

West Africa Roundtable on Sustainable Finance: Opportunities and Challenges
21-22 May 2008, Citi – Nigeria International Bank



Roundtable Wrap-Up

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1. Sustainable Finance in West Africa

In Lagos, Nigeria on 21-22 May 2008, financial service executives from West Africa gathered in celebration of the new financial successes that the region has enjoyed over the past few years. The involvement of bankers, asset managers, government officials and academics from West Africa was critical in exploring the latest global developments in sustainable finance – from an economic, environmental, and social perspective.

The principal message conveyed to the participants - hosted by the United Nations Environment Programme Finance Initiative (UNEP FI) African Task Force (ATF) - is that there is a growing view that banks, insurers and asset managers have a pivotal role to play in ensuring sustainable and long-term economic growth. Attention is increasingly being paid to the manner in which the financial sector provides and manages capital; whether impacts on sustainable development are considered; and if contributions to society and environment are made. In addition the linkages between environment, social and governance issues and financial value are increasingly apparent.

It has been six years since the ATF was launched in Midrand, South Africa, in an effort to support and expand sustainable financial practice in Africa. With original membership dominated by institutions from Southern Africa, the UNEP FI ATF is determined to encompass a broader geographical and professional range of African financial practitioners into its structure and activities. Outreach activities are being undertaken, and partnerships are being forged, to introduce other financial institutions (FIs) to the benefits of ATF involvement and to ensure that the ATF becomes a credible and efficient African initiative.

2. Meeting in Nigeria

Lagos, Nigeria was chosen as the site for the Roundtable because Nigerian financial institutions have recently seen a surge in FIs integrating sustainability issues into financial products and services. Citi, a UNEP FI signatory, designated Citi – Nigeria International Bank to co-host this event, which was co-sponsored by Oceanic Bank and Bank of Industry. Hosting the Roundtable in Lagos allowed UNEP FI to raise its profile in the region, and attract a large number of delegates from Nigeria and West Africa.

Prior to the Roundtable, African FIs constituted the smallest number of signatories at 1%. This is no longer the case, with African financial institutions now taking up 6% of total membership, thanks to the Nigerian financial institutions who have recently signed on. This increase in membership is tangible evidence of how financial institutions in the West Africa region are increasingly eager to learn more about and adopt sustainable finance principles.

3. Attendance and Speakers

The Roundtable attracted more than 90 participants with almost all from Nigeria, and representatives from the UK, Cameroon, Cote d'Ivoire, Germany, Burkina Faso and France. Over two days, participants had the option to attend a plenary discussion, three panel discussions, and two training sessions. Speakers were drawn from all areas of the financial services community, and included:

- **Ben Akabueze**, Honorable Commissioner for Economic Planning and Budget, Lagos State Government
- **Paul Clements-Hunt**, Head, UNEP FI

- **Funmi Ade-Ajayi**, COO, Citibank Nigeria
- **Christopher Knight**, CEO, Standard Chartered Bank Nigeria
- **Eniola Bello**, Managing Director, ThisDay Newspaper
- **Funlola Adewale**, Managing Director/CEO, UBA Foundation
- **Abdul Rahman Esene**, Executive Director, Investment Banking & Public Sector, Fidelity Bank
- **Cecilia Ibru**, CEO, Oceanic Bank
- **Patience Jacobs**, Executive Director, Bank of Industry
- **Oti Ikomi**, Executive Director, Oceanic Bank
- **Claire Boasson**, Sustainability Project Manager, Caisse des Dépôts
- **Jan Kappen**, Associate Expert, Renewable Energy and Finance, UNEP Division of Technology, Industry and Economics (DTIE)
- **Mina Ogbanga**, Country Director, Center for Development Support Initiatives (CEDSI) Nigeria
- **Tunde Akerele**, Credit Risk Manager, Oceanic Bank
- **Felix Egbon**, Head of Risk Management Department, Zenith Bank
- **Remi Odunlami**, Country Risk Manager, Citibank Nigeria
- **Louisa Olaloku**, Assistant General Manager, Fidelity Bank
- **Chukwu Jekwu Ozoemene**, Senior Manager, Access Bank Plc.
- **Kiki Lawal**, Programme Officer, UNEP FI
- **Mark-George Olugbolahan**, General Manager, GroFin Nigeria
- **Duro Kuteyi**, Managing Director, Spectra Nigeria Limited
- **Anton van Elteren**, Coordinator, Financial Institutions Programme, FMO

4. Opportunities and Challenges

The Roundtable's plenary discussion addressed challenges that Nigeria faces in improving the quality of life for its citizens through infrastructure, economic policies and financial services that support sustainable development. However, the large number of financial sector representatives participating in the Roundtable is a positive sign that they are increasingly interested in the environmental and social impacts of their activities. It is hoped that their commitments can prevent environmentally destructive and mortal accidents, such as the one that recently occurred in Lagos in May, from happening again.

As recent years have shown, the financial sector has seen a shift beyond risk, towards opportunities: an exemplary case is that of the pension industry, which now accounts for more than 13 trillion USD. As wealth is being passed on from one generation to the next, more attention to sustainability issues is demanded – thus shifting us towards a very simple choice, which is that of a clean, green future. Financial institutions (FIs) can take advantage of these growth opportunities, considering for example, the exploding business of carbon finance. To make these changes possible however, sustainable finance must be a real concept and more than just a marketing tool. FIs need to internalize sustainable finance and incorporate this in their way of thinking and day-to-day business practices.

5. Roundtable Highlights

The Roundtable kicked off the panel discussions and training sessions and workshops with **five Nigerian FIs** – UBA/UBA Foundation, Fidelity Bank, Oceanic Bank, Bank of Industry and Zenith Bank - **signing on as the newest UNEP FI members**. Highlights from the Roundtable's various panel discussions and sessions include:

Panel Discussion: Climate Change and Carbon Finance in Africa

This session highlighted the opportunities and challenges arising from climate change. On a universal level, climate change contributes to global warming, which impacts ecosystems and

human health, with the poor being the most vulnerable group. In Nigeria, climate change contributes to desertification and rising sea levels along the coastline. These impacts are even more magnified when considering the country's vulnerabilities with security, scarcity and conflicts.

On the opportunity side, finance can be a key to achieve a tradeoff between adaptation and mitigation of climate change. Instruments such as the Kyoto Protocol facilitate transfers of finance, technology and development to counteract climate change through the mechanisms of Joint Implementation (JI) and the promotion of the Clean Development Mechanism (CDM). In Africa, there is a misconception that there are no carbon finance projects. However, this is not the case.

In 2004, CDM transactions in Africa accounted for less than 1% of the total global volume of projects. Today, Africa accounts for about 5%. This is already quite high when one considers the project per capita ratio.

Panel Discussion: Environmental & Social Credit Risk Management

This session highlighted the current emerging trends for environmental and social credit risk management in the West African financial sector and focused on many of the difficulties and gaps that exist. Contrary to the perception that the sustainable finance industry often creates, environmental and social risk management today cannot be fully applied by SMEs as these assessments are usually conducted by institutions of a certain size or within specific countries.

The key message during this session was that government can play a strong role in creating awareness and enforcing the environment policies that already exist. Financial institutions (FIs) on the other hand, can spread the word and promote sustainability to their clients; however they cannot bear the burden alone.

Environment and social credit risk management is not possible if relevant data is not available. International organizations or private research institutes might have a role to play to fill this gap. The discussion ended on a positive note as participants agreed that Nigerian banks have evolved a lot - from being purely rent seeking to more responsible, incorporating corporate and local government concerns for the environment and community development.

Panel Discussion: Commercial Microfinance and Sustainable SMEs

UNEP FI recognizes the micro, small and medium Enterprise (SME) sector as an investment avenue that can offer high returns and also ensure sustainable development in emerging economies. This is particularly true for Africa, where SMEs form the backbone of the private sector at all levels of development, and make a significant contribution to economic development in general and industrial development in particular. However, access to finance remains the biggest impediment to successful creation, survival, and growth of SMEs in Africa. In light of this, successful SME financing models in Africa need to be scaled, while new ones created, leading to increased financing for sustainable SMEs.

Training Session 1: Environmental and Social Risk Management Training for Microfinance Institutions (MFIs)

This training was conducted by Anton van Elteren, Coordinator of the Financial Institutions Programme of the Netherlands Development Finance Company (FMO), which invests risk capital in companies and FIs in developing countries. Their mission is to create flourishing enterprises which can serve as engines of sustainable growth in developing countries. They are funded mainly by international capital markets and take on a long-term funding approach.

FMO targets the emerging middle class, as the upper class is already financed by commercial banks.

The participants discussed the environmental and social risk in companies that can impact the risk level of an FI that finances them. These can be credit, systemic, security, legal, funding, or reputational risks. For these reasons, FIs avoid involvement with client companies that don't comply with national legislation; are eco-inefficient; don't comply with emerging customer demands; or, can be a target of NGO demands. Therefore, FIs are beginning to evaluate their clients against environmental and social benchmarks. As examples, banks are voluntarily applying the Equator Principles or becoming members of UNEP FI.

Specific to the microfinance sector, FMO developed a practical environmental and social risk management field guide and training course for microfinance institution (MFI) loan officers. A list of 24 sectors to pay particular attention to was developed, which identifies three to five main indicators to observe. If a client is not compliant with these standards, then FMO suggests improvements, using their field, training and office guide methodologies.

For an FI to integrate environmental and social risk management in its financing process, there are various stages to consider: application; appraisal; contracting and disbursement; recovery and monitoring; and, reporting. On the last stage of the financing process, FMO requests reports. For bigger projects, environmental consultants or auditors may even visit the site.

FMO's role during the financing process is more advisory, they do not evaluate individual credit applications – this is the credit officer's role. Rather, FMO trains credit officers on how to identify environmental and social risks. FMO will not finance a company that rates zero on their score card or shows a disinterest in integrating environmental and social considerations into their business activities.

Elements of an action plan for an FI include choosing a pilot project; writing a policy; developing procedures to fit your own financing procedures; managing change/convincing colleagues; and, training commercial staff. An FI's policy may exclude certain sectors from financing such as those involved in gambling, arms or pollution.

Training Session 2: Carbon Finance and CDM Projects in Africa

This workshop was conducted by Jan Kappen, Programme Manager, of the UNEP Division of Technology, Industry and Economics (DTIE). The Clean Development Mechanism (CDM) is not a financial tool, but rather a financial enhancement which facilitates developing (Non-Annex 1) countries to sell emission reductions and certification to developed (Annex 1) countries, whether companies or governments.

Within the institutional architecture under the current regime, there are several actors and a lot of interaction. A key player is the Designated National Authority (DNA), which are government bodies essential as focal points of the CDM process in a country; however, they are usually underfunded. Therefore, one of the roles of UNEP is to provide support to these DNAs.

The CDM project cycle consists of three phases: planning, construction and operation. The planning phase carries the highest risk capital through equity and/or grants. The total CDM transaction cost can vary between 60,000-200,000 USD and this does not account for brokerage fees or participation of the host country. Challenges to financing CDM projects are due to project size; uncertainty post-2012; high risk; new markets; and large gaps between supply and demand for funding.

To deal with these challenges, UNEP's approach is to mobilize the finance community. For FIs, opportunities lie in new services and revenue generation opportunities; strengthening the bank's engagement in infrastructure projects; cash flow enhancement; and, corporate social responsibility (CSR).

6. The Way Forward

It is each individual's responsibility to promote sustainability. The platform and network given by UNEP FI can be used by FIs to spread awareness regarding sustainable finance. Some senior managers who participated to the event expressed their will to bring some sustainable finance issues to the board of the Nigerian Banking Committee. Also, carbon finance must be developed in a way which meets the specific needs of the West African context.

7. Priorities

Environmental issues are no longer being embraced by the financial community as a risk or cost, but as an opportunity. The fact that five local financial institutions (FIs) signed on as members to UNEP FI is an indicator that the Nigerian financial services community is indeed moving into an action phase. The next stage is for UNEP FI to help develop the metrics, the processes, and the procedures to embed these principles into the FI's operations.

The UNEP FI ATF has a membership of ten FIs, all with different sets of priorities and values. Depending on the region especially, variations exist with issues such as microfinance and sustainable SMEs being of particular importance to West Africa. Paul Clements-Hunt, Head of UNEP FI suggested more tools, capacity building and outreach for the West African region.

As a first step, UNEP FI could partner with FMO, an ATF member on developing train-the-trainers workshops on environmental and social risk management for the microfinance sector. Local financial institutions can take on these issues with higher authorities and UNEP FI can assist in facilitating this role.

8. Launch of Publications

Two reports were launched on the first day of the Roundtable. The first report, "Innovative financing for sustainable small and medium enterprises in Africa," is the result of an international workshop of experts in small and medium enterprise (SME) financing and sustainability from public, private and philanthropic investment communities, as well as Africa-based organizations working on SME financing. The second report, "Narrowing the gap: A survey of the barriers and drivers to commercial microfinance in Africa," explores the issue of microfinance in Africa, looking at reasons for the lack of commercial microfinance and suggesting drivers that could unlock investment in this critical area. Both reports can be accessed at: www.unepfi.org/africa