CHALLENGES OF DEVELOPING SUSTAINABLE FINANCIAL INSTITUTIONS IN NIGERIA

T. F. I. Nwanne, Ph.D, HCIB
Department of Accounting and Finance
Godfrey Okoye University, Enugu
freemannwanne@yahoo.com
08033383159

Abstract:
This study is on the challenges of developing sustainable financial institutions in Nigeria. It looks at the entire system of financing for development which exists globally, with particular attention to the challenges facing the establishment/development of financial institutions that can sustain the Nigerian economy. The paper looks at the central issue for the summit on “finance for development” FID and “world summit on sustainable development” WSSD – financing for sustainable development – and outlines the challenges and opportunities that crop up thereof. This requires focusing on questions of legitimacy, accountability and capacity. Such action would challenge the now entrenched orientation of the regime as a ‘financing’ regime. It requires also a re-examination of the institutions that are entrusted with the agenda which has been found all lacking in necessary capacities. An expanded institutional framework that incorporates intermediary and local non-government organizations (NGOs) would be absolutely necessary to salvage the anomaly. Finally, institutions (at all levels) will need to be invested with a different set of performance metrics; measures which gauge the ability of institutions to deliver on their developmental goals, rather than focus only on financial accounting.

Keywords: legitimacy, accountability and capacity.

Introduction
This paper provides our audience with two important opportunities to influence the direction of development financing – especially financing for sustainable development.

The first, of course, is the just concluded United Nations Summit on financing for development [FID] (http://www.un.org/esa/fid). The second will be the World Summit on sustainable development [WSSD] (http://www.johannesburgsummit.org). For developing countries in particular and for all those concerned with issues of international development, the substance of these summits and the fact that they come back-to-back is of considerable significance. However, despite the many obvious and deep links between the agendas of these two ‘super meetings’ – especially in terms of issues related to financing sustainable development – it is both surprising and rather disturbing that there has been only half-hearted interaction between the two meetings or the people involved with them. Indeed, until very recently, many people deeply involved in the preparations for the WSSD did not even know that there was something called the FID which preceded the WSSD. For their part, those who hold the highest expectations from FID (i.e., the developing country delegates) have been well aware of WSSD but have been concerned – justifiably, in retrospect – that it would only distract from their agenda of drawing more international resources towards development financing. It seems evident that a clear environment vs. development divide is at work. Despite the ‘sustainable development’ in its title, WSSD is still being seen as a predominantly ‘environmental’ event and FID was quite clearly a development moot that did not want the word ‘environment’ or even ‘sustainable development’ associated with it too closely. This very visible chasm between the two is a sad, but probably a true commentary on the state of sustainable development as a policy construct. Indeed, it has been argued that WSSD is in real danger of sucking out whatever little life exists in the concept of sustainable development as the purely ‘environmental’ concerns rid the debate of the developmental overtones that had been so ceremoniously adopted at the Rio Earth Summit of 1992 (Najam, 2001). This paper looks at the one issue that has been central to the world of development finance – financing for sustainable development – and outlines the challenges and opportunities that lie before us. In using the world of development finance as the context, the paper highlights key questions that
have come to the fore whenever discussions on these issues were held.

**Focusing on legitimacy**

The world of development finance is twice cursed. The persistent and deepening crisis about the amount of finance available for development assistance is compounded by the growing doubts about the efficacy, or even appropriateness, of the use to which these limited resources are put. (The debate on the effectiveness of aid has raged for long; a sampling of various arguments may be seen in Hancock, 1992; Bandow and Vasquez, 1994; Cassen, 1994; Rich, 1994; Smillie, 1995; World Bank, 1998; South Centre, 1999; Randel et al., 2000; Morrissey, 2001.) It is not only that available resource is small and shrinking but also that there is a lurking suspicion that it is being utilized less effectively. The result is a vicious cycle: the lack of legitimacy that results from ineffective use of the available resources.

Policymakers and academics who look at issues of financing for development, including sustainable development, tend to be principally concerned about expanding the resource flows into development, particularly through state-centric channels. For example, the discussions during the build-up to the United Nations FID process were largely preoccupied with issues of resource mobilization, both internationally and domestically. Similarly, a key concern of those involved for the WSSD has been the abject failure of the international system to mobilize there sources that would have been needed to even begin implementing the issues at hand. While these are, of course, very legitimate and pressing concerns, much less attention has been paid during either discussion to the effectiveness of the resources that were available. This is not to suggest that resource mobilization is not important. It is, however, to suggest that questions of legitimacy and effectiveness of resource utilization are equally important and have a direct bearing on questions of mobilization (Agarwal et al., 1999).

Our focus here is on issues of utilization; in particular, the systemic challenge of creating an environment of legitimacy and effectiveness in the universe of financing for sustainable development.

This challenge should have been equally central to the agenda of FID and WSSD but has been marginalized, if not ignored, in both discussions. Can these issues of legitimacy be brought back to the centre of subsequent discussions on financing for sustainable development? Doing so will require rearticulating the discourse on at least three inter-related levels:

(i) the legitimacy of the goals of financing,
(ii) the legitimacy of the actors involved, and
(iii) the legitimacy of the measures by which we gauge success or failure.

i. **The legitimacy of the goals of financing**

Financing seems to have become a goal in itself. The tenor of development discussions in general, and multilateral environmental negotiations related to sustainable development in particular, have become so routinized that the issue of financing has become detached from the goal that it is supposed to achieve. Rather than being tied directly to a global public good (Kaul et al., 1999 and World Bank, 2001) such as climatic stabilization, maintenance of biodiversity, and creation of sustainable livelihoods, financing has been reduced to little more than an act of charity. The North is implored by the South to throw a few crumbs of pity and benevolence because the South is poor; not in lieu of the South supplying a global public service (Banuri, 1992; Najam, 1995; Agarwal et al., 1999). While the North is understandably averse to any mention of ‘compensation’ for its environmentally irresponsible behaviour in the past, the result of distancing financing from the goal that it is directed towards is rather perverse. From the North’s perspective, there is no compulsion to actually deliver on promises made nor any grounds for insisting on proper utilization; after all, this is merely charity and charity cannot be accounted for or be accountable. For the South, there is not only the humiliation of having to hold the beggar’s bowl but also the sense that how they use the alms given to them is ultimately their own business (Agarwal, 1992; Najam, 1995).

Conceptually, the beauty of such a framework is that the transfer of resources would be made directly to those who are actually providing the service rather than to the treasury of the country in which they live. Properly implemented, such a scheme would entail the transfer benefiting not to the elites in the South whose own emissions may be no different from those in the North, but to the poor in these countries who are actually providing the global public service. The point to be made here concerns the need to directly link the provision of financing to the goal that it is supposed to serve. This entails more than simply earmarking funds for particular purposes or creating financing mechanisms for selected priorities. It would require explicitly identifying
certain environmental services as global public goods and setting up a mechanism where those who benefit from these public goods transfer resources to those who provide or maintain the services. Financing, therefore, would not be the ‘end’ but the ‘means’ to larger socially desirable goals.

The key goal of concern to us is sustainable development. Financing for sustainable development is particularly sensitive to questions of scale and scope; the availability of large amounts of money for a small number of large projects may be less useful than the availability of relatively small amounts of money for a large number of relatively small initiatives (Sachs, 1999). A meaningful emphasis on the goal of financing for sustainable development necessarily broadens the focus from only how much financing is available to the goal of that financing, i.e., sustainable development. Importantly, it allows for other important questions to be asked: for what purpose are the resources going to be used, who will it be channelled and disbursed through, and how will the effectiveness and legitimacy of this use be measured? In the current discourse, such questions, even when asked, are marginalized as the spotlight remains fixated on the quantity of financial flows – private or public, non-concessional or concessionary.

ii. The legitimacy of the institutions involved.

The principal systemic question related to financing for sustainable development concerns the institutions through which such financing is channelled. The legitimacy and efficacy of such institutions (including the World Bank, the IMF, the United Nations System, and NGOs) was central to the agenda of the FID process and has also been discussed within the WSSD context. The questions, however, have tended to be rather limited in scope, concentrating mostly on the familiar issues of governance including management, representation and transparency. While these are important questions, a set of more fundamental questions regarding the legitimacy and effectiveness of these institutions need to be added to the debate. Two of these – scale and accessibility – will be addressed, and a third – accountability – is very important.

Irrespective of whatever other differences one may or may not have with international financial institutions (IFIs), it has become increasingly clear that they operate at a very different scale from where the problem happens. Given their costly procedures and personnel such institutions do not have the ability to operate effectively at the medium- and small-scale; the scale where so many of the sustainable development initiatives reside (Rich, 1994; Banuri and Spangenberg-Siegfried, 2001). Similar problems of scale apply to many national financial institutions and, indeed, to large international NGOs (Clark, 1991; Edwards and Hulme, 1996; Najam, 1999). The hurdle is not one of ideological persuasion or intent; its simply a question of capacity. The institutions that are best suited to raising large amounts of international finance are least suited to disbursing them at a level where sustainable development is most likely to happen. The problem could, of course, be solved by simply passing on this financing to a set of intermediate institutions (local NGOs) were it not for the significant problems of accessibility. Most discussions of institutional transparency focus on the operational secretiveness of international institutions, particularly IFIs (the main concern revolves around the danger of inappropriate decisions being taken, sometimes consciously, under the veil of secrecy). However, the issue of accessibility is intrinsically tied to transparency. In addition to being non-transparent, IFIs tend to be inaccessible, not only for would-be watchdogs, but also for potential beneficiaries. This relates directly to the question of scale raised above. While IFIs are incapable of operating at the ‘ground-level’ of sustainable development because of their inbuilt pathologies of scale, those who are operating at the ground-level are denied entry to elevated levels by barriers of accessibility and often lack the capacity to operate in that environment (Clark, 1991;Hulme and Edwards, 1996; Najam, 1996).

The challenge here is that IFIs and their national counterparts have tended to be as resistant to learning to talk to intermediate NGOs as the latter have been hesitant to converse with them. In essence, the institutional chain that could have been the conduit of financial resources flowing to the appropriate level has a huge gap within it which only complements the existing tendency, and even incentive, to siphon off the financing at levels higher than where it might make the most sustainable development impact. The issue is one of mismatched institutional capacities. Institutions that can access global financial resources are constrained by their inability to operate at the level where sustainable development initiatives can most meaningfully be undertaken; and those who are able to operate at that level are either unable to raise the resources they need or are denied access to those who have such resources, often both.
The legitimacy of the measures by which we gauge success or failure.

Institutions involved in financing for development, including financing for sustainable development, tend to see themselves very much as part of the financial system, rather than a development system. The distinction is more than semantic. Financial institutions are gauged, and should be gauged, according to financial criteria. However, such criteria are not entirely appropriate for gauging the performance of development institutions.

Unfortunately, it is not only institutions such as the World Bank and IMF but also those, such as the Global Environmental Facility (GEF) and many NGOs that increasingly insist on measuring their efficacy and legitimacy in terms of their financial strength rather than their developmental impacts (Edwards and Hulme, 1996; Najam, 1996). World Bankers, for example, are very fond of reminding their audiences that they are, after all, a 'bank' and that their rates of recovery would be the envy of any financial institution. It is quite clear that it would. What is less clear is how much of a virtue this is for a development institution (Rich, 1994). GEF reports are similarly detailed in terms of how much money has been put into the fund and how much has been dispersed. The impact this investment has had on fostering sustainable development is less clearly articulated (Agarwal et al., 1999). There seems to be a clear sense that those entrusted with development financing are far more comfortable being managers of money than facilitators of development. To be fair, this tendency is not restricted to IFIs but is equally prevalent in agencies of national government and in many NGOs which are equally determined to highlight 'dollars spent' more than meaningful discussions of how this relates to the actual achievement of, or even attempted achievement of, sustainable development (Clarke, 1991; Najam, 1996). In all cases the 'means' (financing) are decoupled from the 'end' (sustainable development), not only in how claims are made for financing but how the institutional efficacy is accounted for. This tendency has contributed greatly to the deepening crisis of legitimacy of development finance.

Unfortunately, institutions at all levels (international, national, local) care most deeply about that which they count. It is not surprising, then, that we find a fairly developed culture of accounting for finances but only half-hearted attempts at accountability for development. This is not something that can be shooed away by reciting the well-rehearsed lamentation about all the known difficulties in trying to 'define' sustainable development. It is a question of making explicit the sustainability goals that we seek to achieve, determining some measures (quantitative or qualitative) of gauging the achievement of those goals, and holding those responsible (IFIs, national governments, NGOs) accountable to those goals.

Sustainable development reporting initiatives, therefore, are of prime importance in rationalizing the discussions on financing for sustainable development and moving the discussion away from a preoccupation with financial performance to more fundamental concerns about sustainability performance.

The key point

This paper seeks to make is that the global community needs to take a fresh look at the entire system of financing for development and redirect it towards a decidedly (sustainable) development orientation. Here we have identified only a few key elements of such a reorientation. Such an enterprise cannot be easy since it would challenge the now entrenched orientation of the regime as a 'financing' regime. One must begin with a re-articulation - or at least a reaffirmation - of the principal goal, i.e., sustainable development. Doing so with any degree of honesty will necessarily require a re-examination of the institutions that are entrusted with the FID agenda and lead to the conclusion that while these institutions are certainly a part of the institutional chain that might deliver sustainable development, they are incapable of doing so in and of themselves. An expanded institutional framework that incorporates intermediary and local NGOs (by providing them access and investing in their capacities) would be absolutely critical if the goal of sustainable development is to be taken seriously. Finally, such institutions (at all levels) will need to be invested with a different set of performance metrics; measures which gauge the ability of institutions to deliver on their developmental goals rather than focus only on financial accounting.

The Role of IFIs in Sustainable Development

IFIs exist throughout the world to provide financial support for development projects. They include government-owned banks, such as the World Bank, regional development banks, and export credit agencies. They also include numerous private sector banks that invest jointly with governments on projects.

This paper focuses on the World Bank as an example of how IFIs operate. The World Bank is
have raised concerns about the competitive advantage of the ECAs from governments such as China, India, and Brazil, which are not part of the OECD (Crippa, 2010).

This paper focuses on the World Bank but recognizes that the world of development finance is complex. Other IFIs' efforts to promote sustainable development exceed the World Bank's in several respects. In the next ten years, trends among IFIs are likely to be shaped in large part by emerging actors—such as nationally owned financial institutions from emerging economies, which have expanded their overseas presence.

Over time, the World Bank has evolved to become a "demand-driven" institution. After heavy criticism in the 1980s and 1990s for imposing economic reforms on countries, the Bank has reversed its approach. An important part of the Bank's institutional culture, firmly engrained in staff members, is not to impose development on a government, but rather to allow the borrowing government to choose what is most appropriate for its people. Sometimes this is in line with sustainable development, as governments seek advice from the World Bank on tackling issues such as climate change and food insecurity. Other times, this approach is not in line with sustainable development as governments seek funds to build projects that are environmentally destructive and violate human rights. These are the projects that often become the focus of civil society campaigns.

Progress since the Rio Declaration

Despite a track record of controversies, the World Bank has undertaken a series of reforms over the past two decades to become a more environmentally and socially responsible investor. In particular, the World Bank has adopted internal policies and institutional reforms to help ensure that its investments meet a minimum standard of acceptability. In 2006, for example, the Bank created its Sustainable Development Network, which is led by one of the Bank's vice presidents. The network helps to develop the Bank's sustainable development agenda, and to provide financial support on issues such as climate change, agriculture, and natural resource management. Over time, the Bank has also strengthened its "safeguard" policies that set the minimum environmental and social requirements expected of borrowers. These policies were first developed in the 1980s and gradually updated. For example, borrowers must conduct an environmental impact assessment, and must consult with local communities as a condition for financing.
2010, the Bank adopted a progressive “access to information” policy, which contains a presumption of disclosure for many Bank documents, and allows communities and civil society watchdogs to learn more about the Bank investments that might affect them. Since 1993, the World Bank’s Inspection Panel has provided a way for communities affected by Bank projects to bring complaints when the Bank’s policies are not followed. Even though the World Bank’s legal mandate has not changed, its rhetoric focuses much more heavily on environmental and social issues.

Changing Nature of Development Finance

Are IFIs prepared for the next decade of sustainable development? The ways that IFIs do business are changing, and in many cases, their approaches to environmental and human rights issues have not kept pace. IFIs are now making investments in a wider variety of ways. Traditionally, the World Bank and other IFIs invested directly in projects—such as a dam or a road. Safeguard policies and other Bank approaches to sustainable development were designed with this type of investment in mind. Now, however, IFIs are providing finance and support in ways that are more difficult to monitor or track. IFIs typically provide borrower governments with a menu of options, such as: Invest directly in projects, such as cleaner power plants, renewable energy, and access to clean water. However, numerous other IFI sexist to finance development activities, and often compete with the World Bank to provide cheaper loans with fewer environmental and social requirements.

Provide direct budget support to governments for policy reforms, by injecting money directly into the government treasury. This leaves the government with almost full discretion on how to use this money. In these investments—which comprise over half of the Bank’s portfolio—environmental and social safeguards do not apply (Schneiderman, 2011).

World Resources Institute leverage further investments, by managing climate change trust funds that attract other investors. In these cases, the World Bank faces the challenge of collaborating with UN and other intergovernmental institutions and share knowledge, by providing expert advice to governments and companies on sustainable development best practices. However, recent studies question whether the IFIs provide consistent advice on sustainable development.

IFIs also increasingly delegate responsibility to borrowers, in an effort to strengthen country ownership over development projects, and to build local capacity to sustain development. As such, IFIs now serve more as advisers to governments, and less as regulators who condition lending on specific reforms. At the same time, borrowers are being given a greater voice on the boards of directors that decide where money is channelled.

All of these reforms are very much in line with the 2005 Paris Declaration on Aid Effectiveness, which calls for greater country ownership over development. Nevertheless, the implementation of these principles remains a challenge. How can IFIs shift greater responsibility to borrower governments, while ensuring accountability to donors and local communities?

When IFIs face pressure to move loans quickly, they often face higher risks of corruption and weak capacity to protect the environment and human rights.

The Future Challenges: Clash of the (Institutional) Giants?

In the near future, the World Bank and other IFIs will be expected to play an important role in financing sustainable development. They would bring valuable expertise in designing financial transactions and sharing knowledge across countries. Yet as the IFIs step further and further into global environmental and social initiatives, they find that they must increasingly collaborate with UN agencies (Lash & Runnalls, 2010; Nakhoda & Ballesteros, 2010).

In many cases, collaboration between the UN and IFIs has raised tensions that date back to the founding of these institutions. The mandate of IFIs is to promote economic growth, while UN agencies promote reforms that do not always have a measurable economic return on investment. The culture of IFIs is to respond to the demands of borrowing governments, while UN agencies tend to focus on harmonizing global norms around human rights and the environment. IFIs approach environmental and social issues from a “risk management” perspective, justifying action when it threatens the return on investments, while UN agencies take a rights-based approach to development. As a result, IFIs are often willing to make tradeoffs on environmental and human rights issues. IFI staff members primarily measure success in terms of the volume of lending moved out the door, and how much it contributes to macroeconomic growth in a country. In the UN, success is measured by promoting and protecting human rights, and by mobilizing countries around common goals such
as greenhouse gas emissions reductions. The tensions between these two types of institutional cultures are common in several sustainable development initiatives underway. IFIs, especially the World Bank, have had a significant presence at the UN climate change negotiations. Since 2008, the World Bank has managed the $6.3 billion "climate investment funds," which have helped to finance climate related projects while governments negotiated a more permanent financing mechanism. In December 2010, governments signed the Cancun Agreement and created a Green Climate Fund as the central mechanism for financing the global response to climate change. Governments appointed the World Bank as an interim trustee of the fund. In the coming years, the Bank will play a leading role in directing finance to climate change efforts, and in setting the precedents for future financing. The Bank’s performance will be crucial to the success of the UN climate change agreement.

At the same time, the World Bank has not committed to reduce its own climate change footprint (Redman et al., 2008). The Bank does not measure how its investments contribute to greenhouse emissions, and has not made significant progress on reducing the overall climate footprint of its lending portfolio. Indeed, the portfolio of fossil fuel-related projects has grown.

World Resources Institute research revealed that 60% of the Bank’s financing for the energy sector did not take climate change into account. In 2010, a follow-up survey showed that only a limited number of World Bank electricity sector loans support clean energy development. The Bank’s recent investment in South Africa’s coal-fired power plant illustrates the perception within the Bank that countries face a choice between clean energy and economic development, rather than considering these goals to be mutually reinforcing. The contradiction between the World Bank’s leadership role in the UN climate negotiations, and its unwillingness to manage its own climate footprint, raises questions about the overall legitimacy of IFIs’ approach to climate change. Will the limited funds committed by donors at the UN climate negotiations be used in the most effective way? Will the fossil fuel projects that are made possible by World Bank investments contribute as many GHG emissions as the Green Climate Fund seeks to avoid? Or will the World Bank’s new role in the Green Climate Fund create momentum to reconcile these tensions? Conserving forests while ignoring forest dwellers. The climate change negotiations have also brought renewed interest to an old problem: forest conservation. Because forests help to take carbon dioxide out of the air, donors have begun to inject funds into initiatives that will support developing country governments’ efforts to conserve forests. The first pilot initiatives—called Reduced Emissions from Deforestation and Forest Degradation (REDD)—have been led by the World Bank and the UN Development Programme. One of the challenges of REDD is how governments can set aside land for forest conservation, when in many cases the forests are already occupied by local communities. Over 1.2 billion people depend on forests for their livelihoods, and several hundred million of these people rely on customary or informal rights to land (Ballesteros, 2010).

Many indigenous communities have lived on the same land for hundreds if not thousands of years, and their entire cultures and identities are tied to that specific area of land. Many developing country governments lack the capacity to simultaneously manage their forests, resolve existing land tenure conflicts, and manage vast amounts of international funding for REDD. The World Bank and the UN take different approaches to this challenge: The World Bank manages two trust funds, and is still developing a way to address these risks, but has started to provide financing to governments before safeguards are in place. The UN REDD program, in contrast, takes a rights-based approach and requires the free, prior and informed consent of indigenous communities before a REDD project can go forward (Borges, 2010).

By putting forward different approaches to safeguards, the World Bank and UN have created a chaotic system, where governments and donors are unsure what safeguards to apply. This is increasingly a problem as REDD initiatives face pressure to demonstrate success by moving funds quickly out the door, often without forest governance reforms fully in place. For example, the Forest Peoples Programme, a civil society organization based in the UK, has raised concerns for several years that REDD funding in countries such as Guyana and Cameroon jeopardizes indigenous peoples’ rights by moving forward before conflicts around forest land tenure are resolved.

Human rights, the World Bank way concerns over human rights arise frequently in the investments of the World Bank and other IFIs. If not carefully designed, development projects can displace people from their homes, create health risks, and cut off access to food and
water for local people. Most governments acknowledge that World Bank investments can affect human rights, both positively and negatively. However, the Bank officially does not consider itself bound by international human rights treaties, and has adopted its own approach. The World Bank’s approach is to treat human rights as one project risk that needs to be balanced with other considerations such as cost and efficiency. This differs from the rights-based approach used by the UN.

Between 2009 and 2011, the International Finance Corporation—the private sector lending arm of the World Bank Group—updated its influential environmental and social performance standards. Hundreds of other IFIs and companies consider these standards to be best practice for foreign investment. The change in policy sparked a debate. In early 2011, several governments, civil society, and IFC staff raised concerns that language in the IFC’s proposed policy misrepresents standards set forth in the UN Framework on Business and Human Rights. Most governments of the world, including China, India, Brazil, and Russia, have supported the UN framework. Some have argued the IFC’s proposed policy provides a weaker alternative that undermines the global consensus on the UN framework (Feudenthal et al., 2011).

Can the IFC claim that it follows the UN framework implicitly without actually referencing human rights? How can the language of human rights be translated into operational language that is useful for bankers, while remaining consistent with UN norms? The IFC is wrestling with these issues as it finalizes its policy (Herbertson et al., 2010).

Expectations of Rio+20
The IFIs’ and UN’s competing approaches to sustainable development have led to a piecemeal approach that sends mixed signals to those who look to these institutions for leadership. Rio+20 delegates may agree that it is important to promote economic development and protect the environment and respect human rights. But how can we move forward in practice?

First we need to link IFIs to broader global governance in a more coherent manner. Changing the mandates of IFIs into “green institutions” is unlikely, so governments and civil society should explore ways to reconcile IFIs’ focus on economic growth with the role of other UN agencies in promoting environmental and human rights. At the international level, this will require UN agencies to take a greater, more proactive role in linking IFI policies to UN norms. It will require designing more meaningful ways for local communities to participate in global policy debates. Hence, it will require the UN to help translate international environmental and human rights norms into standards that bankers can use. Second, governments will need to reconsider their fiduciary responsibilities as members of the IFIs’ boards of directors. Typically, a government’s ministry of finance appoints officials to sit on the boards of the World Bank and other IFIs. In many cases, the ministries of finance do not communicate internally with other ministries that specialize in environmental and human rights issues. The result is a disconnect between what a government says and does at UN agencies, and how it acts at the IFIs. Often these same governments have ratified (or even championed) environmental and human rights agreements at the UN, but refuse to speak about these issues at the IFIs. Better internal communication is necessary for governments to approach sustainable development coherently.

The goals of Rio+20
The goals of Rio+20 should be forward-looking and ambitious, and should certainly rely on the IFIs for support. But any Rio+20 Declaration should carefully define a role for IFIs, and should take into account the complex cultures of these institutions. IFIs are difficult to reform. When calling for wider reforms, it will also be important for civil society and governments to engage the Bank on smaller (but still formidable) goals: holding IFIs accountable for their climate change performance, harmonizing global approaches to accountability and safeguards, and strengthening the links between human rights and the environment. In this way, even if we do not achieve full success in the next few years, we will be able to say that we took major steps forward.

Little work has been done by the Commission on the role of the financial institutions in achieving sustainable development. An even more fundamental relationship is indicated by an alternative definition of sustainable development: This makes it clear that sustainable development is about capital allocation and thus should be at the core of financial markets activity. On a more practical level, financial institutions interact with the environment in a number of ways:

- developing new financial products to encourage sustainable development, e.g. in energy efficiency;
- pricing risks and estimating returns, for companies, projects and others.
as shareholders and lenders they can exercise considerable influence over the management of companies.

While not "dirty" industries, financial institutions do consume considerable resources. Financial markets present an opportunity for environmental policy, particularly useful in view of the need for a wider range of policy instruments. In view of the indirect nature of many of the interactions above, policies are likely to be most effective if they aim to complement and work with existing financial activity.

To that end, a transactional model of the financial markets is used, to indicate how it is possible to influence financial transactions. It illustrates the key roles of information and analysis.

The greatest potential of the commercial banking sector is in its relationship with Small and Medium sized Enterprises, where banks can be very influential through their lending practices and by providing information. Commercial banks have less influence over most bigger companies. There is, however, scope for them to influence consumer behaviour through the financial products they offer. To date the most commercial banks have focused on two areas: Firstly, many have made considerable progress in developing systems to reduce their own environmental impact. Secondly, most banks include some environmental analysis into their process although this tends to be focused on liability. The United Nations Environmental Programme (UNEP) has established a statement on Banks and the Environment which over 90 banks have signed, including a substantial number from the EU. It is the leading international initiative on banks and environment and is certainly encouraging a number of banks to take the environment seriously.

One particularly encouraging area of activity is providing on how to manage their environmental impacts, through information packs and other support.

To encourage the investment sector to incorporate environmental issues a number of obstacles need to be overcome. Two key obstacles are market inertia in investment practices, and the balance between long term and short term analysis. However, the most important issue is probably difficulties in obtaining good quality information in ways that the sector can understand and use. Ways need to be found to provide relevant information to the sector.

The potential of insurance sector in achieving sustainable development lies in its ability to price various types of environmental risk and to help pay for environmental damage.

The industry has also become clearly concerned about the potential impact on its business. Changing climate at best undermines the historic basis for evaluating risk and at worst could significantly increase losses, from increased storms and floods, to the extent that even the very viability of the industry could be threatened. In response, the leaders in the industry have developed a comprehensive set of measures, ranging from an increasing lobbying at the climate change convention, through working with governments on research and preventative measures, to adjusting premiums and their areas of activity.

UNEP has also launched an Insurance Industry Initiative on sustainable development. It too has been successful and has strong European representation. Members of the initiative have been particularly active in the areas of climate change and asset management. Similarly, many outside the industry have a poor understanding of the practicalities of the industry, leading to limited work on how insurance could contribute to sustainable development. Companies increasingly see environmental issues as being of relevance to their business development, yet financial markets, particularly investors are uninterested. Companies are increasingly aware of the environmental pressures they are under and have developed a range of practical tools to address them. There is increasing understanding of the financial implications of these pressures among leading specialists, yet most in the financial community pay only limited attention to them is the key to financial evaluation, but there is limited useful information on environmental performance and management. The main existing sources of information are not geared to financial audiences:

To address this there is potential to, potentially as part of the annual reports, encompassing financial information, environmental performance data and qualitative information on environmental policy and management. An alternative approach is through the development of who can provide a summary analysis geared to the needs of the financial markets. At present such services have only limited appeal, but they offer long term potential. An effective way of encouraging the development of these services would improve the quality of information made available through the public regulators.

The environmental business sector consists of businesses ranging from traditional environmental businesses, such as waste management, to emerging "green" pioneers, such as renewable energy and eco-tourism.
They have a critical role to play in achieving sustainable development and thus ensuring they have access to private sector finance is crucial. Despite apparently good prospects, with rapidly growing markets, the financial performance of the sector has been disappointing to date. Indeed, the poor performance of many high profile companies has been a major factor in creating a negative impression about the environment with financial institutions. A number of factors are identified for this. Several of them are closely related to the public sector and policy issues, both in the way that the environmental markets are often dependent on policy development and in the active role of public sector finance in this area. In response to the challenges faced by environmental sector companies, a number of innovative approaches and specialist organisations have developed, including project finance, venture capital, leasing, environmental and ethical banks, specialist environmental financiers, and environmental funds. However, the sector may place excessive emphasis on emerging sources of finance or stretch existing finance into new areas and there is a continuing need for innovation (Borges, 2010).

To encourage the financial markets to support the sector, there is a need for measures at both a macro level, such as clear policy development and dissemination, and micro level, such as training on financial markets for environmental entrepreneurs. There is scope to support innovation in finance to the sector. In addition, public sector financial support programmes to the sector could be adapted to work more closely with the financial sector.

Nigerian Development Finance Institutions (NDFI) and the Challenges of Sustainable Development in the Country.

There is the need for the members of Association of Nigerian Development Finance Institutions (ANDFI) to gather and deliberate on serious challenges facing the sector. This would make it possible to fulfill its role of re-allocating resources to development projects critical to the social and economic growth of the country.

These projects are largely uninteresting to the money deposit financial institutions which dominate the Nigeria’s financial landscape but are clearly needed for the growth of the country.

There is low capitalization of development financé institutions in the country and effort should be made by those involved, particularly the government to urgently raise the capital base of the firms. The dearth of funding is hindering the activities of DFIs in the country and conversely the development of the nation’s economy.

The funding problem is very big for members because it is driven by the demands for those funds. The whole role of development finance is to help allocate resources where the mechanism of the market has failed especially to the priority sectors, high impact economic development sectors, the deposit money banks which are driven entirely by profit motives. In effect, It is common knowledge that the financial system in Nigeria is dominated by they have failed to adequately resource the high impact sectors like agriculture, manufacturing, SMEs, among others.

For example agriculture is responsible for over 40 percent of the GDP, it employs about 70 percent of the workforce and yet the proportion of bank loans to agriculture is only about two percent of the total outstanding loans. So there is a huge gap and the situation is similar to manufacturing, SMEs, export promotion. These sectors need funds and these are development sectors.

DFI are funded by government but governments also have a lot of challenges because the resources are scarce and there are competing needs for the finances. A lot of the DFIs are not adequately capitalized yet and so have not even been given a chance to succeed.

What we are saying is that government need to capitalize them because most of them are not even capitalized to the level imagined when they were being formed. There is the need to bring them to this level and give their management the marching order and targets to deliver.

The government should create a forum for DFIs in Nigeria to discuss and exchange ideas on issues of common interests, provide a platform for members to co-operate in areas of investment, finance and capacity building for the purpose of creating a conducive atmosphere for the operations of the DFIs towards achieving sustainable real sector development. The forum would be the hub where overall issues relating to real sector development in Nigeria are discussed and communicated to governments and other stakeholders with the aim of providing appropriate environment for the operation of Development Finance Institutions in the country.

As a matter of urgency, there is the need to seek to: encourage mutual assistance and investment co-operation among the DFIs.
Present a united front on matters of common interest, influence policy decisions so that they may be conducive to the operational efficiency of the DFIs. Promote and protect the collective interest of the practice of development banking in Nigeria, carry out studies on issues of national economic growth with a view to promoting development in Nigeria. Promote cooperation and exchange of experience among member DFIs, and between them and similar organisations in other countries.

Globally, following the recent financial crises resulting in significant corporate failures in the mortgage, financial and other sectors, which led to large government bailouts using the taxpayers' money, we have witnessed over the last few years the expanding role for development finance even in the advanced economies.

Nigeria was not left out, as large amounts of public resources, or resources raised through sovereign support, were used to bail out some of DMBs. This is in addition to funds that were set up by the CBN to support activities such as commercial agriculture, SMEs, aviation, entertainment, etc. Indeed, CBN has considered development finance so important that the department was recently moved to the CBN Governor's Office (Borges, 2010).

The role of DFIs in an economy is to support resource allocation to high impact and economic development priority sectors, where the financial systems fail to allocate resources.

In Nigeria today, it is incontrovertible that the financial system, dominated by Deposit Money Banks, has failed to allocate adequate resources to the real sectors of agriculture, manufacturing, SMEs, non-oil exports, infrastructure development, etc. Obviously, therefore, the continuing role of development finance in Nigeria cannot be over emphasized.

Many of our DFIs have never been optimally capitalized and resourced to position them to play their roles effectively. In addition, the current crop of managements inherited a lot of legacy challenges, many of which have been addressed or are being addressed by the respective managements.

The is the need to review the governance structures and generally reform our current DFIs; in addition to recapitalizing them, in order to put them on the path of impactful and financially sustainable operations. Government needs to also streamline the mandates of the institutions to avoid overlaps and duplications, where they currently exist.

A lot of the states and regional DFIs have virtually been abandoned despite the critical roles they played after the nations' independence.

The DFIs are underserved and have left gaps in the country's financial system.

There is need to reform the sector to position them in the market to deliver results sustainably with greater impact. Despite the long history of development financing and plethora of DFIs in Nigeria, there is still a huge demand gap for financial resources for development.

DFIs which are usually the creation of governments established to close-up gaps left in the financial system are meant to service underserved segments of the economy including development projects which may involve high risk and long gestation period but have significant long term benefits to the overall economic development of the country.

Their inability to access finance is a clear instance of market failure, and the establishment of special finance vehicles in the form of development finance institutions is an attempt to rectify the shortcoming and make up for the failure of the financial markets and institutions.

The failure may arise because the expected return to the provider of finance is lower than the market-related return (notwithstanding the higher social return) or the credit risk involved cannot be covered by a risk premium as economic activity to be financed may become unviable at certain risk based price. Development finance is, thus targeted at economic activities or agents, which are rationed out of the market.

Despite the long history of development financing which came to the fore after the Second World War in 1945 and the plethora of DFIs in Nigeria, there is still a huge gap for financial resources particularly, in the real sector outpaces supply by a significant amount, which is a source of concern.

The growing demand gap is indicative of the limit of government's ability to sustain its intervention programmes particularly in the face of dwindling revenue. In addition, the level of sophistication of the financial sector, the global shift towards private sector driven economic activities, provide strong arguments for a re-
appraisal of the current development finance framework and approach.

In Nigeria DFIs are encumbered by enormous challenges which include inadequate capital funding, operational difficulty, poor managerial skills and low financial literacy of clients.

Capital funding remains a critical factor to the success for any development finance programme or institution, there should be a reform of the sector to make it more efficient and to play leading role in developing the economy.

The funding issue has really impeded the work of sustainable development finance institutions in the country.
References


103