Why businesses in Nigeria need to take sustainable finance seriously

By Kenneth Amaeshi

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Many people will have heard of the UN Sustainable Development Goals. But less well known is the concept of sustainability at the root of these goals. Sustainability has recently become a mantra, a philosophy of sorts.

Image source: http://nigeriamessageboard.com

The contemporary interest in sustainability can be traced to the 1987 Brundtland Commission report, Our Common Future. The commission had been set up to find ways for countries to meet their present economic objectives with less negative impact on the physical environment, society, and the ability of future generations to meet their needs. It first gave rise to the Millennium Development Goals, which have now been replaced by the global sustainable goals.

The literary meaning of sustainability simply suggests longevity or the ability to survive under counteracting pressures. While longevity or resilience are integral, they tend to project a somewhat narrow and limited view of sustainability.

The broader view underlines the value of environmental, social, and economic considerations in decision making. It’s directly linked to a quest for development that doesn’t inhibit or harm future generations. It recognises the nested inter-dependency between the economy, society and the environment.

In other words, the success of the economy is dependent on the viability of society. The success of society on the other hand is also linked to the viability of the natural environment. As such, without the environment there will be no society, and without society, there will be no economy. The three are interwoven.

Evidence suggests a positive relationship between sustainability practice and the global competitiveness of a country. This is very much at the heart of the sustainable goals.

Why sustainability is good for business

There's significant evidence that sustainability is good for business. A recent study by Harvard and London business schools found that corporations that voluntarily adopt sustainability policies have better organisational processes. They thus perform better when compared to a matched sample of companies that adopted almost none of these policies.

It has also been found that if financial institutions

> *"integrate sustainability criteria in their risk assessment and decision making procedures, they will strengthen their financial soundness".*

Such institutions also

> *"improve systemic financial stability and contribute to a more ecologically sustainable, just and peaceful world".*

In sum, sustainability is a quest for effectiveness and efficiency. It's first and foremost rooted in a commitment to reduce negative impacts and increase positive effects. Positive impacts include low carbon emission, fair employment practices, responsible product promotion and good corporate citizenship practices.

Corporate sustainability is therefore a form of self-regulation driven by the values and philosophy of a business.

But for a long time, Nigerian businesses have treated sustainability as a dispensable philanthropic option. The focus of most businesses has been on survival. As such, the pursuit of sustainability is seen as not necessarily good for business.

No longer an option for Nigeria

Nigerian businesses need to go beyond the piece meal approach of corporate social responsibility. There's at least one green shoot that suggests this process might be underway.

The Nigerian government is committed to implementing a national sustainability roadmap for the financial sector. Backed by the United Nations Environment Programme Finance Initiative, it requires each member of Nigeria's Financial Services Regulation Coordinating Committee to develop a sustainable development model. This model is for themselves - as organisations - and the industries they regulate.

The committee brings together all the regulatory agencies. These include banking, insurance, securities, pensions, commodities, taxation and fiscal policy sectors. These will be expected to address the integration of environmental and social risks in investment and lending decisions.

According to the UN programme, Nigeria is arguably the first country to adopt this approach to sustainable finance.

Nigeria, like most African countries, didn't achieve many of the Millennium goals. This is due to poor governance and the inability of many governments to stimulate sustainable development. The sustainable goals present a new lease of life, which the government of President Buhari has committed to.

What should businesses in Nigeria do?

The full spectrum of the Nigerian financial regulatory community is on board. This means that all sources of finance in Nigeria – borrowings and investments – will soon be required to respect and reflect sustainability principles.

At the moment, the Central Bank of Nigeria expects most large projects to meet these requirements. Agriculture, power, and oil and gas are especially in focus. These projects will be required to demonstrate that they do not cause social and environmental harms, in addition to being profitable.

Banks have been mandated to develop robust social and environmental management systems to guide their lending and investment decisions. In practice, the banks are expected to adopt social and environmental management systems similar to those found in the UK and the Global Alliance for Banking on Values.

Very soon, the sustainable finance approach could be extended to all projects, no matter how small. Finance is the lifeblood of any business. There's a global appetite to incorporate environmental, social and governance risks in lending and investment decisions.

As long as Nigerian businesses want to thrive locally and globally, they cannot escape the current demands of sustainability. The earlier they understand and embrace it, the better for them.

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