SCALING CLIMATE ACTION THROUGH TECHNOLOGY AND INNOVATION BY SMEs

Under

Private Sector Investment Initiative for Nationally Determined Contributions(NDCs) in Africa

FAPA-Funded
Private Sector Initiative for African Nationally Determined Contributions (NDCs)

African Development Bank

Climate Change and Green Growth Department(PECG)

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MAINSTREAMING CLIMATE – RELATED RISKS WITHIN FINANCIAL INSTITUTIONS

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At a Webinar on

Mainstreaming Climate Change in Lines of Credits of Financial Institutions

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INTRODUCTION

Climate change poses a major risk – making it a systemic financial risk. The latest Global Risks Report from the World Economic Forum released in January 2020, only confirms its critical importance. The impact of climate change is global, and with far reaching consequences. Events such as the bankruptcy of the Pacific Gas and Electric Company (PG&E) in January 2019, the historic water shortages in South Africa, and the recent announcement by the Indonesian government to move its capital from Jakarta, all illustrate that the impact is also directly financial.

INTRODUCTION (Cont.)

- The global economy will be at least 3% smaller by 2050 owed solely to the effects of unchecked climate change, including severe weather and rising sea levels.
- Africa is the least resilient region to the impact of climate change and its economy will likely contract by at least 4.7% by 2050 based on environmental factors alone
- Virtually all countries — whether rich or poor, hot or cold — will suffer economically by 2100 if the current trajectory of carbon emissions is maintained.
- 7% of global GDP is likely to vanish by the end of the century unless action is taken (NEBR, 2019)

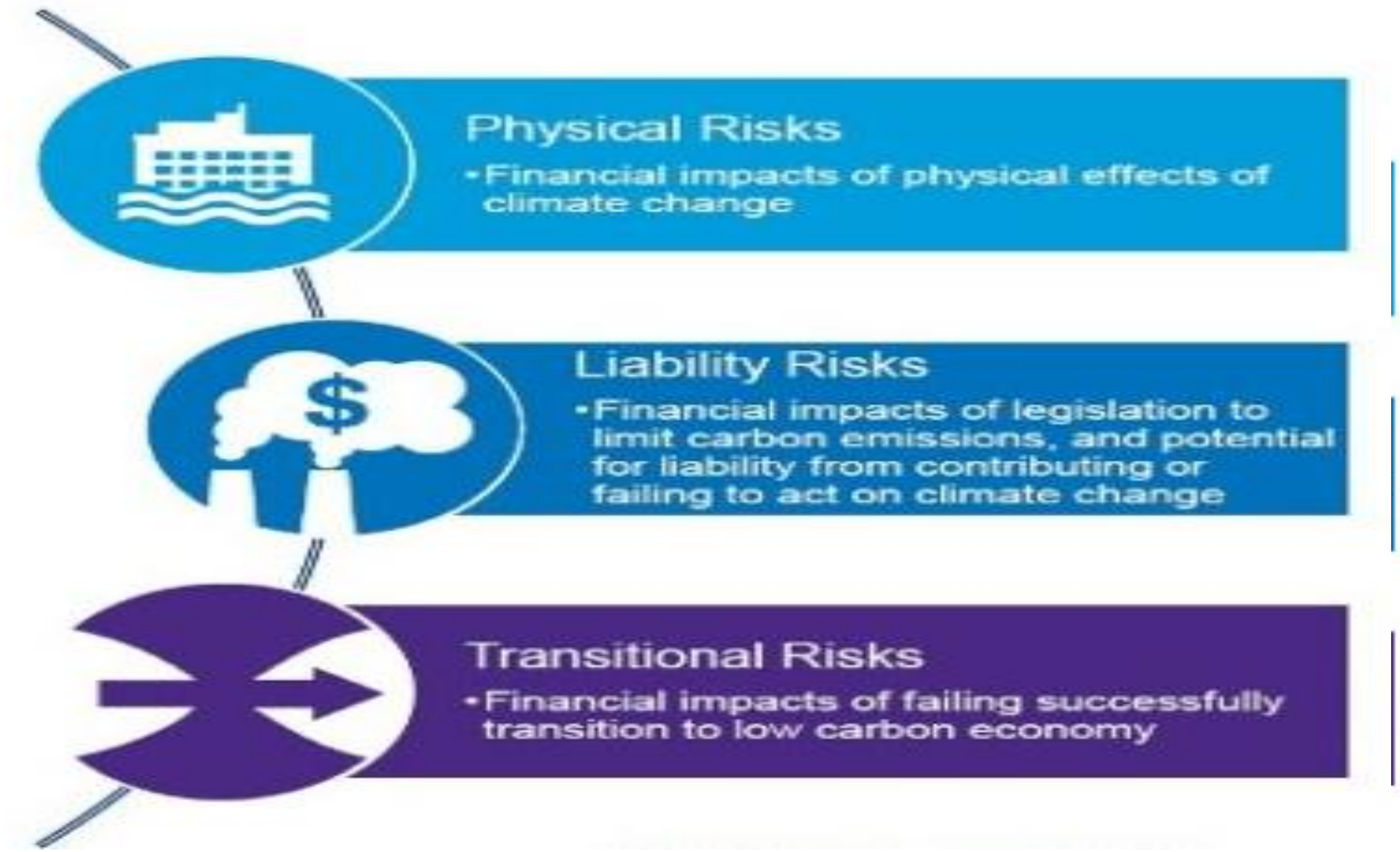
TYPES OF CLIMATE RISKS FOR FIs

- In addition to operational and market risks, climate change can lead to increased credit risks for banks, and therefore should treated as a financial risk.
- However, in order for financial institutions to be able to assess the risk regarding the stability of the financial system, it is essential first to distinguish the different types of climate-related risks.

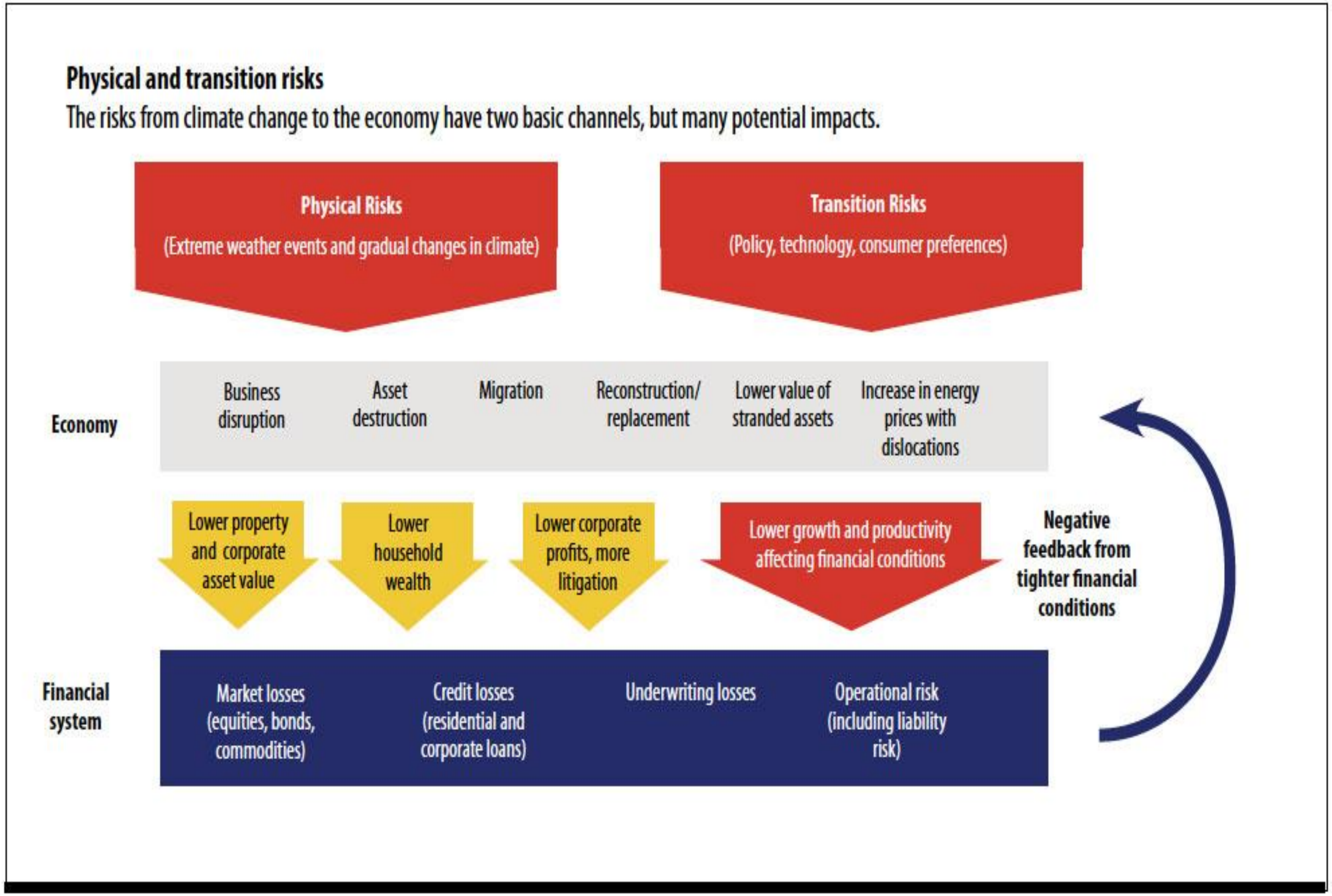
TYPES OF CLIMATE RISKS FOR FIs (Cont.)

- Physical risk arises from the direct effect of weather events and changing climatic conditions, such as floods, wildfires and droughts. Financial institutions feel the impact on their operations, branch offices, third parties and financing.
- Transition risk arises from the effects of shifting toward a low-carbon economy. The impact is more indirect in that it relates to how the bank's customers adapt to disruptive technological advances and Governments 'climate policies .
- These physical and transitional risks can translate into credit risk, market risk, and liquidity risk, and operational risk for banks; and market risk, operational risk, insurance risk, and liquidity risk for insurers.
- Lead to higher insurance claim, portfolio loses, default on loans etc

TYPES OF CLIMATE RISKS FOR FIs(Cont.)



TYPES OF CLIMATE RISKS FOR FIs (Cont.)



GLOBAL CLIMATE INITIATIVES

- **The industry takes the lead**

The good news is that there are a number of initiatives to improve awareness and catalyze a response to climate-related risks. For example:

1. The Equator Principles are now considered the industry standard and are applied globally to all projects where total project capital costs exceed US$10 million. Equator Principle financial institutions commit not to provide financing to borrowers which will not or cannot comply with their environmental and social policies and procedures, and to require borrowers for projects with greenhouse gas emissions above a certain threshold to implement technically and financially feasible measures to reduce such emissions.

CLIMATE ACTION IN FINANCIAL INSTITUTION INITIATIVE (CAFI, 2015)

"Mainstreaming" climate change considerations throughout financial institutions' operations, and in their investing and lending activities, will enable financial institutions to deliver better, more sustainable, short-term and long-term results – both developmentally and financially. "Mainstreaming" by definition implies a shift from financing climate activities in incremental ways, to making climate change – both in terms of opportunities and risk – a core consideration and a "lens" through which institutions deploy capital.

CAFI (Cont.)

Financial Institutions are Adopting

5 Principles for Mainstreaming Climate Action

1. COMMIT to climate strategies	**2. MANAGE** climate risks	**3. PROMOTE** climate smart objectives	**4. IMPROVE** climate performance	**5. ACCOUNT** for your climate action

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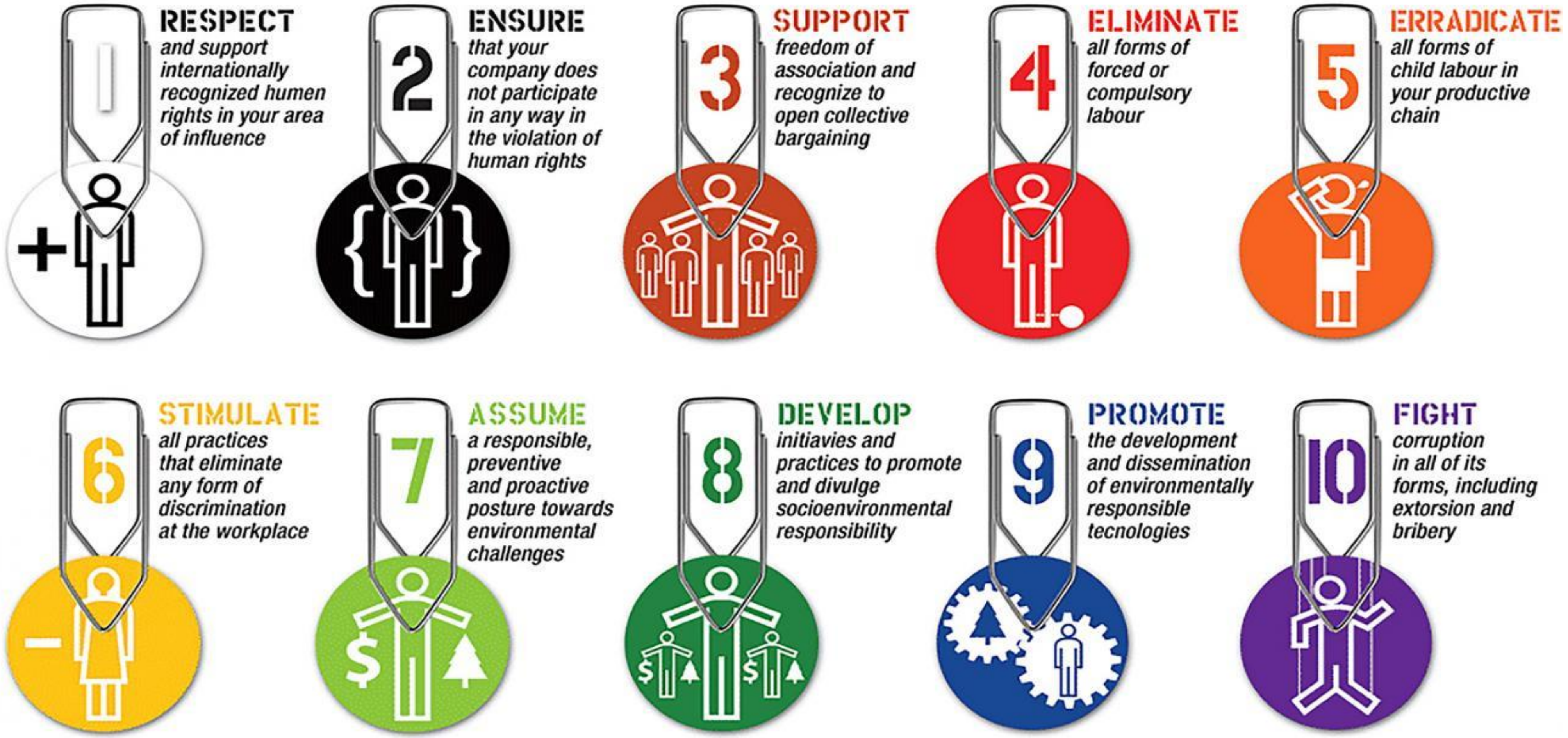
GLOBAL INITIATIVES (Cont.)

3. Network for Greening the Financial System ("NGFS") in 2017 to "share best practices and contribute to the development of environment and climate risk management in the financial sector and to mobilise mainstream finance to support the transition towards a sustainable economy".

4. Taskforce on Climate-related Financial Disclosures ("TCFD"). The task force was created in 2015 by the G20 Financial Stability Board to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.

IFC PERFORMANCE STANDARDS

UN GLOBAL COMPACT



UNEP-FI PRINCIPLES FOR RESPONSIBLE BANKING

PRINCIPLE 1: **ALIGNMENT** We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.	PRINCIPLE 2: **IMPACT & TARGET SETTING** We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.	PRINCIPLE 3: **CLIENTS & CUSTOMERS** We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.
PRINCIPLE 4: **STAKEHOLDERS** We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.	PRINCIPLE 5: **GOVERNANCE & CULTURE** We will implement our commitment to these Principles through effective governance and a culture of responsible banking.	PRINCIPLE 6: **TRANSPARENCY & ACCOUNTABILITY** We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

GLOBAL INITIATIVES (Cont.)

8. Coalition of Finance Ministers for Climate Action convenes finance ministers from more than 50 countries seeking to promote shared principles and facilitate the exchange of experience and information on climate change-related fiscal and economic policies and practices. In December 2019, they issued the Santiago Action Plan which outlines the Coalition's goals for 2020 and includes discussions on carbon pricing and the disclosure of climate-related financial.

OVERVIEW OF ENABLING POLICY DOCUMENTS AND FRAMEWORKS

- Nigeria Sustainable Banking Principles (NSBP 2012)
- NSBP Reporting Template (2014)
- Nigerian Sustainable Finance Principles (2016)
- Nigerian Sustainable Finance Roadmap (UNEP, 2018)
- Nigerian Stock Exchange Sustainability Disclosure Guidelines (2018)
- Nigerian Green Bond Market Development Programme was established in 2018 by FMDQ Securities Exchange, the Climate Bonds Initiative, and Financial Sector Deepening Africa, to support the development of the Nigerian green bond market.
- NSE signed MOU with the Luxemburg Stock Exchange in 2019 to accelerate the sustainable finance agenda in Nigeria
- Paris Agreement on Climate Change (2015)
- Sustainable Development Goals (2015)

NIGERIA SUSTAINABLE BANKING PRINCIPLES

The Nigerian Financial sector developed and adopted the Nigerian Sustainable Banking Principles (July, 2012) in its quest for development that is not only economically profitable but also environmentally and socially responsive.

P1
- Business Activities: Environmental and Social risk management

P2
- Business Operations: Environmental and Social footprint

P3
- Human Rights

P4
- Women Economic Empowerment

P5
- Financial Inclusion

P6
- Environmental and Social Governance

P7
- Capacity Building

P8
- Collaborative Partnership

P9
- Reporting

	Principle	Purpose
1	Business Activities: Environmental and Social risk management	Integrate environmental and social considerations into decision-making processes relating to business activities to avoid, minimize or offset negative impacts
2	Business Operations: Environmental and Social footprint	Avoid, minimize or offset the negative impacts of business operations on the environment and local communities in which FIs operate
3	Human Rights	Respect human rights in business operations and business activities
4	Women Economic Empowerment	Promote women's economic empowerment through a gender inclusive workplace culture in business operations and seek to provide products and services designed specifically for women
5	Financial Inclusion	Promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have limited access to the formal financial sector
6	Environmental and Social Governance	Implement robust and transparent E&S governance practices in FIs and access the E&S governance practices of clients
7	Capacity Building	Develop individual institutional and sector capacity necessary to identify, access and manage the environmental and social risk and opportunities associated with business activities and business operations
8	Collaborative Partnership	Collaborate across the sector and leverage International partnerships to accelerate collective progress and move the sector as one, in consistence with International standards and Nigerian development needs.
9	Reporting	Regular review and report on progress in meeting these principles at the individual institution and sector level.

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Accompanying Sector Guidelines

- Three sector guidelines were developed to Provide additional sector-specific guidance to supplement the NSBP
- Assist Banks in the identification and management of E&S risks with the provision of financial products and services in these sectors
- Ensure banks comply to relevant international standards and best practices in the management of E&S risks exposures

NIGERIAN SUSTAINABLE FINANCE PRINCIPLES

The following Principles were developed for FSRCC member agencies and/or the institutions they regulate/supervise

Principle 1: Environmental, Social and Governance (ESG) Considerations

We will embed Environmental, Social and Governance (ESG) considerations into our operations and decision making processes to avoid, minimize or offset negative impacts.

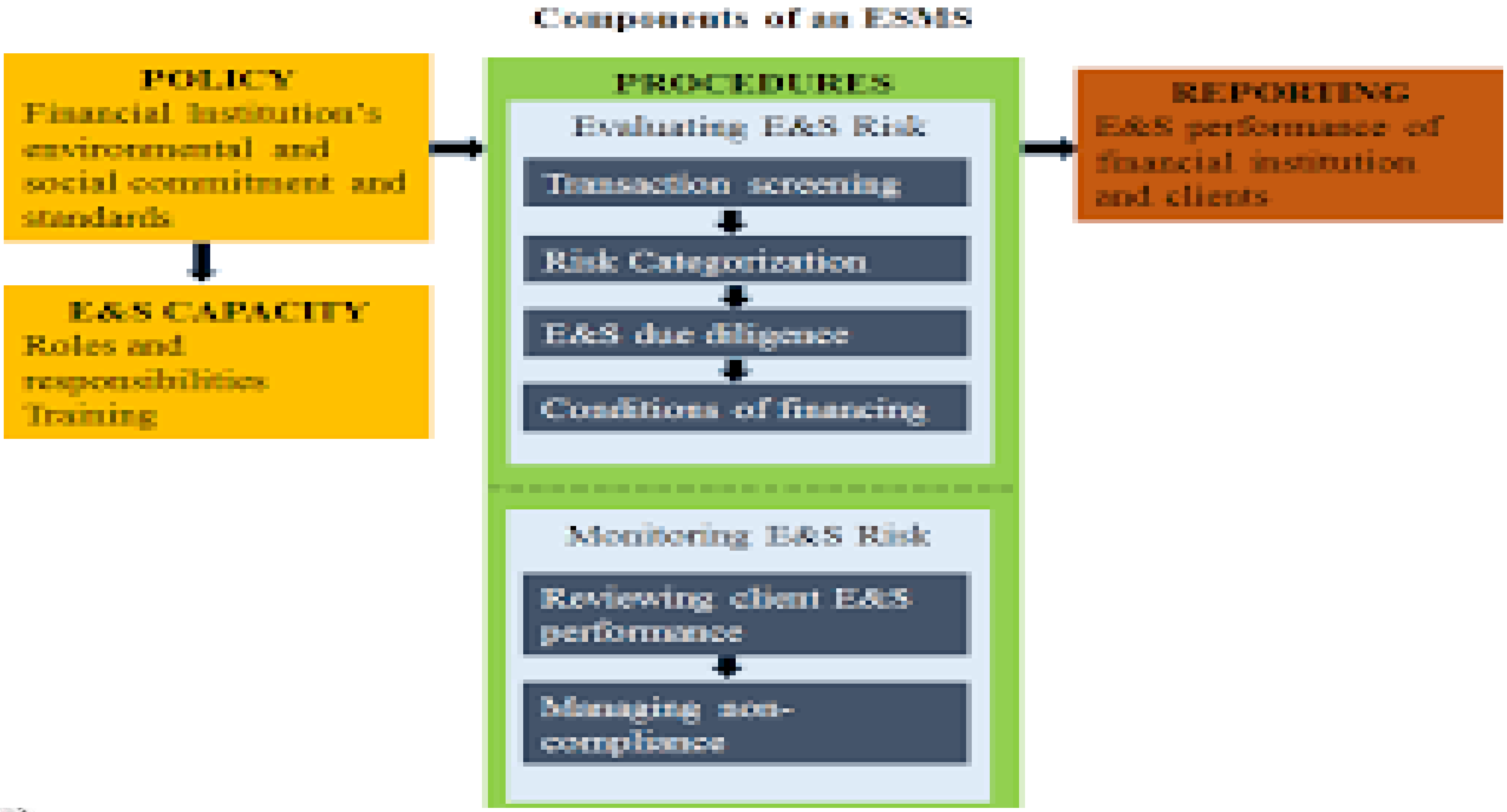
Principle 2: Collaborative Partnerships and Capacity Building

- We will collaborate with stakeholders to raise awareness on ESG issues, build capacity, manage risks, develop innovative solutions and promote widespread action across the Nigerian financial system.

Principle 3: Financing of priority sectors of the economy

- We will promote financing of priority sectors of the economy, while ensuring balance with ESG considerations.
- **Principle 4: Human rights, women's economic empowerment, job creation and financial inclusion**
- We will respect human rights, promote women's economic empowerment, support job creation, and enhance financial inclusion.
- **Principle 5: Reporting and Disclosures**
- We will regularly report our progress in implementing these principles and require

E&S RISK MANAGEMENT



NIGERIAN FIs AND CLIMATE ACTION

❖ Low carbon and energy efficiency finance and investing:

- Pension fund allocation to low carbon and energy efficiency
- Supporting renewable energy projects: Some banks are shifting their loan books towards financing renewables projects. (Bankers Committee Initiative led by Sterling Bank) by financing off-grid energy solutions and supporting the implementation of the Energising Economies Initiative (EEI).

❖Growing green bond market: Access Bank issued the First Corporate Green Bond in Africa in 2019.

❖ Reducing emissions and energy use through energy efficient buildings,

Union Bank has invested heavily in deploying alternative power solutions to our branch locations. In 2019, the number of solar-powered branches increased to 99 from 64 in 2018, and 61 of our ATMs now run on solar energy. (Union Bank 2020)

❖Existing Initiatives to be reviewed to incorporate Climate –related risks

SMEs and CLIMATE RISKS

- Small and medium-sized enterprises (SMEs) are the backbone of emerging economies, accounting for up to 45% of employment and 33% of GDP. They are also particularly vulnerable to the effects of climate change,
- SMEs face many of the same climate risks as larger businesses, including the risk of property damage to owned or rented space, stock, equipment and/or vehicles; risk of lost revenue from disruptions to business operations; supply chain interruption; and mental health impacts on employees.
- Need to ensure they have the appropriate insurance coverage for such risks and take adaptive measures to protect their assets and become more resilient

CONCLUSION

Climate change requires the re-assessment of the way we eat, dress, travel and make business. In order to cope successfully with this enormous change Financial Institutions should not only increase their level of awareness regarding financial risks stemming from climate change but also adjust their risk management systems by taking into account these types of risks. It is all about testing the degree of flexibility and adherence into this constantly changing environment in order to be able to ensure future resilience and sustainability of their business models. (Deloitte, 2020).

KEBBI STATE FLOODING

- **270KM STRETCH OF FARMLAND, ABOUT 400,000HECTARS SUBMERGED**
- **BILLIONS OF NAIRA WORTH OF RICE FARMLANDS**
- **CBN RELEASED OVER N400BILLION for ANCHOR BORROWER PROGRAM**

THANK YOU FOR YOUR ATTENTION