Africa goes green

Africa's financial sector appears ready to embrace sustainable banking, say Africa and environmental specialists at the Dutch Development Bank (FMO).

You know change is in the air when a Nigerian bank wins the *Financial Times*/IFC "Sustainable Bank of the Year" award for Africa and the Middle East. Indeed, after 40 years of working in the region, FMO is seeing a change of heart in Africa. Against the odds, its own financial sector may guide Africa onto a sustainable path to development. Not in the least because the business opportunities are there for the taking.

Not long ago, this development seemed a distant dream. In the West, sustainability has been moving from the fringes to the mainstream for some time. An organisation like the World Business Council for Sustainable Development, which advocates fundamental change in the way the world conducts its business, now counts companies ranging from Coca Cola and Unilever, to Toyota and PWC amongst its members. Yet, of its membership of 191 corporations, only two are African.

In the financial sector, the African picture used to be similar. To access development finance funds, many financial institutions on the continent had committed to sustainability through IFC Performance Standards. Yet, we found in practice, few had followed through completely by putting in place the required environmental and social risk management systems. Whilst there was commitment on paper, we found little enthusiasm at top management level.

In light of Africa's challenges, this was not entirely surprising. A common argument against applying scarce financial and human resources towards sustainable business practices was that Africa has other priorities. Indeed, the extreme poverty rate has fallen but is still close to 50%, energy and infrastructural deficits are rampant and unemployment is officially estimated to be at least 4% higher than the world average. In this context, environmental and social standards were seen by some as an unwelcome or even misplaced drag on growth and development.

For the financial sector, there were additional arguments to resist, given that their exposure is indirect. Recognising the lack of civil society and NGO pressure in Africa, there was limited reputational impact of having financed projects go wrong. Moreover, state enforcement of environmental and social regulation was weak. This meant that companies who flouted the rules appeared to get away with it, so loans would still be repaid. It also meant that banks who did adopt higher standards would no longer operate on a level playing field, and feared losing business to less scrupulous competitors. With such powerful counter forces, it seemed Africa was set for a slow and lacklustre embrace of sustainable practice.

Instead, the financial sector on the continent appears to be making preparations to leapfrog and lead the way on sustainable development of the private sector. Access Bank's win of the FT/IFC sustainability award is a case in point.

Indeed, the signs are broader than that. Following the large South African players such as Standard Bank, ABSA, Nedbank and First Rand, now other pan-African banks such as Ecobank and Access Bank have signed up to the Equator Principles for incorporating environmental and social risk management into project financing. This brings the number of predominantly African bank signatories to six out of 74. Moreover, African bank signatories to the UN Environment Programme finance initiative account for 9%. In both cases Africa is now over-represented compared to its share of global GDP.

At the same time, the entire Nigerian banking sector has committed itself publicly to develop a voluntary code for sustainable banking principles in cooperation with the central bank. In a full-page advert in the *Financial Times* last November, all bank CEOs jointly noted that "the development imperative in Nigeria should not only be economically viable but socially relevant and environmentally responsible", and resolved that a set of sector-specific guidelines should be developed to address the direct impact of banks, as well as their indirect impact through lending practices. This is also meant to help create a level playing field.

What's the motive?

But what is driving this change of heart? At the level of development impact, Africa may be learning a lesson from the Chinese experience. Whilst China actually does have quite extensive environmental and social legislation and regulation, enforcement is perceived to be weak. Having prioritised economic growth almost to the exclusion of environmental protection, pollution is now at palpable levels. The 12,000-people demonstration last year against a paraxylene chemical plant in Dalian, which was subsequently shut down, is just one in a string of examples of often quite successful protests against pollution. The fact that middle-class citizens often participate, increases the political impact. This has weakened the argument that economic growth must come at the expense of the environment or social conditions.

At the level of individual companies like banks, there seems to be a growing sense that a 'green' reputation is a good reputation. Perhaps, the African upper and middle-class are simply hopping on to the sustainability bandwagon, making a green reputation valuable also in the absence of a proactive NGO sector.

This seems to be true even in a country like Zimbabwe, which clearly has fierce economic challenges to contend with. There, NMB, a mid-sized local bank, finds it beneficial to take out advertising space to educate the local population on sustainable living practices. Indeed, when we speak to banks across the continent, an increasing number of CEOs now appears interested in 'green' branding of their institutions.

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At the level of risk management, there is more awareness of the way in which environmental and social risks translate into cash-flow problems for loans and issues in realising collateral values. Even if African states find it challenging to enforce environmental and social regulations, local populations will occasionally take matters into their own hands. The Niger Delta is but one example of an area where pollution has been a factor in fomenting violence against employees and sabotage of installations of corporations. For a bank, it ultimately does not matter whether it is a government seizure, or a community's self-styled justice that affects their client. Either way, their loan may become non-performing, or their collateral loses value.

Business matters

Finally, and perhaps most fundamentally, African banks are waking up to the business opportunity of sustainable banking. On the liability side, impact investors and development banks have attractive funding on offer for sustainable businesses. FMO, for example, continues to pilot a project to encourage clients to implement environmental and social best practices through a margin reduction mechanism. On the asset side for instance, there is the US$1.4bn Ouarzazate solar plant project, which is to supply Morocco with up to 2,000MW in energy upon completion of its final stage. Another prime example is the US$775mn Lake Turkana wind power project, which will ultimately provide Kenya with 300MW at competitive cost, without the need for subsidies. Besides the African Development Bank and other development finance institutions, commercial African banks such as Standard Bank and Nedbank are participating in the financing. It is no surprise that the two earliest African adopters of the Equator Principles would be part of the deal. After all, this not only requires substantial balance sheet, but also the type of expertise that comes with experience. **GTR**

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