Green Banking in Nigeria - The First Steps

Highlights of the Presentation at the Technical session of the 2nd International Conference on Inclusive Economic Growth and Sustainable Development (IEC2016), held at SDM Institute for Management Development (SDM-IMD), Mysore, India, on November 19, 2016

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Green Banking in Nigeria
Outline of discussion

- Global context of sustainable development & the imperatives for Nigeria
- Nigeria Sustainable Banking Principles – 2012
- Applications to priority sectors

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The Earth is getting hotter & hotter…
Shouldn’t we be more responsible?

TEN HOTTEST YEARS
All Since 1998

Credit: climatecentral.org

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Green Banking
& The IEC2016 Themes

- Inclusive economic growth
- Corporate Social Responsibility
- Sustainability

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Green Banking in Nigeria
The Priority Sectors...

Picture Credit: Wikipedia

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Putting it in Context

- December 2015 Paris Climate deal
- Implementation of the Paris deal being discussed in Marrakesh, Morocco
- The Trump Era (USA):
  - The threat to reverse the Paris Agreement ???
  - The end of liberal internationalism??? (see Time of November 12, 2016, pp. 10-11
  - Will steps be taken???
  - Will the commitments be kept???
Sustainability: ... a common destiny

“More than ever before in human history, we share a common destiny.”

- Kofi Annan

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Our dream...

“Our Dream is a World Free of Poverty.”

- World Bank

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...17 goals to go! When will you score the 1st?

“End poverty in all its forms everywhere.”

- Goal One – Sustainable development Goals

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Distribution of poverty! Sub-Saharan Africa and South Asia account for most (61.3%) of the global poor (World Bank, Oct 07, 2015)

<table>
<thead>
<tr>
<th>Region</th>
<th>Poverty Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>12.19%</td>
</tr>
<tr>
<td>East Asia</td>
<td>7.2%</td>
</tr>
<tr>
<td>South Asia</td>
<td>18.7%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>42.6%</td>
</tr>
</tbody>
</table>

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Why Nigeria?

- Africa’s largest economy & most populous nation
  - Population of poor – 70%
  - Living below the poverty line – 50%
  - Living in abject poverty – 33%
  - Living in overcrowded spaces in cities – 85%
  - Lacking access to clean water – 40%
  - Population of youths having no jobs – 63%

[see Prof Toyin Falola in “Sustainable development for the common good”, The Punch, 11/6/2015, p. 26]

<table>
<thead>
<tr>
<th>No</th>
<th>Country</th>
<th>Population</th>
<th>Share of World</th>
<th>Median age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>1,405,245,494,199</td>
<td>19.24%</td>
<td>35.7</td>
</tr>
<tr>
<td>2</td>
<td>India</td>
<td>1,288,843,103</td>
<td>17.5%</td>
<td>26.6</td>
</tr>
<tr>
<td>3</td>
<td>Nigeria</td>
<td>185,534,998</td>
<td>2.46%</td>
<td>17.8</td>
</tr>
<tr>
<td>4</td>
<td>Bangladesh</td>
<td>161,207,324</td>
<td>2.19%</td>
<td>25.4</td>
</tr>
<tr>
<td>5</td>
<td>DRC (Congo)</td>
<td>72,001,168</td>
<td>0.96%</td>
<td>17.4</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>3,112,832,087</strong></td>
<td><strong>42.36%</strong></td>
<td><strong>24.58</strong></td>
</tr>
</tbody>
</table>

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Rampant jobless growth
Nigeria: The former Administration admitted – jobless growth?

• For at least five years between 2010 and 2014, the Nigerian showed impressive growth rates averaging about 7%.
• But, within the same period, the national unemployment grew from about 12.7% in 2007 to about 21% in 2010 (OSGF, 2014, p. 330).

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Here’s why we should be worried...

unemployment...

- 63% of Nigeria’s huge population is made up of mostly unemployed youths...

- Q1 GDP growth: -2.06%
- Q2 GDP growth: -0.36%
- Why? – oil sector contraction by “the youths”!!!

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“…Sharp contraction in the oil sector due to huge losses of crude oil production”
- Adeyemi Dipeolu – an economic adviser to Mr. President

- Oil production down by 420,000 barrels per day (bpd) from 1.69 million bpd
- Q2 2016 real growth within the oil sector: -17.48% year on year
- Hence, the imperatives for diligent diversification (non-oil) policy – big opportunity for Green Banking
- Green banking the non-oil sector – Agriculture, ICT, Water Supply, The Arts, Science, Education & Services sector (sectors which by the way recorded positive growth)

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“As we have seen in the Maghreb countries of Tunisia, Egypt, Libya, … youth unemployment is a very effective catalyst for social unrest that has brought down entire government.”

- Aliko Mohammed Dangote in Fayemiwo and Neal (2013, p. 394)
The first step...

- July 14, 2012 – Bankers’ Committee Retreat where it adopted **Nigeria Sustainable Banking Principles (SBPs)** by banks, discount houses and development finance institutions.

- **Objective**:

  - “…to deliver positive development impacts to society while protecting the communities and environment in which financial institutions and their clients operate.”

- (CBN circular FPR/DIR/CIR/GEN/01/33 dated 24 September 2012)
Elements of the Nigeria SBPs

- The Nigeria Sustainable Banking Principles
- Its Guidance Notes
- As earlier noted .... **The Priority Sectors**

- The Power Sector
- Agriculture
- Oil & Gas
Key Terms

- **Business activities** – corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investment, project finance, project finance advisory, structured commodity finance, MSME business lending, retail banking, trade and leasing, etc.

- **Business Operations** – physical human capital, assets & infrastructure that a bank engages in facilitating its business activities.

- **E&S Footprint** – the total effect or impact that a bank’s business operations have on the environment and society in which it operates.

- **Global warming** – surface temperature (solar intensity) increasing…

- **Climate change** – not just limited to ‘changing weather’, but includes global warming + everything else (whether anthropogenic or not) that increases greenhouse gas levels.

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Key Terms – Others…

- **E&S Impacts**
- **E&S Opportunities**
- **Equator Principles**
- **Sustainable Banking** – “an approach that recognises the role of Banks in driving long-term economic development in Nigeria that is not only economically viable, but also environmentally responsible and socially relevant.”

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In the final analysis…
Sustainability is about quality of humanity…

- Ensuring good **quality** of living for everyone now on this planet and for the future generations.
  - Quality employment
  - Quality education – human capital development
  - Good health
  - Quality shelter, water & sanitation
  - Food security
  - Preserving the environment / ecosystem..

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Green Banking is …
Responsible Banking…

- Green Banking - components
  - Banking & financial services that consider all the social and environmental / ecological factors with the aim of protecting the environment
  - Conserves natural resources – the Earth’s environment, habitats
  - =ethical banking = sustainable banking = environment-friendly banking
  - Low-cost, long-term financing
  - Support to clean, low-carbon projects
  - Banking practices that help customers to reduce the carbon footprint

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Green Banking - its ramifications

- Less paper work – which means less cutting of trees – more use of technology e.g. mobile banking
- More awareness of E&S risks
- Lending with emphasis on eco-friendly business practices
- Natural resource conservation key in accessing loan
- From monetary finance to ecological finance

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Green Banking - more ramifications

- Emphasis on commercially viable technologies
- Dedicated source of capital
- Leveraging private investment - maximizing private energy to spark consumer demand
- New investment facilities for clean energy deployment
- Public-Private Energy Investment Partnerships (PPEIP)

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### The Nigeria SBPs (2012)

1. **Our Business Activities:**
   Integrate E&S considerations into decision-making processes to avoid, minimise or offset negative impacts

2. **Our Business Operations:**
   Avoid, minimise, or offset the negative impacts of our business operations on the environment & local communities

3. **Human Rights**

4. **Women’s Economic Empowerment** – inclusive workplace culture (+ quantitative data monitoring)

5. **Financial Inclusion** – to individuals and communities

6. **E&S Governance** – robust & transparent

7. **Capacity Building** – risk identification & assessment

8. **Collaborative partnerships** – international best practices

9. **Reporting** – at individual FI & sector level

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### Financial Exclusion Rate (FER) (%) in Nigeria according to geopolitical zones, 2012 – 2014

<table>
<thead>
<tr>
<th>Geopolitical zones</th>
<th>2014</th>
<th>2012</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-West</td>
<td>56%</td>
<td>63.8%</td>
<td>7.8%</td>
</tr>
<tr>
<td>North-East</td>
<td>68.4%</td>
<td>59.5%</td>
<td>-8.9%</td>
</tr>
<tr>
<td>North-Central</td>
<td>32.7%</td>
<td>32.4%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>South West</td>
<td>24.8%</td>
<td>24.8%</td>
<td>0%</td>
</tr>
<tr>
<td>South-East</td>
<td>25.4%</td>
<td>25.6%</td>
<td>0.2%</td>
</tr>
<tr>
<td>South-South</td>
<td>32.7%</td>
<td>30.1%</td>
<td>-2.6%</td>
</tr>
</tbody>
</table>

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## Nigeria SBPs recognize:

### Environmental challenges

- Population growth
- Urban migration
- Poverty
- Destruction of biodiversity & ecosystems
- Pressure on food sources
- Prices
- Security
- Lack of energy & infrastructure
- Global climate change legislation from trading partners
Nigeria SBPs recognize:
Health implications of neglecting the environment

- Damaged lungs
- Chronic lung diseases
- Hypertension
- Respiratory problems
- Cardiovascular diseases

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Benefits of Green banking

- The strategic role of Banking & Finance in any economy – a continuous debate
- Banks’ Lending and Investment activities / capital allocation decisions
- Overall risk management approach to business development
- Opportunities for Business Innovation – finding new ways to achieve positive impact – e.g. green finance/bonds, etc.
- Environmentally and socially responsible business – finding ways to avoid or mitigate negative impacts
- Financial success over the long term

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In the end...
Green Banking is Good Business

- Overall Risk Management
- Ability to raise international capital
- Financial + Non-financial performance
- Good brand + reputation
- Operational efficiencies
- Attraction + Retention of good talent
- Trusted advisor to your customers
- Access to new markets/ new products & services

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Green Banking in Nigeria

The “Green” partners...

- Central Bank of Nigeria (CBN)/NDIC
- DFIS
- DHs
- Banks

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The “Green” Banks in Nigeria...

- Money deposit Banks
- Discount houses
- Development Banks

These are the signatories to the Nigerian Sustainable Banking Principles Joint Commitment Statement - 2012

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The CBN – The No. 1 Driver of SBPs in Nigeria
Moral suasion + initiatives + monitoring compliance

Central Bank of Nigeria

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Nigeria
Power Sector
Sustainable Banking for the Power Sector - Objectives

i. Identification & management of E&S risks associated with the provision of financial products & services to the power sector

ii. Adopt relevant international standards & best practices in the management of their E&S risk exposures

iii. Development of Green Finance – developing, promoting & financing alternative sources of power generation

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Sustainably Banking the Power Sector - **Scope**

i. **Power Generation** – [GenCos]: oil, gas, hydropower (except nuclear power???)

ii. **Electricity Transmission Infrastructure** – upgrades + extensions

iii. **Electricity Distribution** – [GenCos]: upgrades + extension

iv. **Alternative sources of power generation & associated facilities** – solar, clean coal, wind, biomass, etc

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Renewable energy supply - Expectations

- Nigeria’s total greenhouse gas emissions in 2012 – reportedly 475 million metric tons of carbon dioxide (compare UK: 551 million metric tons)
- Boosting Nigeria’s renewable electricity supply from 13% to 25% of total electricity output by 2025
- i.e. renewable energy accounting for just 10% of the country’s overall energy consumption – is that bold enough???

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Sustainable Banking for the Power Sector – **Key Issues**

i. Dependence on unsustainable sources of energy:
   - Oil & Gas – 77%
   - Hydropower – 23%
   - Significant negative E&S impacts
   - Creates vulnerability for Nigeria concerning climate change impact

ii. Poor electricity transmission infrastructure that makes energy distribution difficult

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# The Nigerian Power Sector - Potential E&S Risks

## Potential risk issues

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Potential risk issue</th>
</tr>
</thead>
</table>
| Environmental   | - *Increased air pollutants*, GHG emissions, poor air quality due to cumulative impacts of combined pollution sources  
                  |   - Not deploying *best available pollution control technologies*  
                  |   - *High water extraction* for cooling operations – affecting availability of water for other ecosystem services  
                  |   - *Habitat de-fragmentation* – arising from the construction of roads, transmission / distribution lines… |
| Social          | - *People & economic displacement* – loss of assets such as land, crops, fisheries  
                  |   - *Conflict with local communities* – e.g. militancy in the Niger Delta  
                  |   - *Damaged cultural heritage*  
                  |   - *Infringement of labour & human rights* |
E&S Risk Categorization
of Power Sector Investments

- **High Risk Transaction** – significant adverse effects
  - Large thermal power stations & other combustion installations
  - Hydropower schemes involving large/medium scale dams
  - Hydropower schemes on international waterways
  - Pipelines, terminals, underground storage of combustibles & associated facilities for massive transport of oil & gas
  - Transmission lines in populated areas
  - Biofuels involving hazardous wastes & large-scale plantation of biofuel crops

- **Medium Risk Transaction** – limited adverse effects
  - Small combustion facilities – (3 - 50 MW)
  - Hydropower plants of 10MW – 50 MW
  - Small-Medium scale wind & sola power plants
  - Some types of biomass not involving hazardous materials

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E&S Risks Associated with Power Generation Activities

Coal Power generation Types

- Note: In deceasing order of efficiency / increasing order of potential E&S Risk

i. Integrated Gasification Combined Cycle with Carbon Capture Storage

ii. Integrated Gasification Combined Cycle

iii. Supercritical & Ultra SC Pulverized Coal

iv. Circulating Fluidized Bed Combustion

v. Sub-critical Pulverized Coal

Oil – Pollution issues, Price volatility, climate change concerns

Natural Gas – emit lower particulate gases (SOx and NOx emissions are reported to be about 60% of those from coal-fired plants)

Coal – reputational & environmental risks well documented, but cleaner coal technologies are evolving

Hydropower – disruption of ecosystem and people’s economic displacement, international political risks, etc

Biofuels – ethanol – large-scale projects risky; competition with food crops

Solar & Wind – significant land use issue, sensitivities around land ownership, associated transmission + distribution issues

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The Earth is burning….
And the blame game continues ….

• “We want to build a coal power plant because we are a country blessed with coal…we are being blocked from doing so, because it is not green. This is not fair because they have an entire Western industrialization that was built on coal-fired energy. They suggest we use solar and wind which is the more expensive…”

• - Kemi Adeosun, Nigeria’s Finance Minister

[Europe.newsweek.com - 7 October 2016]
Sustainably Banking the Power Sector - **Applicability**

i. Corporate lending

ii. Project / structured finance

iii. Equity & debt capital market activities – (hopefully???) NNPC to be quoted on the NSE after on-going restructuring

iv. Financial advisory services to new & existing clients

✓ **Notes**: (i) Applicability depends on the level & nature of Power Sector Business Activities financed by a Banks

✓ (ii) Retroactive application for existing clients not required, but it will apply to existing clients asking for new facilities.

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Sustainably Banking the Power Sector … What the Banks are advised to do

i. Develop your own sector-specific E&S approach/policy for the Power Sector

ii. Power sector E&S Reporting – follow international best practices

iii. Adequate E&S due diligence on power sector clients & activities + legal compliance + meeting the IFC & EHS standards

iv. Provide detailed E&S impact assessment for new power projects

v. For existing projects requesting new funding, do a recent E&S audit

vi. **Power Sector Client Engagement and Monitoring**: Promote & encourage innovative energy – energy efficiency, clean technology, & renewable energy

⚠️ **Note**: A key challenge – Legacy assets
Sustainably Banking the Power Sector
... Guidance for International Best Practice

i. Thermal Power – Carbon Principles, climate principles
ii. Hydropower – International Power Association, World Commission on dams, UNEP Dams & Development Program, European Small Hydropower Association
iii. Wind – nationalwind.org
iv. Biofuels – Roundtable on Sustainable fuels; rsb.epfl.ch
v. Environmental Management System – iso.org
vii. Occupational Health & Safety Management – OHSAS 18001 series; ohsas.org
viii. Community Health and Safety Management – Guidelines for Community Noise, World Health Organisation (WHO, 1999); who.int/docstore/peh/noise/guidelines2h

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i. **Asset management & Insurance** services excluded – thought not appropriate because of the limited opportunity for a bank to influence a client’s E&S performance in this regard

ii. Provision of financial products & services for the extraction, processing and transport of *energy raw materials* (e.g. extraction of oil & gas, coal, & other fuel sources) **not** covered
Related laws & regulations for requisite SB reforms

- Electric Power Sector Reform ACT 2005
- Energy Commission Act 1979
- Environmental Impact Assessment Act of 1992
- National Environmental Standards and Regulations Enforcement Agency Act 2007
- Harmful wastes (Special Criminal Provisions, etc) Act of 1988
- Land Use Act 1978
- National Energy Policy 2003
- Local Content Regulations
- Petroleum Industry Bill – on-going

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Nigeria
The Agriculture Sector
Nigerian Agriculture
...in need of ‘green banking’ support

- Contribution to GDP – 42%
- Employed 60% of the workforce (2010)
- But 1.4% formal lending support & declining since 2006 (CBN, 2012)
- Land ownership issues
- Deforestation – land clearing & burning – harmful gases – nutrient depletion
- Irrigation issues – 17% actually irrigated out of 500,000 ha capacity
- Agriculture business - Perceived as High risk by bankers

Photo credit: Wikipedia

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Green Banking Agriculture

- Funding for land acquisition – land law reform on-going
- Good quality seeds and fertilizer
- R&D
- Extension services
- Irrigation systems – technology & innovation opportunities
- Storage facilities + waste management systems
- Processing machinery & infrastructure (roads & power) – PPP opportunities, etc
- **NIRSA**L – Nigerian Incentive-Based Risk Sharing System for Agricultural Lending

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World Oil Reserves (Middleton, 2007, p.50)

...Nigeria in the top 10.... So what?

<table>
<thead>
<tr>
<th>Top 20 Countries</th>
<th>1,047 bnb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rest of the World</td>
<td>158</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,205 bnb</strong></td>
</tr>
</tbody>
</table>

- Saudi Arabia – 265 bnb
- Iran – 133
- Iraq – 115
- Kuwait – 102
- UAE – 98
- Venezuela – 80
- Russia – 60
- Libya – 39

**Nigeria – 36 (3%)**

[India – 6]

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The Truth about Oil…
(Paul Middleton, 2007)

i. That government is effectively renting (not developing) its resource – oil

ii. That substantially externally (USD) renting your resource does not require a strong, productive domestic sector

iii. Unemployment - That only a small proportion of the working population is actually involved in the generation of the rent.

iv. That the government is the principal recipient of the external (USD) rent
While the world’s use of fossil fuels will decline over time as renewable energy gets cheaper & better, oil & gas is still going to be key energy source for some more time.

“We need to address climate change. We need to limit the temperature rise globally to the maximum extent but we cannot do it at the expense of keeping people in poverty and stopping their economic development.”

- Khalid al-Falih – Saudi Arabia Energy Minister

*(Financial Times, 16 November 2016, p.3)*
Nigerian Oil & Gas
...in need of ‘green’ approach

- Ethnic / territorial tensions/disputes for decades
- Human rights abuses
- Environmental pollution
- Oil smuggling
- Use of force to quell unrest, etc

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Oil & Gas in Nigeria
The E&S Challenges...

- Environmental & ecosystem damage – air, soil, & water pollution
- Climate change impacts – Gas flaring, GHG emissions around the coastal areas in particular
- Public finance – 80-95% of the country’s exports – but little or no impact on domestic economic development & poverty reduction
- Community conflict & social unrest – Resource Control issues
- Health & safety issues
- Local employment issues – limited local content
- Numerous E&S laws related to the Oil & Gas sector
- Compliance with international standards of EHS guidelines (IFC, NEITI, Sustainability Reporting, etc)

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Green Banking Oil & Gas

- Exploration
- Extraction
- Production
- Processing & transport
  - Upstream - drilling
  - Downstream - refining
  - Servicing – transport (pipelines, barges, tankers, rail wagons, storage, waste management, marketing, etc)

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Green Banking Oil & Gas

...Possibilities

i. Increase energy efficiency across the board

ii. Increase investment in renewable energy technologies – without changing the economic & development prospects of the country

iii. Reduce the use of inefficient coal-fired power plants – stop their further construction

iv. Phase-out fossil-fuel subsidies

v. Reduce methane emissions in the production of oil & gas

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After the first steps towards Green Banking… What next?

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Green Banking in Nigeria …

Implementation Timeline...

- Within 12 months – establish E&S management system – vision statement, policies, procedures, reporting framework
- By 31 December 2013 - Initial Sustainable Banking Report
- 31 December 2014 – First Full Sustainable Banking Report
Green Banking …
It’s a matter of Time

• “The world is getting better, but it’s not getting better fast enough, and it’s not getting better for every one.”
  -Bill Gates

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Green Banking …
Time is of essence

• “As IEA analysis has repeatedly shown that the cost and difficulty of mitigating greenhouse-gas emissions increases every year, time is of the essence.”

-Maria van der Hoeven (IEA Executive Director)
Concluding thoughts…

- **Green Banking in Nigeria** – a good first step has been taken via SBPs in a long journey to sustainable banking practice.

- The next steps should be:

  i. Diligent implementation (M&E) of the Nigeria Sustainable Banking Principles (SBPs) – outsource to independent “green consultants”.

  ii. Pro-entrepreneurship/private sector development policy environment – infrastructure, PPP, privatization, policy stability & flexibility, concluding work on several E&S-related Bills.

  iii. Investment in Education, Research & Development is key.

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Future Research…
- moving from ‘adoption’ to ‘implementation’

- Developing simple, measurable, actionable, practical indicators for implementation of SBPs - Testing the change theory - Progress SBPs’ implementation

- Evaluation of the regulators /CBN monitoring role

- How to involve Asset Management, Insurance, & energy raw materials in the SBPs

- Assessment /comparative analysis of Banks’ E&S footprint over time

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“The future is not what we wait for; rather the future is what we create now.” - Gbenga Adebambo

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