

# RISKS OF FACILITATING A SUSTAINABLE FUTURE: ARE BANKS PREPARED?

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SET THE  
TONE

## Introduction

- ▶ To set the tone for today's discussions, certain key questions need to be answered:
  1. What is a 'sustainable future'?
  2. How has Covid-19 impacted that future?
  3. What is the role of banks in achieving that future?
  4. What are the attendant risks and challenges?
  5. Are Banks prepared?

# A Sustainable Future? .../1



- ▶ Sustainable development has been defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”
- ▶ In line with that definition, a sustainable future would be one that supports sustainable development.
- ▶ Sustainable finance refers to any form of financial service which integrates environmental, social and governance (ESG) considerations into business or investment decisions for the lasting benefit of both clients and society at large.



## A Sustainable Future? .../2

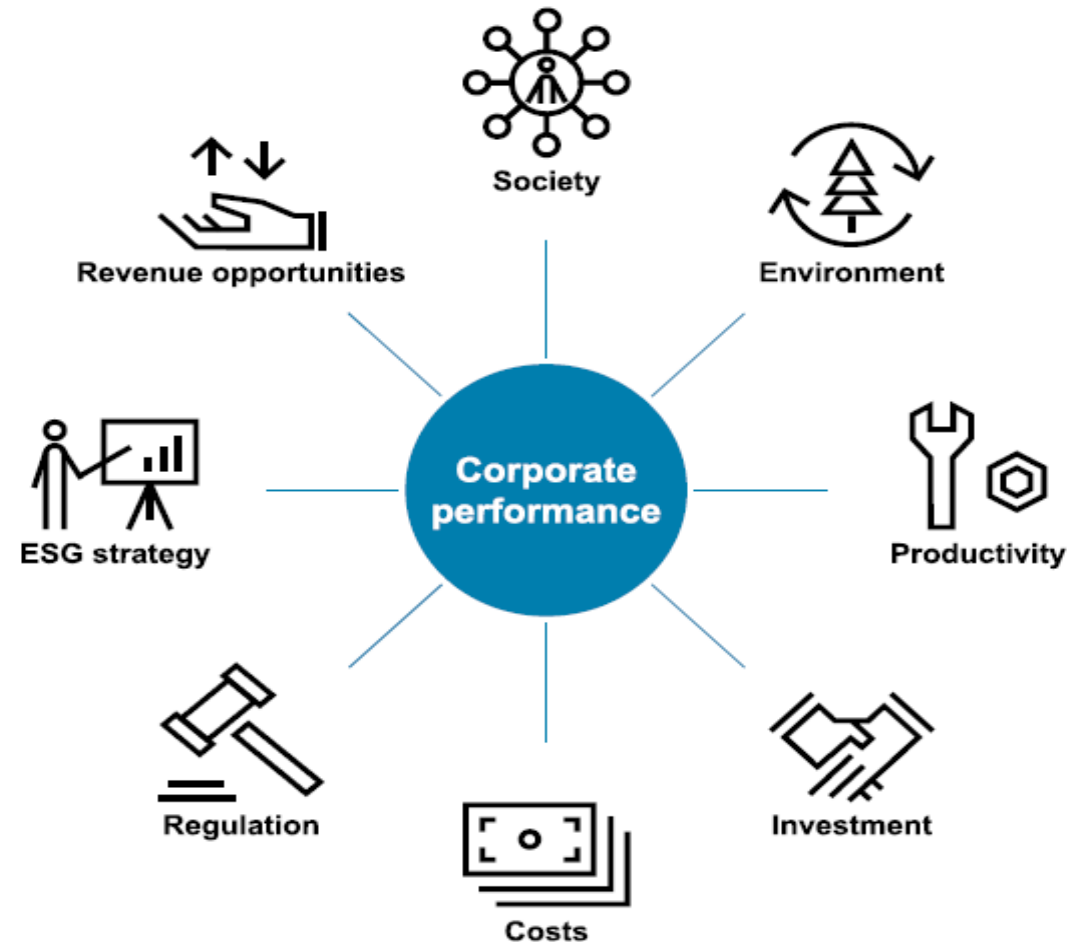
- ▶ As financial intermediaries, banks have a critical role to play in sustainable finance, through:
  - ▶ Their internal daily operations
  - ▶ Their external interactions with their clients and the environment within which they operate, and
  - ▶ The types of projects they fund.
- ▶ Within the context of sustainable banking, a Financial Institution's performance is measured not only in terms of how much profit it makes, but also in terms of its impact on the society and the environment.
- ▶ A major challenge, however, is the lack of a universal metric for measuring sustainable finance performance.



## The Links Between ESG And Financial Performance

# A Sustainable Future? .../3

- ▶ Although the implementation of sustainable finance initiatives comes with attendant costs, its benefits far outweigh these costs.
- ▶ Studies by the International Finance Corporation (IFC) revealed that banks derive benefits ranging from improved reputation to improved investor confidence by incorporating sustainability into their strategy and business practices.
- ▶ Companies focusing on ESG have achieved reduced costs, improved worker productivity, mitigated risk potential, and created revenue-generating opportunities.
- ▶ Innovative products and services that target certain populations (e.g. youths and women) or that encourage purchase of green products (e.g. green credit cards and eco funds) go a long way in promoting sustainable practices.



Source: S&P Global Ratings.  
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<https://www.weforum.org/agenda/2019/09/how-banks-can-be-more-sustainable/>

# Recent Landmarks in Sustainable Development

## ► Globally:

- Sendai Framework for Disaster Risk Reduction (March 2015)
- Addis Ababa Action Agenda on Financing for Development (July 2015)
- 2030 Agenda for Sustainable Development with 17 Sustainable Development Goals (*SDGs* (September 2015)).
- Paris Agreement on Climate Change (December 2015)

## ► In Nigeria:

- Joint statement of commitment issued by members of the Bankers Committee to develop the Nigerian Sustainable Banking Principles (October 2011)
- Adoption of the Sustainable Banking Principles (July 2012)
- *SDGs* focal points appointed in all Federal and State MDAs as well as some LGAs
- Economic Recovery and Growth Plan aligned with the *SDGs* (2017)
- FG issues Green Bonds (2017 and 2019)

# The Nigerian Sustainable Banking Principles

## Principle 1 | Our Business Activities: Environmental and Social Risk Management

- We will integrate environmental and social considerations into decision-making processes relating to our business activities to avoid, minimize or offset negative impacts

## Principle 2 | Our Business Operations: Environmental and Social Footprint

- We will avoid minimize or offset the negative impacts of our business operations on the environment and local communities in which we operate and, where possible, promote positive impacts

## Principle 3 | Human Rights

- We will respect human rights in our business operations and business activities

## Principle 4 | Women's Economic Empowerment

- We will promote women's economic empowerment through a gender inclusive workplace culture in our business operations and seek to provide products and services designed specifically for women through our business activities

## Principle 5 | Financial Inclusion

- We will promote financial inclusion, seeking to provide financial services to individuals and communities that have traditionally had limited or no access to the formal financial sector

## Principle 6 | E&S Governance

- We will implement robust and transparent E&S governance practices in our respective institutions and assess the E&S governance practices of our clients

## Principle 7 | Capacity Building

- We will develop individual, institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our business activities and business operations

## Principle 8 | Collaborative Partnerships

- We will collaborate across the sector and leverage international partnerships to accelerate our collective progress and move the sector as one, ensuring our approach is consistent with international standards and Nigerian development needs

## Principle 9 | Reporting

- We will regularly review and report on our progress in meeting these principles at the individual, institutional and sector level

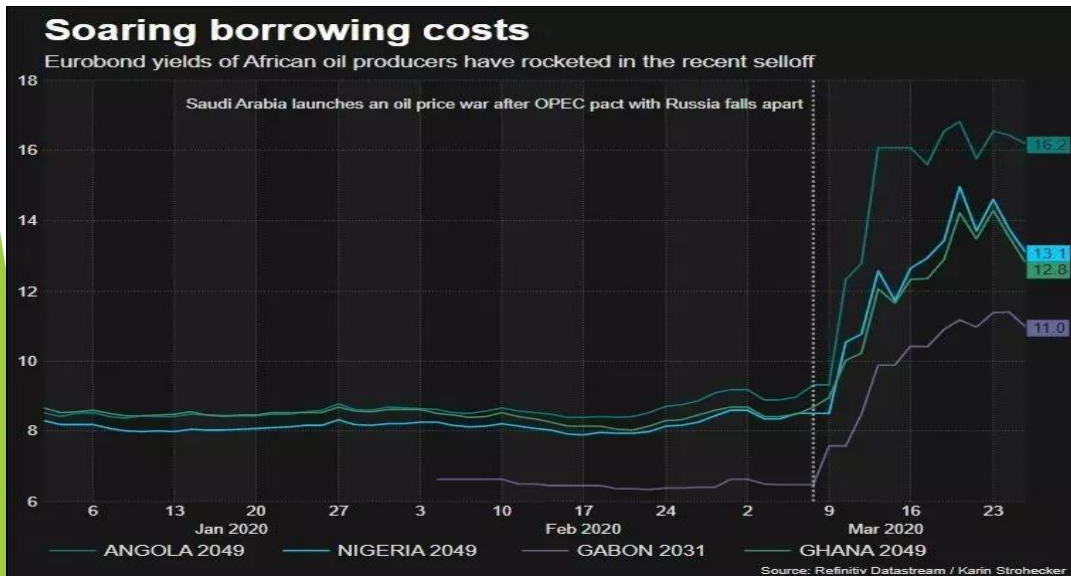
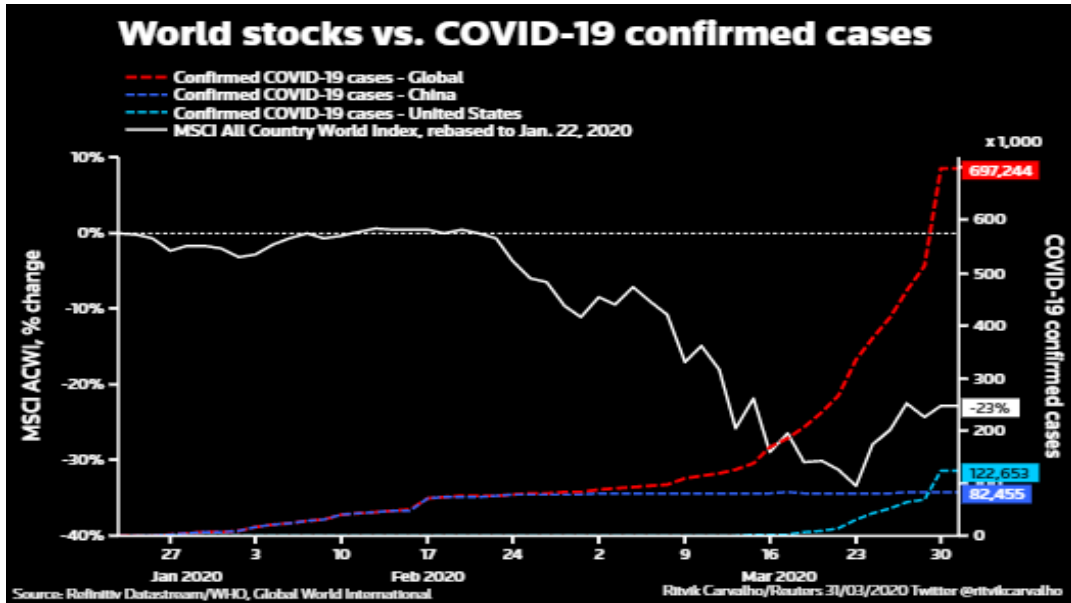
# The Sustainable Development Goals



- ▶ More than 150 world leaders adopted the SDGs in September 2015
- ▶ The *SDG Goals Report 2020* showed that, pre-Covid-19, most countries were not on track to meet the goals.
- ▶ *COVID-19 has raised more constraints and further challenged the achievement of these goals*
- ▶ However, according to the UN, While COVID-19 has been damaging for many of the people and prosperity-related SDGs, it has had some positive impact on planet-related SDGs . For example, annual CO2 emissions for 2020 are projected to be 4-7% lower than 2019 levels

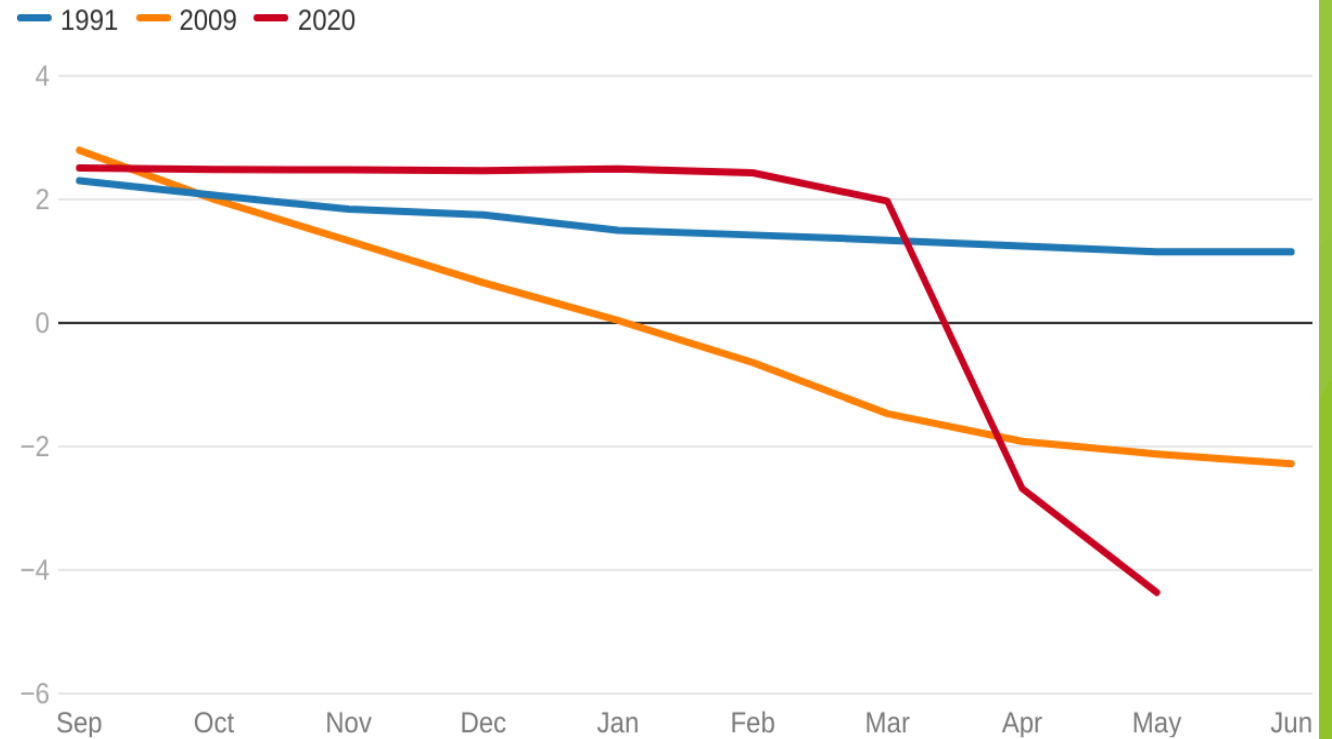


# Global Impact of Covid-19



The COVID-19 recession has seen the fastest, steepest downgrades in consensus growth projections among all global recessions since 1990

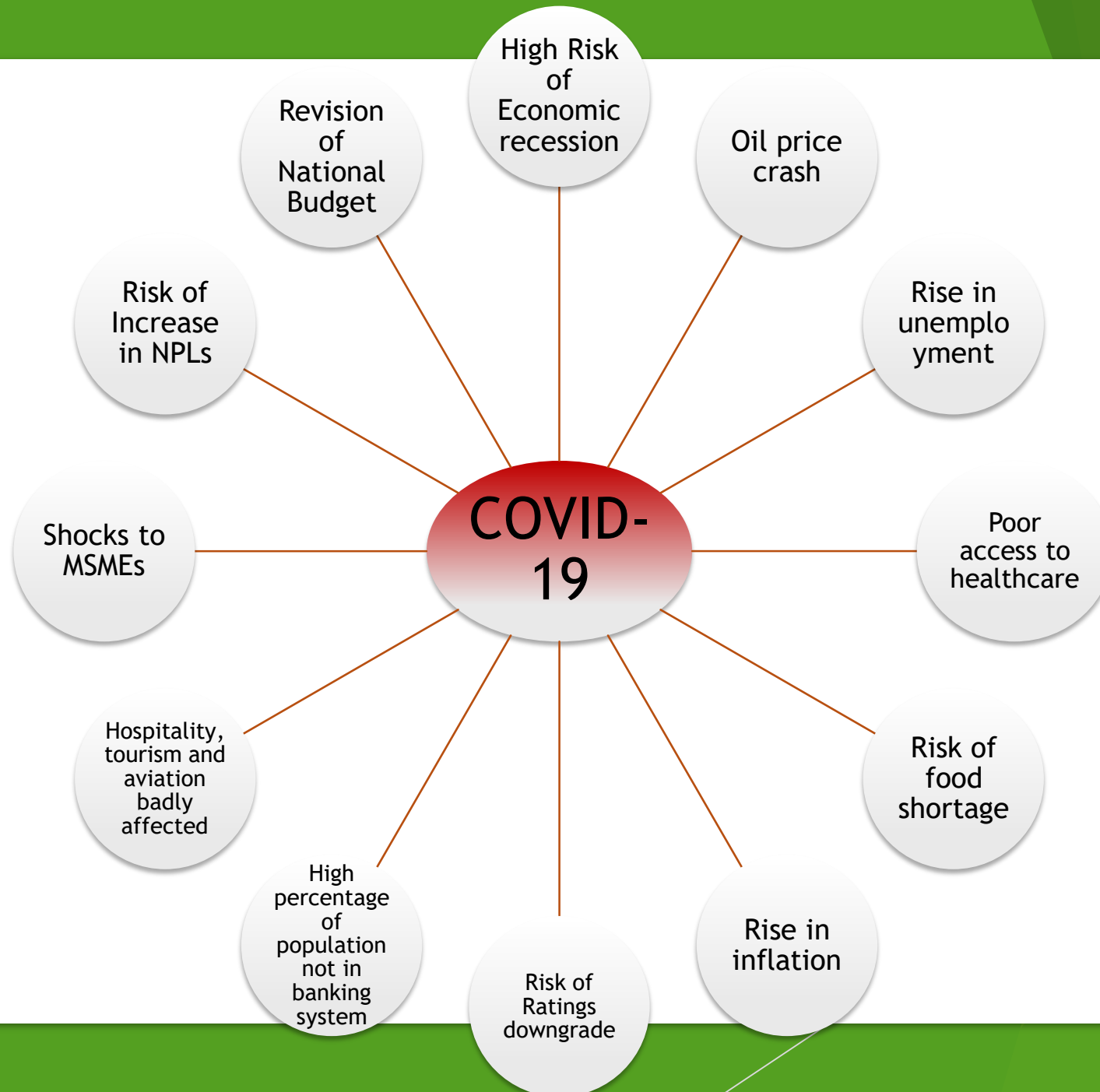
Consensus forecasts of global GDP (percent)



September to December shows forecasts made in the previous year, while January to June shows data for the current year. Data for 1991 are for advanced economies only due to data availability.


Source: Consensus Economics, World Bank

# Impact of Covid-19 on Nigeria




# Some government Policies and Support Initiatives

## CHINA


- 
- RMB 1.3t of fiscal measures approved
  - Special purpose loans
  - Financial support to specific sectors
  - Accelerated disbursement of unemployment insurance
  - Tax relief and waiver of social security contributors
  - Liquidity injection into the banking system
  - Reduction of 7 and 14 day reverse repo rates

## UNITED STATES

- 
- Cut policy rate to 0-0.25%
  - Encouraged FI's to meet financial needs of customers
  - The Fed expanded overnight repo operations by \$50b
  - \$2t financial aid package
  - Extended interest payment, debt-service holidays

## UNITED KINGDOM and EUROZONE

### UK

- 
- £330b package
  - Reduced bank rate to 0.1%
  - Expanded BoE holding of UK bonds and non-financial corporate bonds by £200b
  - Paying 80% of the wages of company employees
  - Tax holidays

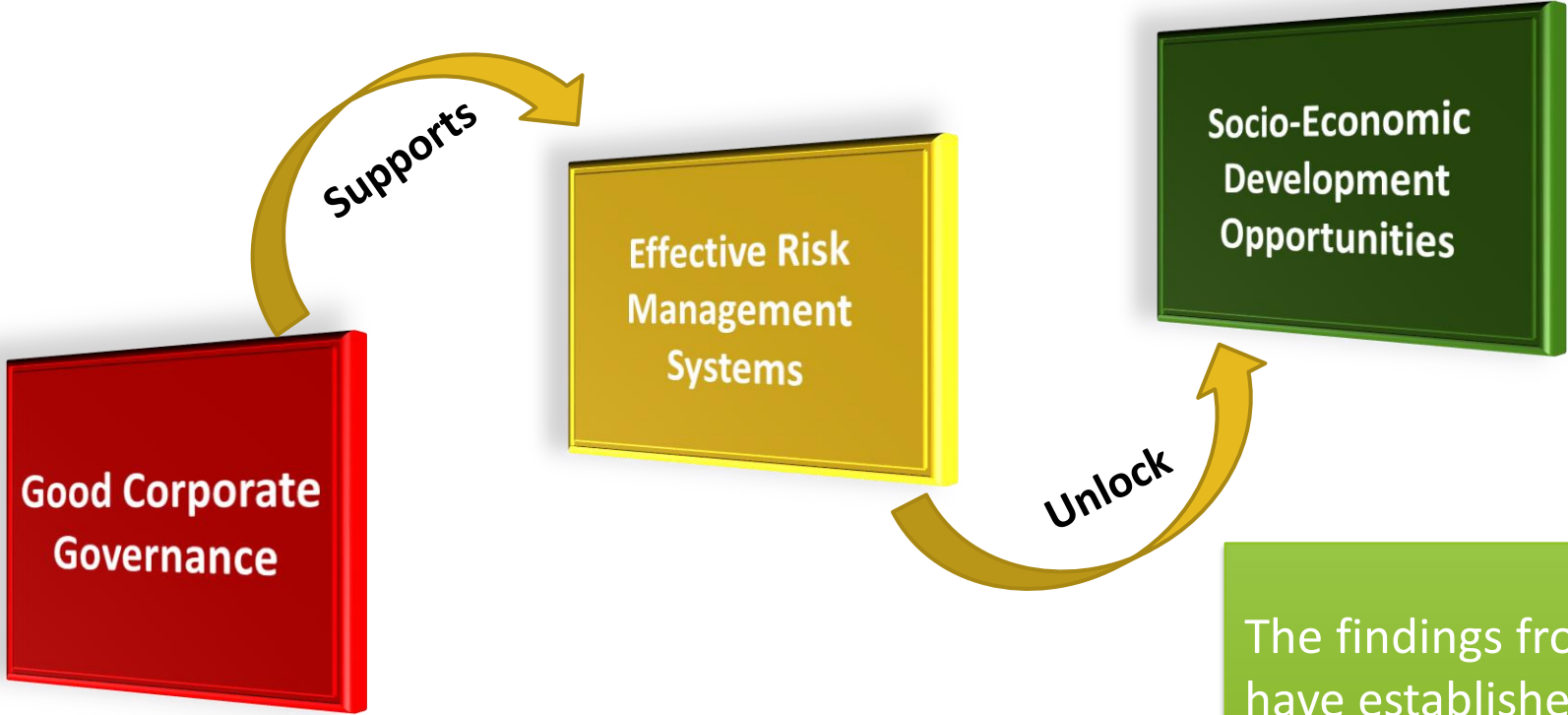
### Germany

- EUR822b support package
- Covering up to 90% of risk loans up to EUR1b and up to 5 years maturity to meet company liquidity needs
- Providing loans as a syndicate

## NIGERIA

- 
- Monetary and fiscal stimulus packages such as:
    - SME Survival Fund
    - One year moratorium and interest rate reduction on CBN intervention facilities;
    - 3-month moratorium on TraderMoni, MarketMoni and FarmerMoni facilities;
    - Credit support facilities for households, SMEs the health sector, manufacturing and production across critical sectors;
  - Temporary forbearance for Banks to restructure loans
  - Review of 2020 budget and crude oil benchmark price.

# Post Covid-19: Regenerating Nigeria's Economy Through Risk Management



The findings from several studies have established a direct connection between corporate governance, risk management and the level of development of any country.



# Post Covid-19: How Can Banks Facilitate a Sustainable Future?

- ▶ Covid-19 has put the spotlight on the need for inclusive and sustainable development.
- ▶ Banks have a key role to play in financing the needed investments and reallocating funds to critical sectors that would help to achieve the desired sustainable future.
- ▶ Banks should therefore strive to promote sustainable practices, as encapsulated in the Nigerian Sustainable Banking Principles and the SDGs.
- ▶ Some of the areas where banks need to intensify efforts include providing the unbanked and vulnerable groups (such as women and youths) with access to banking services and credit facilities.
- ▶ Environmental and social impacts should always be put into consideration in designing banks' business and operating models.



Are Banks  
Prepared to  
facilitate the  
journey to a  
sustainable  
future?

