

DBN Advocates Sustainable Banking for Nigerian MFBs

The social, environmental, and economic consequences of rapid population growth, consumption of natural resources, and resultant climate depletion have led to increased global attention on social impact and contribution of business to their environment and society. It is projected that by the year 2050, the world population will be about 9.6 billion and Nigeria will account for 400 million of the figures.

Going by the current rate of ecological degradation caused by consumerism and industrialization, by 2050, planet earth would have been pushed to its extreme limit. To cushion the looming danger, economic policy formulators across the globe are soliciting concerted effort on sustainability with Sustainable Development Goals (SDG). While firms are being tasked with improving sustainability efforts, it is also important that financial institutions, especially Microfinance Banks, improve their sustainability initiatives and become more responsive to their social and ecological environment.

Microfinance has strongly developed over the past decades on the premise of reaching a double bottom line of financial viability and social impact. According to a study conducted by the European Journal of Sustainable Development, the primary objective of Microfinance has largely been economic, but in recent years, the focus is shifting to a more social or developmental objective.

Today, ecological factors such as legitimacy, competitiveness, and social responsibility, are increasingly key considerations for microfinance banks when lending. Simply put, financial institutions in their desire to compete favorably and improve appropriateness of their actions within the established set of regulations should also be conscious of the impact of their actions on their environment.

This is why the Development Bank of Nigeria Plc a premier development finance institution with a huge influence in the MFB ecosystem, has set out to act as a catalyst in helping to raise awareness around sustainability initiatives as well as provide technical assistance for its PFIs. To this end, the bank recently organized a webinar session themed, ***“Creating a Sustainability Community of Practice for Nigerian Microfinance Banks”*** for MFBs that are working with it as Participating Financial Institution (PFIs). According to DBN’s MD/CEO, Tony Okpanachi represented by Chief Operating Officer, Bonaventure Okhaimo, “The initiative is focused on further deepening DBN’s efforts at increasing awareness on sustainability issues, and also positively influence its Participating Financial Institutions (PFIs) on Sustainable Development Goals (SDG).” He explained that the goal is

to create an MFB community for information sharing and learning on sustainability initiatives and implementation of strategies for financial institutions in Nigeria.

According to him, “Currently, the overall awareness of sustainability and its transitions for the microfinance ecosystem has not been clearly articulated in Nigeria. This is because most MFBs regard lending as the most essential service to be rendered to end-borrowers. This session is designed to enable DBN affiliated MFBs to have a more robust proposition about sustainability which will open them up to myriad of advantages, including external funding, generation of deeper trust with stakeholders, and legitimization of their operations along the lines of Sustainability”.

While DBN is driving this initiative, it has also been recognized that the support of industry regulators will go a long way in facilitating the desired response from the financial institutions. In this regards, The Special Adviser to the CBN Governor on Sustainability, Dr. Aisha Mahmoud, while delivering her keynote address during the DBN session, stated that:

“Deliberations on emerging issues of sustainability are important for the financial ecosystem. She stressed that MFBs by the virtue of their mandate are already practicing the social pillar of sustainability by lending to the underserved sectors of the economy, but there is a need to focus more on the environmental impact of their lending by looking into the activities and operations of their borrowers through a sustainability lens”. She added that, today’s successful businesses are those that integrate sustainability into their operations.

According to her “We cannot ignore the environmental pillar because it is as important as the social pillar. Due to our way of unsustainable consumption and production, we are constantly depleting natural capital. We need to shift our growth pathway from the current trajectory to the one that improves the quality of human life while living within the carrying capacity of the planet earth. Microfinance has emerged as a tool that offers financial services to the poor and unbanked. Therefore, Microfinance institutions need to balance their social performance against environmental performance and sustainability”.

She emphasized that, “to really contribute to sustainable development, MFIs should deliver financial services along the triple bottom line by measuring environmental impact. They should focus on the economic, social, and environmental impact of their client’s activities financed by microcredits. MFIs should look beyond the one-dimensional objective of profit by making people and the planet part of the bottom line”.

She further added that “Based on discussions with a few MFBs, organizations oftentimes think sustainability is an additional cost to the business, but we need a shift from that perception because sustainability is a win-win situation that connects people, planet, and the economy. Studies have demonstrated how businesses that integrate sustainability

well, outperform those that do not, as it lowers the cost of capital, results in better operational performance, and positively influences the stock price”.

To help MFBs in this direction, DBN’s Sustainability Specialist, Lolade Awogbade, mentioned that “the discussion in the community will provide MFBs with increased knowledge on internal and external sustainability strategies in implementing their initiatives. “The internal strategies will be guided by Sustainable Development Goals that embraces strategies inclusive of waste management, energy, gender and diversity policies, and the likes. The external will be business strategies focused on social and developmental objectives such as women empowerment, poverty eradication, and financial inclusion”.

“In addition, there is a new concept of Green Microfinance which involves providing low or moderate-income individuals with loans and technical assistance to companies to enable them create green or environmentally friendly products and technology bordering on energy efficiency, renewable energy, environmental protection, etc ” Awogbade said.

The Bank’s sustainability specialist also mentioned that investing in social and environmental sustainability initiatives will not only help finance companies in fulfilling their social mission but also differentiate them from competitors, give access to new market segments, access to new funding and improve their brand and corporate image.

Based on feedback from participants, DBN commits that it will roll out periodical activities in the coming months to keep the conversation going. This will be in the forms of webinars for idea sharing and knowledge management, as well as exchange of materials and expertise on sustainability issues.

It is hoped that the lead being taken by the Development Bank of Nigeria in helping to promote the sustainability principles to MFBs will usher in a new consciousness on sustainability needs and how the Bank’s strategic partners can successfully incorporate this thinking into their business model.