Communique:

Sustainable Finance Conference – “Enhancing sustainable finance in the Microfinance subsector”

7th November 2019
Federal Palace Hotel,
Victoria Island
Lagos
COMMUNIQUE: LAPO SUSTAINABLE FINANCE CONFERENCE

Background

The LAPO Sustainable Finance Conference, a collaborative sustainability engagement between LAPO Microfinance Bank and the Global Alliance for Banking on Values (GABV) held on Thursday, November 7, 2019, at the Federal Palace Hotel, Victoria Island, Lagos. The sustainable finance conference is the first to be organised in Nigeria for and by the Microfinance subsector. The conference featured foreign and local speakers from the academia, business, policymakers and regulators.

The theme of the conference was, “Enhancing Sustainable Finance in the Microfinance Subsector”. The objective of the conference was to stimulate discussion on how the Microfinance subsector can integrate and enhance sustainable finance in their operations and activities through effective sustainable finance regulation. The conference was used as a platform to advance a business case for sustainable finance and sustainability; generate impactful conversations, and encourage internal and external stakeholders buy-in the drive towards sustainable finance regulation.

Highlights of Activities

Dr Godwin Ehigiamusoe, Managing Director, LAPO Microfinance Bank, gave the opening remarks and a presentation on sustainable finance at LAPO. This was followed by a presentation on Sustainable Finance and the Role of CIBN by Dr Uche Olowu, President, Chartered Institute of Bankers of Nigeria (CIBN). The keynote was delivered by a renowned sustainable finance scholar and expert, Professor Ken Amaeshi, Director, Sustainable Business Initiative (SBI), University of Edinburgh, United Kingdom. He spoke on: Rethinking the Sustainable Development Goals (SDGs) as an Investment Opportunity. Dr Marcos Eguiguren, Executive Director, Global Alliance for Banking on Values (GABV) delivered a goodwill message on behalf of GABV. The conference also featured three plenary sessions on sustainable finance issues pertinent to the Microfinance subsector.

In his remark, Dr Ehigiamusoe noted that the conference presented an opportunity for the Microfinance Banks (MFBs) to pay strong commitment to values-based banking. He described values-based banking as more than just doing good. He said it is about doing good, exploring and expanding economic opportunities for sustainable development. Dr Olowu said that the MFBs have a very important role to play in consolidating the efforts of the federal government to lift 100 million people out of poverty in 10 years. According to him, the MFBs should endeavour to develop capacity in sustainable banking and have the determination to drive financial inclusion.

Delivering the keynote, Professor Amaeshi pointed out that sustainability is a mindset, an orientation and a culture. He stated that companies should not simply exist to make money but to make a contribution to society. On his part, Dr Eguiguren spoke about plans to establish the African Chapter of GABV. He said this would further promote and drive the adoption of sustainable finance in the continent.

Observations

One important point during the conference is the link between financial inclusion and poverty eradication. Therefore to be able to attain SDGs 1 (elimination of poverty), those at the bottom of the pyramid (BoP) must be provided quality access to finance. And considering that 36.8 per cent of Nigeria’s adult population is not financially inclusive, according to a 2018 report, a lot needs to be done. Another very important point is on how the operations and activities of Microfinance Banks are inherently designed to enhance financial inclusion and contribute immensely to the attainment of the Sustainable Development Goals (SDGs).
Governance was identified as the most important aspect of ESG (Environment, Social and Governance). This is because, in organisations, social and environmental sustainability take their form from sustainability governance. It is therefore important for Microfinance Banks to develop and design Environmental and Social Risk Governance Management (ESRGM) Systems that would empower them to manage the impact of Environmental, Social and Governance (ESG) Risks in their operations and activities. This should include, ESG screening in the credit decision-making process. This is essential because the Central Bank of Nigeria (CBN) has now requested banks to report on their ESG Risks.

**Issues Identified**

The following were identified as sustainable finance challenges in the Microfinance subsector:

- Slow pace of financial inclusion in Nigeria as a good number of people do not have access to finance opportunities.
- Sustainable finance knowledge gap.
- No clear or existing sustainable finance regulation that fits with the Microfinance subsector.
- Low promotion of digital innovation.
- Despite the inherent business model of the Microfinance subsector, access to sustainable finance remains a challenge.
- Stringent lending criteria by both local and international Development Finance Institutions (DFIs) to the subsector.
- Generic policy thinking on sustainable finance and financial inclusion in Nigeria, which may not necessarily and easily apply to the microfinance subsector.
- Not enough resources and investments as MFBs do not have enough pool of investors and not enough projects to finance.
- The challenge of data gathering and data integrity for decisions and strategies to address the SDGs in particular.
- Poor management of ESG Risk issues in business operations and conduct.

**Action Plans**

The following action plans were adopted for the following different themes:

**Government/Regulations**

- The Microfinance subsector should work with government to critically analyse and define the financial inclusion challenges in Nigeria.
- The Microfinance subsector should also work with the government to develop a sustainable finance framework that will enhance sustainable finance and sustainable development in the subsector.
- The Microfinance subsector should be proactive and anticipate future regulations so they can easily adjust to them.
Clients/Markets

- For financial inclusion to experience rapid progress, microfinance banks should work to reduce the percentage of the unbanked populace. Doing this will help the banks design sustainable credit and open up opportunities to finance sustainable projects.
- Microfinance banks (MFBs) should be strategic and innovative to ensure their products truly meet the needs of the people they serve.
- The microfinance subsector should have more MFBs that are focused on those at the bottom of the pyramid (BoP), particularly women.

Microfinance Internal Business Operations

- Embedding Environmental, Social & Governance (ESG) Risk considerations in the business operations and activities of organisations in the Microfinance subsector should be internalised and made obligatory.
- Microfinance subsector need to do a current position assessment and gauge its readiness for sustainability and sustainable finance.
- The Microfinance subsector should not underrate their investment and commitment to sustainability. This commitment should shape the way they do things.
- Sustainability practice must become a key part of the organisation’s Key Performance Indicator (KPI) and appraisal system.

Partnerships/Capacity Building/Global Institutions

- The Microfinance subsector should address capacity-building gap in sustainability and sustainable finance.
- To improve their operations and activities, MFBs need to collaborate with relevant stakeholders and adopt relevant but innovative technologies. This will also enable them to conveniently price the different categories of customers they serve, without overpricing the poor.
- The Microfinance subsector needs to work with the millions of MSMEs in Nigeria to build capacity in the area of financial literacy for them to have more access to finance for their projects.
- The Microfinance subsector should collaborate with CIBN and other relevant stakeholders on the development of sustainable finance/sustainability capacity building program that would be relevant to the subsector.
- Global institutions like GABV should have a strong presence in West Africa to further promote sustainability and Sustainable Finance across the region.
- The Microfinance subsector need to sign up to sustainable finance principles and best practices from international organizations and develop a collaborative relationship with them.

Summary & Conclusion
The conference projected a business case for sustainable finance and the importance of a sustainable finance regulation. This implies that the Microfinance subsector should take the lead in ensuring that sustainable finance is mainstreamed. The subsector is well-positioned to drive wealth creation from the base. The Microfinance subsector’s business model is an advantage that must be harnessed.

It is therefore imperative that the Microfinance subsector move the discussions at the conference to action. They can achieve this by ensuring they commence the process of developing a Sustainable Finance framework for the subsector. A sustainable finance framework for the Microfinance subsector, would enhance the subsector’s pivot into green financing, advance financial inclusion, enhance their capacity to implement global best practices and advance their ESG footprint. This will help enhance the subsector’s access to sustainable finance and investments from Institutional investors and development institutions like the International Finance Corporation (IFC), World Bank, and the African Development Bank (AfDB), who take ESG considerations very seriously.