



ESG and Nigerian Financial Institutions

What's Happening?

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Introduction - ESG?

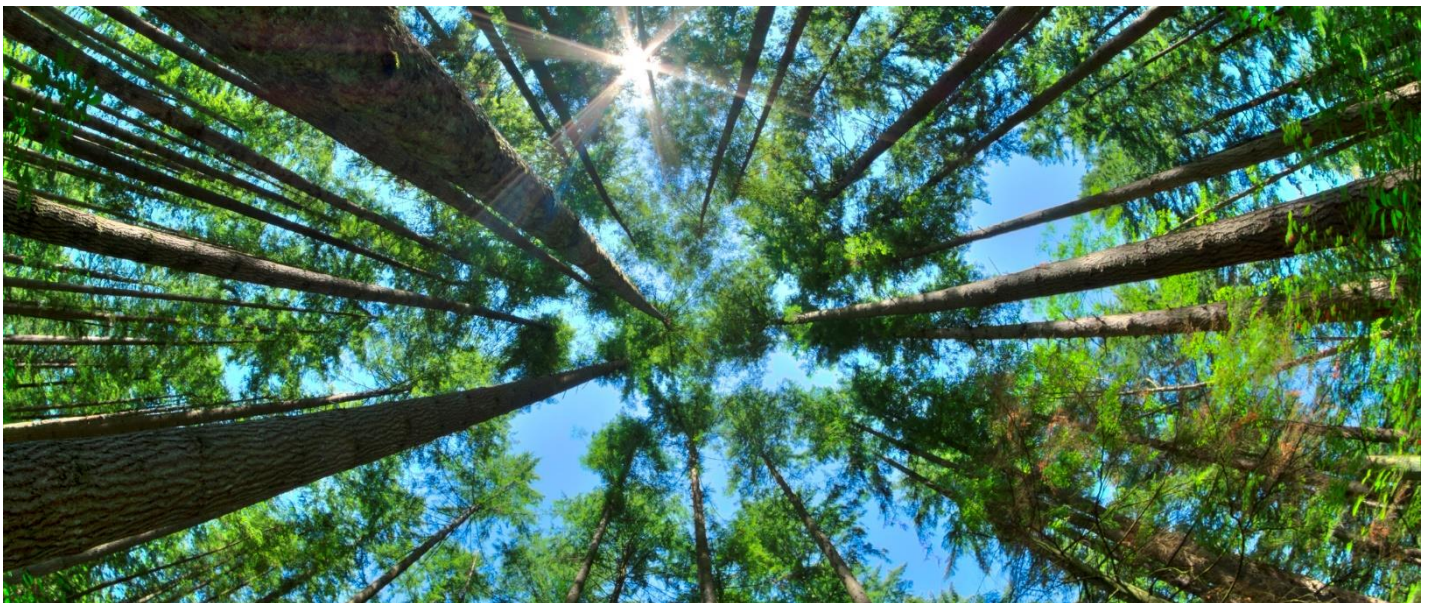
Environmental, Social and Governance (ESG) is a rapidly growing concept around the world based on the need for more balanced institutional and business operations. This concept has ushered in a new wave of change in more recent times leading to the incorporation of Environmental, Social and Governance (ESG) concerns in carrying out business activities. Regulators, policy makers, government and organisations such as the financial institutions have become vocal and more proactive on these concerns.

The increased need to move towards a low carbon economy is one of the ESG goals. This will create additional complexity for financial service firms: commercial, investment & mortgage banks, discount houses, insurance companies and the likes.

It has also been observed that there is a huge gap in understanding what ESG constitutes and how it should be measured with respect to compliance with its goals.

There is also a looming negative perception by stakeholders on the readiness of financial institutions in dealing with various risks and opportunities that they will be exposed to by implementing ESG.

This article explores areas such as current global development around ESG, the development of ESG in the Nigerian financial institutions as well as a review of what the future of ESG entails and how stakeholders like investors, regulators, employees, lenders, rating agencies, customers and the society at large will play a significant role in future ESG conversations.



Global ESG Development

Environmental, Social and Governance (ESG) requirements aim to promote sustainability within the financial sector as well. This has led to the development of the concept of sustainable banking within the sector. Basically, sustainable banking incorporates ESG criteria into the usual traditional way of providing financial services to ensure that ESG goals/benefits are achieved in the long run.

Financial market in Europe and North America currently accounts for about 90% of the sustainable investment market in the world¹. Private finance, which is one of the markets covered, is still far from evolving into emerging markets based on the expectations to contribute its quota to achieving sustainable development goals. The reasons for the underdevelopment of the private finance market can be linked to the fact that sustainable reporting is not mandatory as well as unstandardized data and inconsistencies in disclosures between countries making ESG information less transparent.

However, the current issue of underdevelopment and inconsistencies in ESG disclosures between countries is about to change. Recently, there was a push by the International Financial Reporting Standard (IFRS) Foundation, through International Sustainability Standards Board (ISSB), that will mandate governments of more than ninety countries who attended the COP26 to submit enhanced climate commitments, known as **Nationally Determined Contributions (NDCs)**², every five years.

In a bid to attain sustainable banking, several initiatives are being introduced by banks across the globe to address some of the issues raised by stakeholders in implementing ESG.

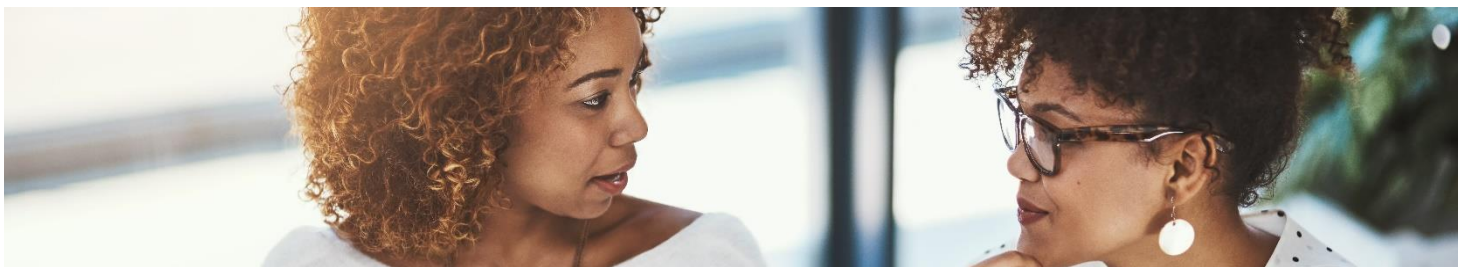
Examples of such initiatives include;

- **Financial inclusion** such as increasing and developing mobile money services, partnerships with global bodies, organizing business seminars and financial education programs, participating in different countries' Central Bank Micro, Small & Medium Enterprises (MSME) development funds, etc.

- **Green facilities** such as the introduction of solar powered bank branches and solar powered ATMs.
- **Human and labour rights** such as establishment and code of ethics, insider trading policies and hotlines, staff fitness programs, etc.
- **Energy and waste management** such initiatives that are big on paper saving, waste recycling, and power and energy saving.
- **Investment in communities** such as introducing programs to the different communities that drives clinic support, community empowerment, staff volunteering, skill acquisition, etc.

Clearly, ESG development across the world is gaining irresistible momentum thereby defining the changes businesses and various organisations will have to make going forward.

ESG Development in Nigerian Financial Institutions



The term Sustainability has developed through the years to become an indisputable tool that financial institutions now use to examine their business operations and activities. Nigerian Financial Institutions began their journey into promoting a sustainable economy through sustainable banking almost a decade ago. There was a collaboration between the Central Bank of Nigeria (CBN) and the Bankers Committee to establish a sustainable banking framework that will drive innovation, market resilience and sustainable economy. The result of this collaboration was the establishment of **The Nigerian Sustainable Banking Principles (NSBPs)** in 2012.

The NSBPs contain principles and guidelines on how financial institutions should support business activities such as Agriculture, Power and Oil & Gas in a sustainable manner. The following are the nine principles of **NSBPs** as established in 2012³ :

- To integrate environmental and social considerations into decision-makings processes relating to our Business Activities to avoid, minimise or offset negatives impacts;
- To avoid, minimise or offset the negative impacts of our Business Operations on the environment and local communities in which we operate and, where possible, promote positive impacts;
- To respect human rights in our Business Operation and Activities;
- To promote women's economic empowerment through a gender inclusive workplace culture in our Business Operation and seek to provide products and services designed specifically for women through our Business Activities.
- To promote financial inclusion, seeking to provide financial service to individuals and communities that traditionally have had limited or no access to the formal financial sector.
- To implement robust and transparent E&S governance practices in our respective institutions and assess the E&S governance practices of our clients;
- To develop individuals institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our Business Activities and Business Operations;
- To collaborate across the sector and leverage international partnerships to accelerate our collective progress and move the sector as one, ensuring our approach is consistent with international standards and Nigerian development needs.
- To regularly review and report on our progress in meeting these Principles at the individual institution and sector levels.

Moreso, milestones have been reached over the years since the inception of the guidelines. Some of these, among others, are: Environmental & Social risk management system automation and implementation of its framework, implementation of waste management and energy efficiency practices, improvement of maternity leave policies, creation of women networks, development of financial products and services targeted at women and regular banks' reporting on their sustainability journey. These achievements have greatly contributed to the credibility of the Nigerian Financial Institutions.

However, there are some issues that need to be addressed. These are: non-compliance, knowledge gaps, insufficient sustainability awareness and metrics for measuring industry wide performance to mention a few. We would therefore suggest that the Nigerian Financial Institutions and Authorities, in their bid to promote ESG development and implementation, should set out corresponding measures, policies and regulations that will provide a more-lasting-solution to the pending issues.

ESG Future Outlook



Considering the continuous trends of ESG dialogue, board members have given ESG a special place on their agendas. Top leadership of organisations are prioritising ESG criteria during their strategic business meetings. They seemingly are under obligation to respond to the demands of various stakeholders such as investors, regulators, employees, lenders, rating agencies, customers and the society at large who seek to know the potential risk and opportunities that ESG enshrouds within their business context.

Now, it is important for organisations to have a more forward-looking approach. They should also envisage the possible transformation that their business will experience, the potential

challenges and the new pathways that ESG implementation will present to their business.

In addition, regulators around the world are now moving from policies to establishing concrete regulatory frameworks that will result in complete compliance, consistent measurement standards of ESG impacts to promote a sustainable environment and economy. This move by regulators should not be handled with levity by organisations. Therefore, organisations need to lay the groundwork for uncertainties and unavoidable changes around reporting, disclosures, value creation, green investment and the likes that would arise when complying with policies and regulations.

Conclusion



This article has given some highlights on what is happening in the financial sector around the world and in Nigeria with respect to the development of ESG. The recent development and implementation being witnessed in the ESG space will bring about some unequivocal changes. This, therefore, has made it imperative for stakeholders, organisations and institutions to

closely monitor and keep abreast with the new and future development around ESG. This will aid the process of effecting the appropriate adjustments to their business model and/or operations which will eventually result in enhancing a sustainable environment and the economy at large.

Reference

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