, allowing both institutions to receive funding in local currency and on-lend without direct FX exposure (NDB 4, NDB 5, NDB 7).

Government ownership can thus be leveraged to reduce currency exposure. However, this arrangement depends on government fiscal capacity and macroeconomic stability. During or shortly after periods of fiscal stress or currency volatility, the government's ability or willingness to absorb the FX risk could be compromised, putting NDBs under pressure to fulfil their obligations. Moreover, relying on government intermediation to mitigate FX risk could create structural dependency that presents opportunities for political interference, potentially undermining the institutional independence of NDBs. On the other hand, where such government buffers are absent, NDBs must seek alternatives that could introduce additional complexity and cost. One option is the use of currency-swap facilities offered through specialised instruments such as the Currency Exchange Fund (DP 5). While these mechanisms can help mitigate FX risk, they often remain expensive and challenging where financial markets are underdeveloped and hedging instruments are scarce or costly (Horrocks et al., 2025).

Institutional design and governance

Despite these trade-offs, DPs have also played key roles in the institutional design and governance of DBG and DBN. Their influence extends beyond funding to shaping the legislative and regulatory foundations of both institutions. As stated by one interviewee: "I don't think we would have had the [NDB] without their support [...] their role has been pivotal, in setting up the bank" (NDB respondent). In Ghana, DPs were instrumental in the establishment of the Development Finance Institutions Act (DFI Act 1032) (Ghana Legal Information Institute, 2020), which provides the legal framework under which DBG operates, and in designing the internal governance structures that give the Act practical effect. In Nigeria, DPs played a comparable role in shaping DBN's founding documents, embedding its wholesale mandate, financial sustainability objectives and independent governance structure from the outset.

Furthermore, DPs influence NDBs' strategic priorities through funding conditions, sector-specific credit lines and advisory support (NDB 1, NDB 10). For instance, with DP support, the NDBs have been able to advance work in areas such as gender finance (DBG and DBN), green investment (DBG and DBN), digital economy (DBN) and agri-business (DBG and DBN). While DP involvement can influence strategic direction, insights from both DBG and DBN highlight that effective partnerships depend on alignment between national development objectives and DP priorities, rather than outright imposition from either side. DBG and DBN representatives indicated that their institutions selectively align with, rather than become subordinated to, DP priorities.

DBG and DBN have also demonstrated the capacity to adapt specific conditions and challenge individual requirements (NDB 5, NDB 12). NDBs engage with DPs when their priorities align with national development objectives and decline to do so when they do not (NDB 1, NDB 5, NDB 9). In DBN's case, DPs are described as primarily aligning their engagement with DBN's strategies (NDB respondent), rather than imposing their own, thereby reinforcing rather than overriding institutional direction. This reflects a relationship in which DBN retains strategic agency. One interviewee described it as follows:

Capital and control are synonymous. So, if you are providing loans, you obviously want to keep an eye on how the loans are used. [...] But to a very large extent, we are all on the same page, in terms of what we want to achieve. It's a symbiotic relationship and it has been beneficial. (NDB respondent)

That said, DP funding does come with certain strict and non-negotiable conditionalities. Each DP brings its own strategic priorities reflected in sector-specific credit lines (DP 4, DP 5, DP 6), ESG requirements (NDB 3, NDB 4, NDB 10, DP 5, DP 7) and covenant structures that direct how funds can be deployed (DP 1). The literature documents a long history of DFI funding conditionalities that undermine local ownership and autonomy (Clifton et al., 2021; Kentikelenis & Babb, 2021; Marois et al., 2025; Prizzon et al., 2016). Financial dependence and reputational considerations are factors that the NDBs are aware of and strategically navigate in managing their partnerships with DPs (NDB 5, NDB 9, NDB 11, NDB 12). While this risk has not materialised as a structural constraint in our case studies, it remains a relevant consideration for countries establishing new NDBs, which should prioritise strategic alignment and operational autonomy from the outset. Otherwise, the NDBs risk becoming subordinate delivery partners, risking their ability to set their own priorities. Successful DP-NDB partnerships are not characterised by the absence of conditionalities, but by conditionalities grounded in sufficient alignment between DP priorities and national development strategies (Marois et al., 2025; Prizzon et al., 2016).

Non-financial support: technical assistance and sustainability

Non-financial support from DPs, such as capacity building and knowledge transfer, was substantial and played an instrumental role in the operations of DBG and DBN and their engagement with key stakeholders. This support took several forms, including engagement in and consultation on daily operations and decision-making, and through DPs' formal participation in NDB operations such as board representation (DP 7). The findings suggest that collaboration between DBG and DBN and their respective DPs is characterised by mutual trust and takes place frequently at different levels, from the board of directors down to specialised units, such as sustainability units (DP 6, DP 7, NDB 7 and Others 4). DBN, for instance, received a EUR 50 million gender credit line that had EUR 800,000 earmarked for technical assistance to build the capacity of the NDB and PFIs in implementing their gender action plan. In the case of DBG, this accompanying technical assistance and capacity building helped enhance, for instance, DBG's ability to report on the impact of green credit lines and track emissions. Both DBG and DBN have similarly benefited from technical assistance in areas such as risk management, ESG frameworks and operational systems (NDB 4, NDB 5, NDB 9, Others 2). This included the introduction of sustainability practices, such as ESG compliance systems, sustainability reporting and even dedicated structures such as "green desks".

Drawing on the cases of DBG and DBN, DPs played a central role in embedding sustainability in DBG's and DBN's operations from the outset, for example, by incorporating sustainability directly into requirements for establishing new NDBs and linking financial incentives to E&S requirements (NDB 10). The evidence also indicates that DPs drew on their technical expertise to help DBG and DBN unlock new sources of capital that would otherwise be difficult to access, including through the establishment of green financing facilities and supporting DBN's accreditation process with the GCF (NDB 5, NDB 7). GCF accreditation has been shown to be a successful way of securing long-term financing for national climate objectives, enabling NDBs to move beyond traditional development assistance (Griffith-Jones et al., 2020). DPs further enabled knowledge transfer to DBG, DBN and PFIs by providing technical assistance and capacity building, for instance, through digital learning platforms on sustainability measures (NDB 3), workshops on meeting global banking standards and taxonomies, and direct technical assistance to help banks set up internal "green desks" (NDB 7, NDB 3).

Beyond acting as a catalyst for establishing new NDBs, the findings also suggest that DPs serve as norm-setters by making sustainability a financing prerequisite, requiring NDBs to comply with E&S measures before these become legally required (NDB 9). This conditionality can, in turn, encourage sustainability practices among other actors in the financial sector. As one respondent from a development bank stated: “We started reporting on E&S indicators because our DPs required it. The central bank didn’t ask for it yet. But within two years, the central bank issued new guidelines that looked very similar to what we were already doing” (NDB 9). DP support is also visible in the institutionalisation of sustainability within operations, for example, through the integration of E&S standards into the credit application process and treating sustainability as a financial risk rather than a compliance function (DP 2). This makes sustainability an internal criterion for lending decisions rather than an external add-on.

Over time, this support has strengthened internal capabilities and aligned the operations of DBG and DBN with international standards. This is particularly significant given that newly established NDBs often recruit many of their staff from commercial banks, where the performance metrics, institutional culture and risk appetite differ substantially from those required in development banking. Commercial bankers are trained to prioritise financial returns and minimising risk, but development banking requires a willingness to balance financial sustainability with development impact, operate in underserved and riskier markets, and accept longer tenors. Technical assistance from DPs with extensive experience in development finance has thus been critical for DBG and DBN in building operational capacity and the appropriate institutional mindset for effective development banking (DP 2, DP 7, NDB 4, NDB 5, NDB 9, NDB 10, Others 2).

Although DBG and DBN derive multiple benefits from DPs’ financial and non-financial support, collaboration with DPs also involves challenges in managing relationships with multiple partners. The most consistently mentioned challenge across both institutions is the administrative burden associated with multiple, diverse and uncoordinated reporting requirements imposed by different DPs (NDB 4, NDB 7, NDB 8, NDB 9, NDB 12, DP 6). While DP monitoring is legitimate, necessary and helpful, each partner operates on distinct timelines and frameworks and conducts separate monitoring missions, often spread throughout the year. This results in significant resources being allocated to compliance and reporting, diverting institutional capacity away from the core work of the NDBs (NDB 1, NDB 7, NDB 8, NDB 9). One interviewee explained that “there should be some commonality between the partners because it also helps us in reporting. [...] We report to four different partners, asking for four different things and have to adjust portfolios to suit. It’s a lot of work” (NDB 10). While some progress has been made in aligning reporting timelines among a few DPs engaged with both institutions (DP 2, DP 3, DP 4, DP 6, NDB 8), fragmentation remains the norm rather than the exception in both countries.

This is consistent with a well-established body of literature highlighting how the fragmentation of official development assistance increases transaction costs for recipient countries (Acharya, de Lima, & Moore, 2006; Gehring, Michaelowa, Dreher, & Spörri, 2017; Whitfield, 2008). Despite formal commitments by many donor countries to harmonise reporting as a core principle of aid effectiveness, set out in the Paris Declaration (2005) and reaffirmed in the Accra Agenda for Action (2008) (Sjöstedt & Sundström, 2017), our findings suggest that this issue persists in the less-studied context of NDB–DP partnership.

DP engagement levels across DBG and DBN

Lastly, it should be noted that DPs have played distinct but complementary roles in the establishment and operation of DBG and DBN, bringing capital and expertise at varying levels of engagement. While some anchor the institution as equity holders, others provide debt financing or grants, and a few have shaped the banks’ design and governance through extensive involvement in capacity building and technical assistance. In the case of DBG, the Government of Ghana is DBG’s sole shareholder (World Bank, 2020). AfDB has provided grants only,

whereas the remaining DPs function as creditors: KfW and the World Bank each provide a blend of debt and grant financing, whereas the EIB provides debt financing only. KfW, in particular, emerged as a central strategic partner by providing accompanying technical support alongside its credit lines (Amoah-Darkwah & Owusu-Mante, 2022; KfW Development Bank, n.d.; Tagbor, 2022; World Bank, 2020). Additionally, KfW is widely credited as having played a leading role in developing the bank's institutional capacity, including its social and environmental standards, which are a particular institutional priority for KfW (DP 6, DP 7, Others 2, NDB 7, NDB 1). AfDB holds a seat on the board, while KfW and the World Bank also exercise an active oversight role through their observer status on the board (Ghana News Agency, 2022).

DBN's partner base is structured differently, with two DPs holding equity, namely AfDB (18 per cent) and the EIB (7 per cent) (AfDB, 2018; Development Bank of Nigeria, 2021). As with DBG, DBN's creditors comprise a broader consortium, including AfDB in addition to its equity stake, the World Bank, KfW and France's AFD (World Bank, 2024). The World Bank, however, has played a particularly prominent role and is widely credited as the architect of DBN (NDB 4, NDB 8, DP 2). The World Bank reportedly authored the Project Appraisal Document that formed DBN's original business case, worked directly with Nigeria's government to secure approval and helped catalyse the USD 1.2 billion in financing used to establish the bank (NDB 5). The World Bank and EIB hold observer status on DBN's board (World Bank, 2024).

4.4.2 Key lessons for establishing new NDBs

The experiences of DBG and DBN in their collaboration with DPs offer several important lessons for countries establishing new NDBs.

A key lesson is the value of DPs in providing long-term funding and enhancing financial credibility. DPs support NDBs through long-term funding, facilitate access to capital markets and enable the use of instruments such as green bonds. Their partnership brings reputational benefits and allows NDBs to benefit from DPs' international credit ratings to access financing on more favourable terms.

The role of DPs as financial stakeholders in strengthening governance, independence and accountability is another important lesson. As equity partners and creditors, DPs can play a key role in reinforcing governance structures that ensure NDB independence and operational autonomy. By being involved in strategic planning, board decisions and key operational matters from the outset, and applying monitoring requirements and regular performance oversight, they foster accountability. Their involvement helps shield NDBs from political interference, such as during changes in government.

It is also essential to align DP engagement with national development strategies. Structuring partnerships around national development strategies, goals and agendas helps ensure that NDB activities are both locally relevant and supported by international expertise and resources.

A final takeaway is that technical assistance and knowledge transfer are integral to effective DP engagement. DPs bring substantial institutional knowledge and hands-on support that are critical in the early stages of NDBs' development. This includes capacity building in areas such as risk management, ESG frameworks and operational systems, as well as the sharing of experiences gained through DPs' extensive track records in development finance. Given that newly established NDBs typically recruit many of their staff from the commercial banking sector, the transfer of development finance expertise is essential to building the capacities and institutional culture required to fulfil their developmental mandate.

4.5 Sustainability

4.5.1 The role of DBG and DBN in promoting sustainability: commitments, instruments and challenges

DBG and DBN aim to foster sustainability by embedding E&S principles across their current and future strategies and operations (NDB 3, NDB 4, NDB 5, NDB 7, NDB 10). This builds on the founding mandates that establish sustainability as a core institutional priority. At the strategic level, both institutions have established formal sustainability frameworks. DBG's Environmental and Social Management System and internal green taxonomy, described as "a core pillar of our operations" (NDB respondent), and DBN's sustainability policy, framework and net-zero strategy (NDB respondents) align with national priorities and international standards. According to interviewees, both NDBs have exceeded their internal green targets, with DBG surpassing its 5 per cent benchmark (NDB 10) and DBN achieving around 12 per cent green lending against a 10 per cent target (NDB 3). However, these targets account for a very small share of their respective portfolios, signalling that both DBG and DBN are still in the early stages of greening their portfolios.

Institutionally, sustainability is embedded in lending processes at both banks, supported by dedicated E&S or sustainability teams and complemented by internal practices such as carbon tracking, reduced plastic use and resource efficiency (NDB 3, NDB 4, NDB 10, NDB 12). In terms of monitoring, both rely on structured monitoring and evaluation systems, theories of change and defined KPIs on climate, gender and employment to track and report impact (NDB 3, NDB 5, NDB 10).

These findings are consistent with the literature, which highlights that NDBs can foster sustainability by developing and enforcing institutional ESG frameworks and integrating sustainability into their core operations (Brockmann, 2017; Griffith-Jones et al., 2020). Moreover, the strong integration of sustainability across institutional processes supports the argument that NDBs are uniquely positioned to drive sustainable development given their mandate, long-term orientation and close links to domestic financial systems (Dalhuijsen et al., 2023; Mazzucato, 2023).

Looking ahead, both institutions aim to scale sustainable finance, reflecting their shared ambition to drive sustainability within the financial systems of their respective countries. DBG is pursuing this objective through initiatives such as the Green Finance and Investment Facility and NDC-related projects with KfW (Development Bank Ghana & KfW Development Bank, n.d.; KfW Development Bank, n.d.). DBN, meanwhile, is doing so by mobilising GCF funding as an accredited entity (Green Climate Fund, 2024) and through initiatives such as the International Climate Initiative (IKI) Small Grants project on women-led climate MSMEs, in partnership with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the Federal Ministry for the Environment, Climate Action, Nature Conservation and Nuclear Safety (BMUKN), and Global Affairs Canada (International Climate Initiative, n.d.).

Turning these strategic commitments into practice, DBG and DBN rely on a range of instruments to embed sustainability in their lending operations and influence the behaviour of PFIs. The following sections present findings on three specific instruments: namely E&S requirements, risk categorisation tools and financial incentives, through which DBG and DBN promote environmental protection and social equity.

Both DBG and DBN employ mandatory exclusion lists, which prohibit financing for projects or entities that do not meet their pre-defined sustainability criteria. Multiple interview respondents indicated that exclusion lists function as non-negotiable E&S requirements (NDB 2, NDB 3, NDB 4, NDB 5, NDB 6, NDB 10, NDB 11, PFI 3). Beyond exclusion lists, both NDBs require PFIs to have board-approved E&S and ESG policies before funds are disbursed. One respondent

explained: “We will not disburse [funds] until after we see your ESG systems. It must be board-approved. We want to see the minute it has been approved and it’s being implemented” (NDB 2).

Risk categorisation systems (A/B/C frameworks), used by DBG and DBN to evaluate each loan applicant for E&S risks, complement these screening requirements. Category A projects, defined as those with potentially significant and irreversible environmental or social impacts, are systematically denied funding. In DBN’s case, non-compliance with E&S requirements led to the recovery of funds already disbursed (NDB respondent), which underlines both DBN’s commitment to E&S implementation and the effectiveness of its monitoring mechanisms. This observation aligns with Marodon’s (2022) proposition that a core function of NDBs’ mandates is to address market failures linked to the E&S externalities of development projects. By excluding high-risk projects, DBG and DBN seek to minimise negative externalities.

Enforcement mechanisms alone can ensure compliance, but scaling sustainable lending also requires economic incentives. Both DBG and DBN therefore offer financial incentives to reward PFIs that actively pursue sustainable lending. Green credit lines (NDB 5) and concessional pricing for sustainable loans create tangible financial advantages for PFIs that prioritise ESG-aligned lending. For instance, DBN uses the Development Impact Assessment to adjust loan pricing based on expected development and sustainability impacts (NDB respondent). As one expert noted, “there also has to be a real difference, especially when it comes to this green and climate topic that really should be concessionary. Otherwise, where’s the difference to a normal commercial bank?” (DP 7). This finding is consistent with the literature, which highlights concessional finance as a key instrument through which NDBs support green and sustainable initiatives and expand access to finance for underserved borrowers (Abor, 2023; Attridge et al., 2021; Griffith-Jones et al., 2020).

These instruments demonstrate that sustainability is embedded not only in the internal operations of DBG and DBN but also in their engagement with PFIs. The results further suggest that these mechanisms extend the banks’ influence beyond individual lending relationships. Interview respondents regarded DBG and DBN as important contributors to national sustainability frameworks and active leaders in shaping and advancing sustainability agendas (CSO 1, NDB 3, NDB 5, NDB 8 and NDB 10).

DBG, for instance, reportedly contributes directly to Ghana’s national climate commitments by supporting the implementation of Nationally Determined Contributions (NDCs). In addition, respondents indicated that DBG participated in the committee responsible for developing Ghana’s national Green Finance Taxonomy (NDB respondent). DBG is also reported to have been involved in broader climate policy processes such as the Climate Prosperity Plan. Beyond this participation, DBG was described as a sector leader that has driven ESG adoption across the financial sector. One interviewee acknowledged that “DBG has [been] the frontrunner of [...] sustainability” (CSO 1).

Similarly, DBN reportedly contributes to national sustainability frameworks in Nigeria by engaging in key policy processes – including Nigeria’s NDCs, the Nigerian National Carbon Market Framework and long-term emissions-related development plans (NDB respondent) – while also aligning its sustainability framework with national priorities and working with government institutions such as the National Council on Climate Change (NDB respondent). These examples demonstrate DBG and DBN’s dual roles as policy influencers and sustainability leaders, lending empirical support to the literature that conceptualises NDBs as actors capable of influencing sustainability frameworks and green investment policies (Griffith-Jones et al., 2020).

In addition to shaping national sustainability frameworks, some evidence suggests that DBG and DBN also contribute to advancing sustainability within the broader financial system and the SME sector. The interview data show that DBN and DBG have influenced reporting practices

and the adoption or strengthening of E&S and sustainability standards among PFIs. In Nigeria, five of the eight PFIs interviewed reported that, as a result of their engagement with DBN, they either introduced E&S and sustainability standards or strengthened their existing frameworks. In Ghana, five of the nine PFIs reported similar experiences. Those PFIs that did not report improvements in their standards or ambitions largely pointed out that they already had strong sustainability profiles, with their own standards and reporting systems already in place.

Technical assistance and capacity building received from the respective NDBs were a major enabling factor in this regard for both DBG and DBN, and respondents consistently noted that many PFIs have introduced or substantially strengthened their E&S and ESG commitments as a result. As one respondent explained:

I know that a lot of the PFIs that we work with, especially the microfinance banks didn't have those systems in existence. And with the work that we did on the technical assistance programmes, today they have fully fledged, fully manned E&S risk functions. And it's a key part of how they do their lending. (NDB 3)

Nevertheless, several PFIs in both countries requested that the NDBs provide more technical assistance because they still perceive sustainable finance as new terrain and have not yet fully incorporated it into their banking operations.

These findings support Abor's (2023) argument that African NDBs serve as key agents for diffusing sustainability norms across financial systems and extend the existing literature on NDBs as norm-setters more broadly. While Brockmann (2017) and others have documented that NDBs can develop ESG frameworks, the present study provides empirical evidence of the catalytic effect on PFIs' internal capacity, an aspect that has received limited attention in prior work on African NDBs. This form of conditionality – requiring PFIs to adopt environmental and social management systems as a condition for receiving credit – is consistent with the broader literature's emphasis on development banks using their lending power to embed responsible finance practices where regulatory frameworks are still developing (Abor, 2023). The results reinforce the view that NDBs can accelerate the adoption of sustainable banking principles, often placing them well ahead of existing industry standards.

Despite this array of strategic commitments, dedicated instruments, and national and sectoral influence, DBG and DBN operate within an environment marked by several structural, institutional and market-related challenges that continue to constrain the financing and implementation of green and sustainable projects. These barriers operate on both the demand and supply sides of the market: SMEs show limited awareness of and demand for green finance, while financial institutions face elevated perceptions of risk, capacity constraints and misaligned regulatory frameworks that together limit the flow of capital towards green investment.

At the market level, particularly on the demand side, there is limited awareness, especially among SMEs, regarding sustainability and green investment opportunities, and associated benefits such as cost savings and long-term resilience are not clearly recognised (NDB 3, NDB 4, NDB 5, NDB 6, NDB 10, PFI 6, PFI 11, PFI 17). Businesses therefore prioritise short-term survival over long-term sustainability, thereby reducing their demand for green finance. One respondent suggested that this contributes to a weak pipeline of bankable green projects, creating a shortage of high-quality, investment-ready opportunities and the underutilisation of available funding (DP 6).

Relatedly, on the supply side, the findings indicate that green finance is perceived as a new and uncertain form of financing, increasing the perceptions of risk among financial institutions (NDB 2, NDB 3, NDB 5, NDB 10, PFI 4). Hence, banks prefer traditional sectors such as trade and commerce, which offer predictable cash flows, resulting in conservative lending practices and limited capital allocation to green projects. Additionally, evidence suggests that green projects typically require high upfront capital costs, have long payback periods and generate delayed or

uncertain returns. Respondents argued that these features do not align with conventional banking models that prioritise short-term profitability and risk minimisation, limiting the willingness of financial institutions to finance such projects (NDB 2, NDB 10). As one interviewee explained, banks are often reluctant to provide financing because “green finance projects require longer tenors, which sometimes the banks are not ready to [do]” and it involves “balancing impacts with commercial viability” (NDB 10). These findings are consistent with the literature, which emphasises that underdeveloped local markets and high perceived risks continue to constrain investment in green activities and sustainable development (Abor, 2023; Dalhuijsen et al., 2023; Griffith-Jones et al., 2020).

At the institutional level, the results suggest that across the financing chain, some PFIs and SMEs lack the technical expertise, tools and systems needed for green project appraisal, ESG implementation and impact measurement (DP 6, NDB 10, PFI 17). One NDB interviewee further noted that limitations in digital tools and systems also affect NDBs regarding climate-risk assessments (NDB 10). These gaps make it difficult to meet ESG and E&S requirements, and compliance becomes particularly challenging for SMEs. As a result, several SMEs are unable to demonstrate adherence to E&S standards, limiting their eligibility for financing and reducing outreach (NDB 3, NDB 10, PFI 17).

At the structural level, global ESG standards were described as insufficiently adapted to local economic conditions and institutional capacity, making their implementation complex and costly. The results point to a need for contextualisation to ensure that these standards align with local development trajectories and the capacities of PFIs and SMEs (CSO 1, NDB 3, NDB 10).

In Nigeria specifically, even though the Nigerian Sustainable Banking Principles provide a banking-sector framework for integrating E&S risk considerations, they are limited to the banking sector and do not constitute a comprehensive national green taxonomy or a unified green finance framework (NDB respondent). While major banks have adopted the principles, compliance remains uneven, as only some institutions go beyond the minimum requirements. At other institutions, there is limited evidence of impact (Ajose-Adeogun, 2025).

Overall, the results indicate that DBG and DBN foster sustainability by combining institutional strategic commitments, policy engagement, financial incentives and capacity building. However, the degree to which these initiatives result in more comprehensive sustainability outcomes is still dependent on institutional capacity, market conditions and the broader policy environment.

4.5.2 Key lessons for establishing new NDBs

Drawing on the findings described above and the literature, several observations can be made regarding the establishment of new NDBs. Launching new NDBs requires not only capital allocation but also an institutional design that embeds and operationalises sustainability from the outset.

Embedding strict E&S requirements across all lending relationships appears crucial to institutionalising sustainability. A key lesson is that sustainability assessments are most effectively embedded when access to capital is contingent upon verified E&S management systems. By withholding disbursements until these systems are in place, NDBs may avoid the challenge of retrofitting policies to an active portfolio (NDB 10). Without such non-negotiable E&S requirements, NDBs may be less likely to achieve sustainability-aligned loan portfolios, as sustainability becomes a secondary consideration rather than a prerequisite for collaboration (Dalhuijsen et al., 2023).

Similarly, integrating sustainability into financial risk assessment is critical for ensuring that PFIs internalise E&S considerations. Rather than treating sustainability as a separate compliance requirement, the evidence suggests that it should be integrated into core financial risk

assessments. The cases suggest that weighted scoring in partner scorecards can be effective, particularly when E&S criteria are treated as financial risk indicators rather than compliance checkboxes. Assigning substantial weight to ESG performance, such as 30-40 per cent of the overall score (NDB 7), is consistent with the potential role of NDBs as “norm-setters” (Griffith-Jones et al., 2018). This approach may amplify their impact by encouraging PFIs to incorporate social and environmental risks in their lending decisions.

However, sustaining these standards requires robust oversight and enforcement. The two case studies suggest that NDBs benefit from moving beyond annual reporting towards more frequent monitoring, including field visits and regular portfolio reviews (PFI 12, NDB 3). The need for NDBs to implement regular monitoring to de-risk long-term, complex green infrastructure projects has also been highlighted in the literature (Nyikos & Kondor, 2022).

Financial incentives can further encourage sustainability-oriented lending. The two cases suggest that NDBs can leverage sustainability indicators to provide financial incentives, such as interest rate reductions or extended loan tenors (DP 7, NDB 5). In addition, the literature suggests that such concessionality may be important for making sustainable initiatives economically viable for MSMEs and other underserved borrowers (Abor, 2023; Attridge et al., 2021).

Another important lesson concerns the role of NDBs in driving institutional transformation within the broader financial sector. By requiring and supporting PFIs to establish dedicated sustainability units or “green desks” (NDB 3), NDBs can foster the institutionalisation of sustainability practices across the banking sector. Consistent with Brockmann’s (2017) emphasis on the importance of developing E&S frameworks, the evidence from DBG and DBN indicates that NDBs’ technical assistance, training and knowledge sharing are crucial for building internal capacities for sustainable finance within PFIs.

5 Conclusion

This paper examined DBG and DBN as two recently established NDBs operating through wholesale banking models in collaboration with PFIs. Drawing on expert interviews and document analyses, the study highlights the renewed importance of NDBs in addressing financing gaps, mobilising long-term capital, supporting SMEs and advancing sustainable development objectives in LMICs. At the same time, the study demonstrates both the opportunities and limitations associated with the “next-generation NDB” models in sub-Saharan Africa.

A key finding is that both DBG and DBN have established governance structures and operational models that largely protect them from direct political interference while strengthening their institutional credibility with PFIs and DPs. Their wholesale banking approach has enabled them to extend longer-term financing and more affordable terms to underserved sectors without competing directly with commercial banks.

However, the study also shows that the developmental potential of both institutions remains constrained by their relatively small scale. Despite their strategic importance, DBG and DBN remain small in relation to the size and financing needs of the Ghanaian and Nigerian economies. Their ability to contribute to broader structural transformation and green transitions will therefore depend on their ability to expand their balance sheets and operational capacities significantly over time – for instance through a more ambitious domestic funding model as well as strategic adjustments to guarantees and relationships with PFIs (see the policy considerations for details).

DPs played a central role in the establishment and operationalisation of both NDBs by providing capital, technical assistance, governance support and sustainability expertise. While this

support strengthened institutional capacity and credibility, heavy reliance on external funding also creates vulnerabilities and challenges, including FX risks and unharmonised reporting requirements. Over the long term, strengthening domestic resource mobilisation through instruments such as domestic bond issuance, retained earnings and tax exemptions will be important for enhancing institutional sustainability and autonomy.

The findings also demonstrate that collaboration between NDBs and PFIs generated important benefits for PFIs, including access to concessional long-term financing, improved maturity matching and institutional learning. Nevertheless, operational constraints such as limited funding volumes, regulatory restrictions and pricing challenges limit the scale and effectiveness of wholesale lending operations. Expanding guarantee schemes and adopting more flexible financing instruments may therefore be necessary to improve outreach to SMEs and underserved sectors.

The study also highlights the growing role of NDBs as sustainability actors. Through green credit lines, conditionalities and technical assistance, DBG and DBN contributed to raising sustainability standards, practices and ambitions among PFIs. At the same time, challenges remain, including limited awareness among SMEs, perceptions of high risks associated with green lending and difficulties in adapting international ESG standards to local realities. Future efforts will therefore need to combine financing with targeted capacity building and context-sensitive sustainability approaches.

Furthermore, the experiences of DBG and DBN demonstrate that NDBs can play important developmental and countercyclical roles in contexts where private financial markets fail to provide sufficient long-term financing. During periods of economic stress, including the COVID-19 pandemic, both institutions contributed to maintaining financing flows and supporting financial sector resilience. At the same time, the study underscores the importance of balancing development mandates with financial sustainability and operational independence.

In conclusion, DBG and DBN represent important institutional innovations within the evolving landscape of development finance in Africa. Although still relatively young and limited in scale, both institutions have already contributed to improving access to long-term finance, strengthening sustainability practices and enhancing financial sector resilience. Their future effectiveness will depend on their ability to scale up operations, diversify funding sources, retain domestic ownership of their strategic orientation and maintain a clear focus on development impact. If these challenges can be addressed, NDBs such as DBG and DBN could become increasingly important institutions for supporting sustainable development and structural transformation in Ghana, Nigeria and beyond.

6 Policy considerations

Independence at DBG

Safeguarding the institutional independence of DBG is essential to ensuring its long-term effectiveness as an NDB. A key priority for DBG is the finalisation and formal adoption of a government–NDB compact. Such an agreement would clearly define the roles, responsibilities and scope of influence between the Government of Ghana and DBG, thereby reducing ambiguity and mitigating risks of political interference in strategic and operational decisions. At the same time, it would provide a stronger institutional foundation for attracting additional shareholders and future equity contributions. To further strengthen its institutional independence, financial resilience and international credibility, DBG should diversify its ownership structure by attracting equity participation by DPs or other international development actors.

Diversification of funding sources and scaling up development impact

DBG and DBN should expand their balance sheets and activities to increase their impact on PFIs, SMEs and the financial system. Currently, their assets are minimal compared to national GDP (<0.5 per cent), which limits their ability to achieve impact at the scale required to generate transformative effects on the Ghanaian and Nigerian economies. DBN's current five-year strategic plan, under which DBN is on track to mobilise around USD 1.3 billion, is a step in the right direction, but it is likely to be insufficient to achieve transformative effects in the Nigerian financial system and economy. However, expanding their balance sheets and operational activities depends on their ability to acquire additional funds, for instance by strengthening their capital bases and funding models.

First, the NDBs should broaden their equity base by attracting additional shareholders, particularly AAA-rated investors. A larger capital base expands the balance sheets of DBG and DBN and thus their lending capacities, while also enhancing investor confidence. As an indirect effect, it would also alleviate constraints associated with the SOL, as larger shareholders' funds (resulting from new equity investment) would allow the banks to extend larger loan volumes to individual PFIs – at least to PFIs that have larger shareholders' funds than the respective NDB. While DBN has already secured a central bank review of the SOL from 20 per cent to 35 per cent in 2026, DBG should similarly engage with DPs and the central bank to review the SOL and increase the regulatory limit.

Second, both NDBs should develop a more ambitious domestic funding model. DBG and DBN should broaden the investor base by issuing domestic bonds that target households and carry low minimum investment amounts. This would mobilise domestic savings and, most importantly, reduce the cost of capital for DBG and DBN. Households may accept lower interest rates if the returns exceed those available on savings accounts at financial institutions, thereby enabling NDB bonds to offer interest rates lower than those on sovereign bonds, given the sovereign ceiling effect. Digital distribution technologies can allow for cost-effective issuance despite low minimum investment amounts. DPs should facilitate this effort, and DBG and DBN could build on experiences in Kenya and selected Asian countries with such bonds (see Volz et al., 2024). Tax exemptions on NDB bonds may further increase the attractiveness and demand for such securities. In addition, impact investors might acquire NDB bonds with sub-market returns since they value development impact and safe assets over financial returns.

Relatedly, NDBs should measure and report their impact and additionality through rigorous impact evaluations, which may help to attract additional funds. DBG and DBN should continuously monitor and evaluate their impact. This should go beyond monitoring their existing set of indicators. Impact evaluation tools would use counterfactuals to capture the true additionality of these two NDBs, that is, the impact beyond what the rest of the financial system would have achieved in the absence of the NDBs. Quantifying and verifying this additionality can improve access to financing from impact-oriented investors and support sustained DP financing and long-term engagement. One additional aspect to consider is capturing indirect impact, for example through the volume of private capital mobilised through guarantee facilities.

To further enhance impact, DBG and especially DBN should focus on the dual objectives of financial sustainability and development impact. While DBG maintained broadly adequate and relatively stable returns on assets between 2022 and 2025, DBN's returns on assets rose steadily over the same period, reaching double-digit levels in 2025. Management and boards of directors should fully embrace prudential standards and prioritise financial sustainability. However, they should abstain from adopting corporate approaches such as commercial return expectations or targets for annual improvements in profitability. For development banks, profitability is not an end in itself, but low-to-moderate profitability is a means of ensuring financial sustainability and generating development impact. Furthermore, the near absence of non-performing loans (0 per cent for DBG in 2023 and 0.27 per cent for DBN in 2024) suggests

that DBG and DBN are currently pursuing a conservative strategy, which may not maximise the development impact of the resources they manage.

Governments should enable NDBs to grow their assets to scale operations and impact. This may include granting tax exemptions for NDBs and allowing them to retain profits so that NDBs can increase their resources, build buffers and enhance operations.

In addition to boosting their financing capacity, both NDBs should seek to increase the impact of every dollar on their balance sheets. One way to do so is by enhancing their guarantee facilities and thereby mobilising additional private capital. Furthermore, DBG and DBN could strengthen their role as incubators that empower PFIs to lend continuously to SMEs without further funds from NDBs. After capacity building and concessional financing over some years, PFIs should have the expertise, knowledge and instruments required to serve the SME segment profitably without further support, apart from potentially credit guarantees. Providing this “proof of concept” should encourage profit-driven financial institutions to continue their SME lending activities, provided that the banking sector is sufficiently competitive. The NDBs could then redirect their funds and activities towards other financial institutions, gradually encouraging all financial intermediaries to serve the SME segment.

PFI–NDB collaboration

The findings suggest that strengthening collaboration between NDBs and PFIs requires improvements in three interconnected areas: pricing, risk sharing and technical assistance.

While the long-term nature of DBG and DBN financing is widely valued, its pricing has become less competitive than alternative funding sources. This is particularly evident in Ghana, where declining market interest rates have reduced the comparative advantage of DBG financing. NDBs, together with governments and DPs, should strengthen access to concessional funding to improve the affordability and competitiveness of credit lines for PFIs and final borrowers. In parallel, NDBs should offer more flexible and adaptive pricing instruments, such as floating-rate products, to better respond to changing market conditions and diversify financing options (which DBN already offers and DBG has recently introduced). In the case of Ghana, DBG could further strengthen its lending capacity and reduce borrowing costs by retaining a greater share of profits to build buffers and expand its funding volumes.

This is a practice that is already embedded in DBN’s operating model through its profit plowback policy, which allows it to retain a greater share of profits and strengthen its balance sheet. To ensure that concessionality reaches final borrowers, mechanisms such as pricing corridors or limits on PFI margins should also be considered. A margin corridor of 7-9 per cent, for instance, is already applied under DBN’s LPRES project, but such measures should not be limited to small portions of NDB portfolios. Extending similar approaches more broadly across NDB portfolios could enhance the transmission of concessionality.

The wholesale lending model continues to place the credit risk on PFIs, particularly in Ghana, where DBG’s guarantee mechanism is not yet operational. Expanding risk-sharing instruments, especially credit guarantees, would encourage PFIs to increase lending to higher-risk or underserved segments, while reducing perceived lending risks. Building on the example of DBN’s subsidiary ICGL, guarantee services should become an integral component of wholesale development banking.

Although both DBG and DBN provide capacity-building support, the results indicate a need for more targeted and differentiated technical assistance. NDBs should therefore expand sector-specific training, for instance in agriculture and agro-industries, and tailor it to the varying capacities and business models of commercial banks, microfinance institutions, rural banks, and savings and loan companies. This may imply building on and extending best practices such as

DBN's LPRES project, which includes sector-specific capacity building in agriculture tailored to the needs of PFIs and SMEs. An area of focus should be to strengthen PFIs' ability to assess risks in traditionally underserved sectors and value chains, thereby reducing (perceived) credit risk for PFIs and enabling more lending and broader access to finance for underserved borrowers.

Collaboration with DPs

DPs play a critical role in strengthening the financial sustainability, operational effectiveness and development impact of DBG and DBN. The findings suggest three priority areas for future engagement.

First, DPs should provide concessional financing in local currency to shield NDBs from exchange rate risks and strengthen the stability of NDBs' funding. While governments may act as intermediaries for foreign currency loans for on-lending to NDBs in local currency, this approach may not always be feasible and carries certain institutional risks for the NDBs. DPs should therefore leverage their financial standing to provide local-currency loans or at least absorb some of the exchange rate risk.

Second, DPs should further harmonise their strategic priorities, implementation timelines and reporting requirements to reduce administrative burdens and enable NDBs to focus more effectively on fulfilling their development mandate. In particular, ESG reporting requirements should be streamlined through greater mutual recognition and coordination across DPs. Establishing a joint technical working group comprising DPs, DBG and DBN could support the development of a common reporting standard, aligned reporting templates, shared digital tools and coordinated reporting deadlines and missions.

Third, DPs should continue providing technical assistance to strengthen institutional capacity within DBG and DBN. As relatively young institutions, both banks would benefit from continued support to develop staff expertise in development banking and facilitate the transition of individual employees from commercial banking practices to a stronger development banking mindset.

Sustainability

The findings indicate that scaling up sustainable finance requires coordinated action to stimulate demand for green investments, expand the supply of green finance, strengthen institutional capacity and establish an enabling regulatory framework.

A major constraint to scaling up green finance is limited demand, owing to SMEs' limited awareness of the business opportunities associated with sustainable development. Government agencies, industry associations and development agencies should therefore jointly raise SMEs' awareness of the business case for green investments and technologies, and direct interested enterprises to available green finance instruments. At the same time, DBG and DBN should actively develop a pipeline of potential investments and seek partnerships, for instance through DBN's engagement with industry and SME associations such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) or the Nigerian Association of Small and Medium Enterprises (NASME).

NDBs should strengthen the visibility and accessibility of existing green finance opportunities by publishing clear information on eligibility criteria, priority sectors, and financial incentives, and by working with PFIs as the primary interface. Greater outreach should be complemented by improving PFIs' awareness and understanding of viable green finance beyond well-established sectors such as solar energy to include opportunities in agriculture, waste management and

manufacturing. Tools such as sector opportunity lists, bankability case studies and targeted training can further support PFIs in identifying SMEs with viable green investments.

Green projects face cost and bankability constraints that limit private-sector uptake. To encourage greater investment in sustainable projects, NDBs should therefore offer concessional terms for green projects and mobilise financing from climate funds (e.g. the GCF). These efforts should be accompanied by stronger risk-sharing mechanisms, particularly credit guarantees. In this regard, DBG should prioritise making its credit guarantee facility fully operational, and DBN should scale ICGL's guarantee services.

The findings suggest that international ESG standards are not yet locally actionable. NDBs and national regulators should translate international ESG standards into more locally applicable and sector-specific guidance that reflects domestic market conditions and the needs and circumstances of SMEs. Developing these guidelines jointly with PFIs and SME associations, and periodically reviewing them based on implementation experience, would improve both their relevance and practicality.

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APPENDIX

Research questions

This research aims to answer the following overarching research question:

What factors enable NDBs to grow into independent and impactful institutions capable of fostering sustainable development?

To answer the overarching research question, this study seeks to address the following specific research questions:

Independence:

- *How do DBG and DBN understand, operationalise and maintain institutional independence?*
- *What internal and external factors enable or constrain their ability to act independently?*

Funding diversification and scaling up:

- *How do NDBs scale up their operations and size in order to generate impactful outcomes?*
- *For what (strategic) reasons and how do NDBs broaden and diversify their funding sources?*

PFI–NDB collaboration:

- *What do the application and onboarding processes for becoming a PFI look like?*
- *What benefits do financial institutions gain from becoming a PFI?*
- *What are the main challenges in their relationships with NDBs?*

Collaboration with DPs:

- *What role did DPs play in the establishment, growth and independence of DBG and DBN?*
- *How does this cooperation differ from earlier DP–NDB relationships?*
- *How is the cooperation perceived by DBN and DBG?*

Sustainability:

- *How do NDBs create enabling environments to promote sustainability?*
- *What instruments do NDBs put in place to ensure sustainable development?*

Table A 1: List of interview partners

Stakeholder group	Number of participants*
NDBs	13
DPs	7
PFI	17
Non-PFI	4
SMEs	6
CSOs	4
Others	4
TOTAL	55

Notes: *The total number of participants is given for both countries to protect confidentiality.