

SUSTAINABLE BANKING NETWORK (SBN)

# COUNTRY PROGRESS REPORT

ADDENDUM TO SBN GLOBAL  
PROGRESS REPORT

NIGERIA



Sustainable  
Banking  
Network

**IFC** | International  
Finance Corporation  
WORLD BANK GROUP

*Creating Markets, Creating Opportunities*

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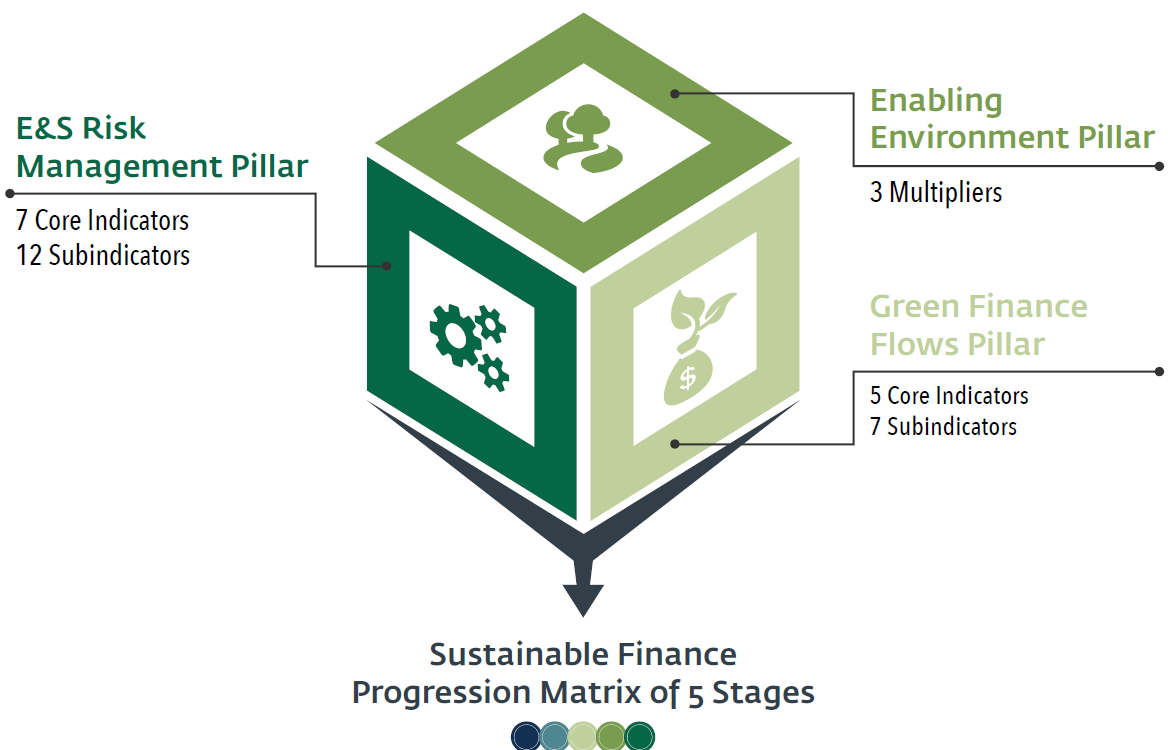
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# 1. Introduction

**Market-based sustainable finance initiatives led by members of the Sustainable Banking Network (SBN) have made significant progress in directing the financial sector toward sustainability.** Established with International Finance Corporation's (IFC) support in 2012, SBN represents a community of financial sector regulators and banking associations from 34 emerging markets. SBN members now represent over US\$42.6 trillion in banking assets, accounting for more than 85 percent of the total banking assets in emerging markets.

**The SBN Global Progress Report is based on a unique measurement framework, the first of its kind to assess sustainable finance initiatives across emerging markets.** The SBN Global Progress Report for the first time presents a systematic view of progress on sustainable finance among emerging economies that are represented by SBN. A rigorous measurement framework was developed and agreed on by members. The SBN Measurement Framework draws on international best practice as well as SBN members' experiences and innovations. This framework will be continuously applied to measure progress annually.

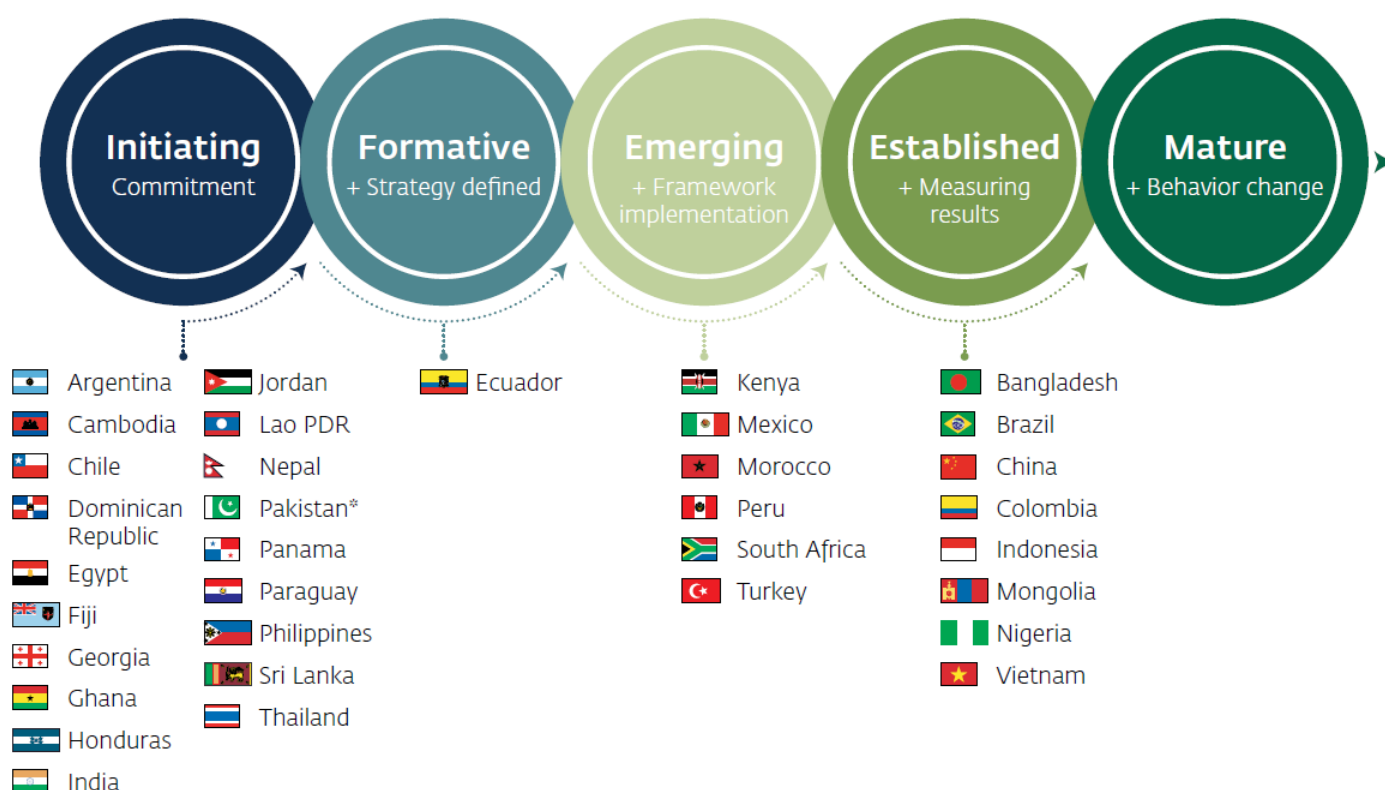


The Global Progress Report draws on the findings of **15 individual country progress reports prepared for members, including this report**. These 15 countries, with US\$38.3 trillion in banking assets, account for more than 76 percent of emerging market banking assets.

**Country-specific progress reports were prepared for 15 SBN members with sustainable finance initiatives.** These reports contain a thorough analysis of the country's policy or principles in relation to the environmental and social (E&S) risk management and to the green finance flows, as well as a contextual analysis of the local policy landscape and the enabling environment. Country reports detail each country's good practice and highlight areas of focus in order to support and encourage members to further accelerate sustainable finance.

**All SBN member countries are advancing sustainable finance at differing stages of development.** Countries are mapped to five different stages of their development, from initiating to mature.

## SBN Progression Matrix with Assessment Results, based on progress up to and as of June 2017



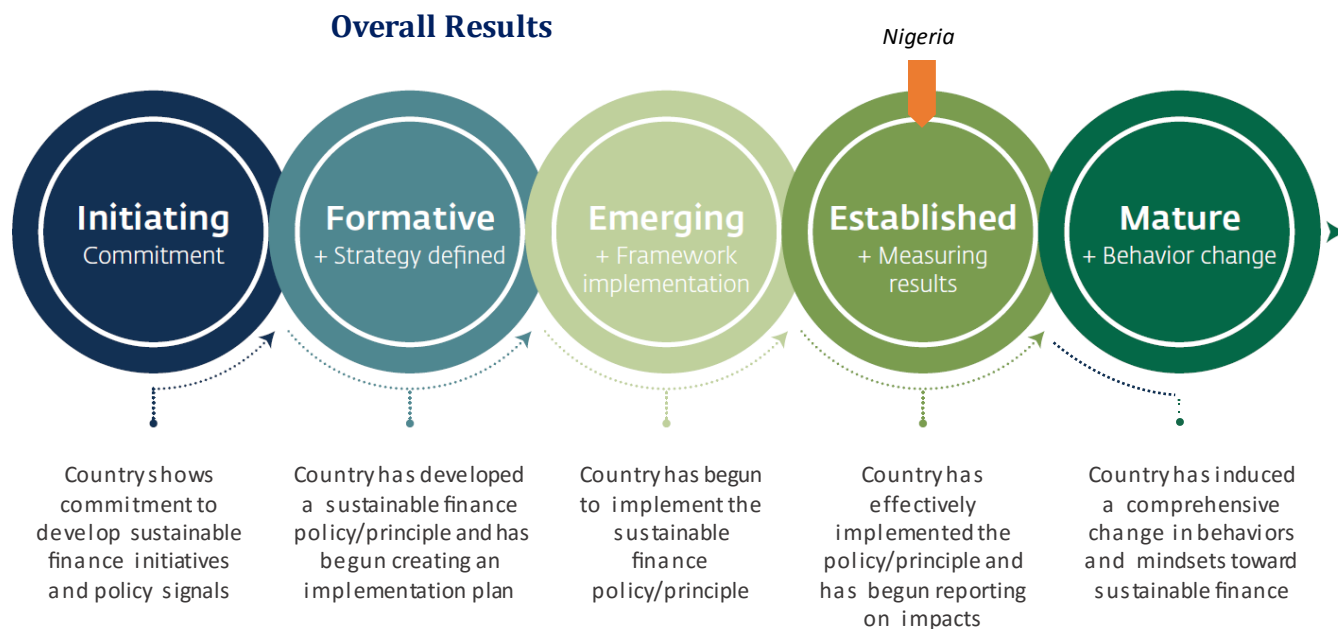
\* Pakistan launched its policy in October 2017, after the cut off date of June 2017 for the report

## 2. Executive Summary

Nigeria is one of the most developed economies in sub-Saharan Africa and its financial sector is quite structured. Nigeria's sustainable banking journey began in 2011. After a year of planning, the **Nigerian Sustainable Banking Principles** (NSBP, or the Principles), endorsed by the Bankers' Committee of the Central Bank of Nigeria (CBN), were released in 2012. The Principles and related documents are quite comprehensive in their coverage of E&S risk management aspects. 34 national and international banks, including 26 Deposit Money Banks (DMBs), have signed the NSBP and are committed to applying these principles. Banks are also following dedicated guidance notes and sector guidelines, which are based on international standards and good practice. The CBN directs and supports the adoption and implementation of these principles and guidelines. To that end, the regulator requires financial institutions (FIs) to submit biannual reports in a consistent manner.

With regard to the Green Finance Flows aspect, the Nigerian principles and guidelines encourage green investment, but have yet to provide sufficient guidance and tools for implementation. However, Nigeria is making progress and plans to release a green bond shortly.<sup>1</sup>

The NSBP, which currently only applies to banks, is in the process of being applied to other areas of the financial sector, such as insurance, capital markets and pension funds.



<sup>1</sup> Nigeria issued a 10.96 billion Naira Sovereign Green Bond in December 2017, after the cut off date of June 2017 for the report.

### **Good Practice**

- The endorsement of NSBP by the Central Bank of Nigeria ensures a strong level of involvement from FIs.
- The Principles, accompanied by methodological notes and specific sector guidelines (oil & gas, power and agriculture), provide FIs with adequate and detailed guidance and tools, in order for them to build their own E&S policies.
- Committed FIs are required to report and disclose their E&S policies and performance on a biannual basis.
- The financial markets are involved in the promotion of sustainability practices (e.g. through the Corporate Governance Rating System, and through the Nigerian Stock Exchange's membership of the SSE Initiative).

### **Areas for Improvement**

- The Principles could be enhanced to integrate guidelines, definitions and methodological notes to promote green financing.
- Nigeria could further encourage green financial flows by providing financial or non-financial incentives.



## CONTEXT:

# 3. Enabling Environment

### Country Profile

Nigeria is Africa's second largest economy. It is also one of Africa's biggest oil producers, and one of its largest recipients of foreign direct investment. Nigeria's main economic sector is oil & gas, which accounts for approximately 35% of the country's GDP. Agriculture also plays a key role in the Nigerian economy. This results in many environmental and social issues, such as ecosystem damage, climate change impacts, water pollution and scarcity, which have an impact on the health and safety of local communities. The country is also facing social unrest, primarily due to corruption and poverty (70% of the population is currently below the poverty line).

The Nigerian government is striving to tackle these issues. In particular, it is making enhanced efforts to help Nigeria transition to a lower carbon economy and society. In 2013, Nigeria's Federal Executive Council approved and adopted a **National Policy on Climate Change**. This policy aims to frame the country's economic and social response to climate change. Nigeria also ratified the Paris Agreement in May 2017.

Nigeria's financial sector has experienced significant change in recent years. The banking sector has undertaken a major consolidation, which has reduced the number of banks and increased bank capitalization. Nigerian capital markets are not fully developed, but with two stock exchanges and around 200 listed companies, they are increasingly active.

## Background and Strategy of the Sustainable Banking Framework

In 2003, the Securities and Exchange Commission (SEC) released a Code of Corporate Governance (the Code, updated in 2008) with the aim of enhancing transparency, accountability and corporate governance among companies operating in Nigeria. The Code defines good practice regarding: the board of directors (e.g. responsibilities, duties, membership, remuneration), the company's relationship with its shareholders, the company's relationship with other stakeholders regarding sustainability issues, risk management and audit processes, accountability and reporting, and communications issued by the company and the company's code of ethics.

Nigeria's sustainable banking framework was founded by the Central Bank of Nigeria (CBN) and its Bankers' Committee a few years after the release of the SEC's Code of Corporate Governance. CBN issued the **Nigerian Sustainable Banking Principles (NSBP)** in 2012, as well as implementation guidelines, which were approved by the Bankers' Committee. The NSBP contains the following nine principles:

1. E&S Risk Management
2. E&S Footprint
3. Human Rights
4. Women's Economic Empowerment
5. Financial Inclusion
6. E&S Governance
7. Capacity Building
8. Collaborative Partnerships
9. Reporting

CBN requires FIs to report their performance against these principles twice a year, using consistent reporting template (2014). In addition to the Principles, guidelines for engaging priority sectors have been developed for oil & gas, power and agriculture. To date, 26 DMBs and a number of foreign banks have signed the Principles and committed to applying them. The Principles and guidelines are currently being reviewed, to ensure compliance with current Global Reporting Initiative (GRI) requirements. CBN intends to create a dedicated NSBP Secretariat in the near future.

The NSBP serves as an inspiration for the entire Nigerian financial industry: Nigeria's Financial Services Regulation Coordinating Committee (FSRCC), which includes the CBN, Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), Corporate Affairs Commission (CAC), Federal Ministry of Finance (FMF), Nigerian Stock Exchange (NSE), Nigeria Commodity Exchange (NCX), the Federal Inland Revenue Service (FIRS) and the National Pension Commission (PenCom), has launched a **National Sustainable Finance Roadmap**. This Roadmap requires each member of the FSRCC to develop and implement operational, sector focused strategies, based on the NSBP, prior to December 2019. Some of these actors have already started their own sustainable finance journey. A Sustainable Finance Subcommittee for Capital Markets was launched in September 2017, under the chairmanship of CBN and IFC.

## Support from Regulators

The Central Bank of Nigeria (CBN) monitors the implementation of the Principles by overseeing the adoption and implementation of the Principles. CBN also supports FIs for their implementation. A coordinating committee, comprised of CBN and the E&S champions of all the banks, is the main platform for coordination and collaboration.

Through FI's biannual reports, CBN tracks the level of implementation of the NSBP. However, these results have not yet been made public. In 2015, CBN trained 99 staff members in environmental and social risk assessment. In addition, environmental and social risk assessments were conducted in nine Nigerian states, where CBN had some intervention projects, in order to ensure compliance with the Principles.

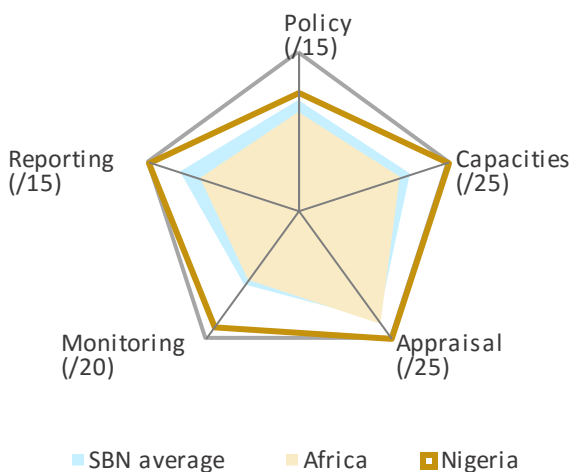
## RISK:

# 4. Environmental and Social Risk Management

The Nigerian banking sector is concentrated around five major commercial banks, most of which are international banks. All of Nigeria's major banks, as well as dozens of other banks, are committed to adopting the NSBP and are actively working on implementation, with the support of CBN. The current framework in Nigeria (NSBP and related guidelines) demonstrates a high level of detail and maturity among SBN members in terms of E&S risk management, including a comprehensive set of requirements covering the building and maintenance of E&S capacity, periodic portfolio reviews, stakeholder relationships and reporting obligations.

In terms of reporting, Nigeria's framework is among most advanced SBN members. CBN first required banks to release one-off reports every quarter in 2014. To formulate an E&S policy, the requirements include to: establish appropriate governance structure, promote capacity building, and draft procedures and processes. Since 2015, banks must report information twice a year that not only covers the nine principles, but also the sector guidelines. The main area for improvement is that the framework does not currently include climate risk management and/or a climate strategy in its guidelines. Also, the applicable scope of the operative framework is limited to banks. The NSBP could be expanded to include other financing activities, a process which has already begun via the FSRCC's National Sustainable Finance Roadmap.

The Nigerian banking sector has an relatively good foundation with regard to sustainability and good international industry practices: nine financial intermediaries have signed the UN Global Compact and two FIs have recently adopted the Equator Principles.



Subpillars	Comments on good practice and areas for improvement
Policy	<ul style="list-style-type: none"> <li>- The Principles require the formalization of an environmental, social and governance (ESG) policy, making reference to good international industry practice and providing FIs with 3 additional sector guidelines for the most sensitive sectors (oil &amp; gas, power and agriculture).</li> <li>- The scope of work is clearly stated: the Principles applies to banks, discount houses and development finance institutions.</li> <li>- Going forward, banks could be required to formalize a climate risk management policy or develop a climate strategy aligned with Nigeria's climate commitment.</li> </ul>
Capacities	<ul style="list-style-type: none"> <li>- The Principles require FIs to define clear E&amp;S governance structures, to determine roles and responsibilities and to ensure resources and capacity are adequate, especially through the development of dedicated training sessions.</li> </ul>
Appraisal	<ul style="list-style-type: none"> <li>- Banks are required to screen and categorize projects and, if needed, to include conditions and covenants in transaction documents.</li> </ul>
Monitoring	<ul style="list-style-type: none"> <li>- At the project level, the Principles require FIs to develop processes and procedures to manage ESG risks during supervision. This includes the development of customized E&amp;S due diligence procedures, client E&amp;S performance monitoring and review of E&amp;S conditions.</li> <li>- The process could be strengthened by including climate risk in portfolio reviews.</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>- The Principles is one of the most advanced among SBN members in terms of reporting and disclosure, requiring the reporting of relevant performance indicators and associated targets, and the disclosure of annual E&amp;S reports.</li> <li>- The Principles could require FIs to put in place a public grievance mechanism for stakeholders to express potential concerns over the projects that the FIs are financing.</li> </ul>

## OPPORTUNITY:

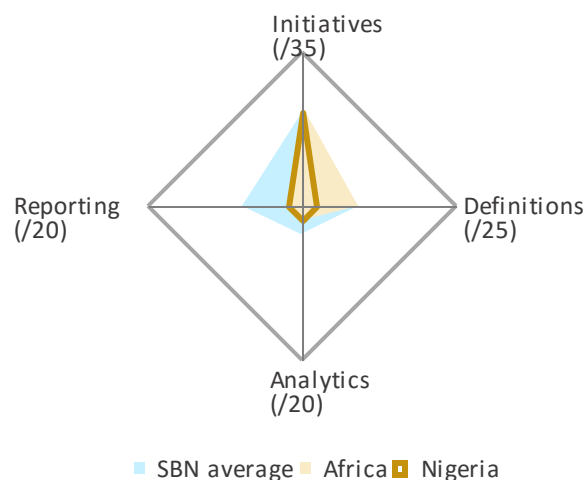
# 5. Green Finance Flows

The Principles invite Banks to “develop processes to identify and invest in business opportunities, clients or sectors that promote the use of advanced E&S risk management practices, new technologies, low carbon activities, entrepreneurial SMEs, etc. in line with extant banking laws and which aim to achieve a positive impact”. Nevertheless, the Principles do not set requirements or standards regarding the development of green finance flows.

In 2013, the Nigerian government launched the **National Policy on Climate Change**, the main objective of which is to implement “measures that will promote low carbon as well as sustainable and high economic growth”. Although the Policy does not specifically mention green finance flows, Nigeria faces vast investment needs for the transition to a sustainable, low-carbon and climate resilient economy. The government has made it clear that private sources of finance are needed. Nigeria issued a 10.96 billion Naira Sovereign Green Bonds (the first in Africa) in December 2017 to increase capital flows for climate finance.

In addition to the national decision to promote and support green finance, the financial market has been proactive in terms of corporate governance promotion: in 2013, the Nigerian Stock Exchange (NSE) and Nigeria’s Convention on Business Integrity (CBI) launched a **Corporate Governance Rating System** (CGRS). This system ranks NSE-listed companies based on their corporate governance practices and anti-corruption policies. While the pilot phase in 2014 was voluntary (three companies underwent the rating), participation in CGRS in 2015 became mandatory for all companies listed on the Premium Board at the NSE.

Within the banking sector a number of excellent voluntary sustainable finance initiatives have emerged, with some major Nigerian banks receiving sustainability awards (Fidelity Bank won the Karlsruhe Green Era Award in 2014, and Access Bank won the Sustainable Finance Award in 2016).



Subpillars	Comments on good practice and areas for improvement
Initiatives	<ul style="list-style-type: none"> <li>- There are policy-led (see National Policy on Climate Change) as well as market-led (see CGRS and Green Awards) initiatives in place to mobilize green financing flows and encourage innovation.</li> <li>- The NSBP mentions that “a bank may decide to offer preferential financing conditions (e.g. rates, maturity, grace period, eligibility criteria, etc.) for profitable clients or investments that demonstrate strong E&amp;S performance”. However, there lacks of comprehensive financial incentives that could foster green finance in Nigeria.</li> </ul>
Definitions	<ul style="list-style-type: none"> <li>- The Principles could be strengthened to provide guidance or requirements in terms of defining green finance and green assets.</li> </ul>
Analytics	<ul style="list-style-type: none"> <li>- Banks are required to report information about their own environmental and social footprint, as well as that of their borrowers and service providers. However, there are currently no requirements in terms of environmental benefit calculation and the monitoring of investments at project and asset level.</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>- There are currently no requirements in terms of green finance flows reporting and disclosure. Guidelines encouraging reporting and disclosure regarding banks’ green finance performance could positively impact the development of green financing flows.</li> </ul>