

A Sustainable Banking Network (SBN)
Task Force Report

Addendum to the SBN Report
*Necessary Ambition: How Low-Income
Countries Are Adopting Sustainable Finance
to Address Poverty, Climate Change, and
Other Urgent Challenges*

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Country Profile Nigeria



Sustainable
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Network



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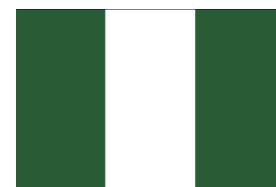
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Nigeria



SBN Member: Central Bank of Nigeria (CBN) (member since 2012)

SBN Working Groups: Measurement Working Group, IDA* Task Force, and Green Bond Working Group

Key policy documents:

- ❑ Nigerian Sustainable Banking Principles Guidance Note and Sector Guidelines (CBN, 2012)
- ❑ Reporting Template for the Nigerian Sustainable Banking Principles (CBN, 2014)
- ❑ New Rule on Green Bonds (Securities Exchange Commission - SEC, 2018)
- ❑ Green Bond Financial Product listed (FMDQ OTC Securities Exchange, 2018)
- ❑ Nigerian Sustainable Finance Roadmap (FMDQ OTC Securities Exchange & UNEP FI, 2018)
- ❑ Sustainability Disclosure Guidelines (The Nigerian Stock Exchanges, 2018)

SBN Progression Matrix Stage (2019): Advancing – the country has demonstrated that it has adopted voluntary industry principles (which were subsequently made mandatory by the central bank), has implementation tools and initiatives in place, and requires reporting by financial institutions.

SBN and IFC role: IFC, through the Africa region Environmental and Social Risk Management (ESRM) Program for financial institutions, has provided advisory services to CBN in relation to policy development, implementation, and capacity building, in partnership with Canada and SECO. Through SBN, CBN has shared its experience with other SBN members – including by hosting the 2014 SBN Global Meeting –

and has benefited from the collective SBN knowledge base. IFC estimates that the country's climate-smart investment potential in selected sectors is more than \$104 billion from 2016 to 2030.¹

About this Country Profile:

This Country Profile is an addendum to the SBN report: *Necessary Ambition: How Low-Income Countries Are Adopting Sustainable Finance to Address Poverty, Climate Change, and Other Urgent Challenges*. The report and country profiles for the first time capture in a systematic way how sustainable finance is being harnessed by low-income countries to address a range of common environmental and social priorities and drive financial sector innovation despite market constraints.

The report and profiles complement and build on the data collection and analysis for the SBN 2019 Global Progress Report, which covered 39 emerging markets. They delve deeper into the experiences of 8 low-income countries in the SBN network through an online survey, interviews, and desk research.

This country profile has four sections:

- ❑ The **Drivers of Action** – factors that spurred the country to develop sustainable finance policies or voluntary principles.
- ❑ The country's **Experiences in Developing Sustainable Finance Frameworks** and what was learned in the process.
- ❑ **Future Priorities** for the country as it continues to develop its sustainable finance systems.
- ❑ How the country views linkages between sustainable finance policies and **Broader Development of its Financial System**.

^{*} IDA stands for the International Development Association (ida.worldbank.org), an international financial institution under the World Bank Group that offers concessional loans and grants to the world's poorest developing countries.

1 Drivers of action

Which factors spurred sustainable finance in Nigeria?

In Nigeria, the development of sustainable finance has been driven by high-level national leadership.

The Bankers' Committee, the umbrella organization of Nigerian bank executives and officials of the CBN, has been responsible for the development and implementation of the Nigerian Sustainable Banking Principles (NSBP). This collaboration is evident in Figure 1, which compares the important drivers of

sustainable finance development in Nigeria to those of SBN member associations from other IDA countries. As with other SBN banking regulator member countries, Nigeria places great importance on policymaker engagement, but the collaboration between the CBN and the mobilized domestic financial sector is evidenced by the emphasis on the 'coordinated voluntary approach.' In common with other countries with established sustainable finance systems, this process has been supported by national commitments to sustainable finance and concern for environmental and social challenges.

Figure 1 A supportive policy environment, policymaker engagement, a coordinated voluntary approach, and awareness of E&S challenges have been the primary drivers of sustainable finance for Nigeria

	High	Medium	Low	N/A
Policy environment: National commitments to the Sustainable Development Goals (SDGs), Paris Agreement on Climate Change, or a National Sustainable Development Policy				
Policymaker and/or regulator engagement: National guidelines or regulatory requirements to better manage environmental and social (E&S) risks in the financial sector, improving financial stability				
Coordinated voluntary approach: Initiative taken by local financial institutions to adopt international good practice in sustainable finance and level the playing field				
Market incentives: Opportunity to increase competitiveness and resilience of the financial sector through innovation in green and socially inclusive finance				
Environmental and social challenges: E&S risk exposure that fosters participation of financial institutions to address the E&S risks at the country level				
Peer experience: Demonstration effect of countries that have adopted a sustainable finance roadmap				

Notes: Large dots represent Nigeria's responses; small dots represent those of other countries.

Source: SBN IDA Diagnostic Survey responses

“The Nigerian Sustainable Banking Principles, the regulatory drive, played a role in the changes witnessed in the way banks manage E&S risks. However, in addition to the regulations issued by the CBN, banks and industry players have developed activities and programs through which developments in sustainable finance and implementation challenges are discussed and solutions proffered.”

- Central Bank of Nigeria

2. Developing a sustainable finance framework

What process did Nigeria go through to develop a framework to promote sustainable finance, and what was learned along the way?

As Figure 2 highlights, the process of developing sustainable finance in Nigeria has been highly collaborative, involving international partners, the CBN, the Bankers' Committee, and the Financial Services Regulation Coordinating Committee.

Figure 2 Stages and steps for developing and implementing the sustainable finance framework in Nigeria



Source: SBN IDA Diagnostic Survey responses

The development and implementation of the NSBP was initially hindered by inadequate capacity, insufficient ESRM systems within financial institutions, low stakeholder awareness, and a lack of synergy between stakeholders. As shown in Figure 3, these challenges were addressed through

stakeholder engagement and capacity building. The CBN engaged extensively with banks, providing additional tools (such as sector guidelines), training, and the launch of an annual CBN Sustainability Award to celebrate excellence. This has resulted in improved E&S management among banks.

Figure 3 The solutions Nigeria found to address challenges in sustainable finance implementation

Challenge	Solution
Capacity constraints within banks to implement sustainable finance	Extensive training, including workshops and train-the-trainer sessions
	Development of additional guidelines, templates, and taxonomies
Banks often prioritize profits over sustainability	Engagement with banks to persuade them of sustainable finance benefits
	Create awards for banks to incentivize strong performance

Source: SBN IDA Diagnostic Survey responses

3. Future priorities

What are Nigeria’s priorities as it continues to develop a sustainable financial system?

There are ambitious plans for continuing to develop a sustainable financial system in Nigeria. These relate first to the NSBP. For example, there are plans to develop additional sector guidelines for the real estate, manufacturing, and construction sectors, and to review the reporting requirements the NSBP places on banks. There are also plans for further issuance of green bonds by both the public and private sectors, which will support sustainable development financing and Nigeria’s transition to a low-carbon economy. In 2019, Access Bank issued Nigeria’s first private sector Certified Climate Bond in Africa valued \$41.8 million.²

Figure 4 compares Nigeria’s ongoing challenges

in developing a sustainable finance system to the challenges faced by SBN member associations from other IDA countries. As with peer countries, the current focus of the CBN is to provide clear incentives for financial institutions to implement sustainable finance, promote the dissemination of environmental data, develop green finance investment opportunities, enhance cooperation among financial institutions, expand sustainable finance to other financial subsectors, implement the sustainable finance roadmap, and develop a taxonomy of green and socially inclusive projects. The capacity of both regulators and financial institutions remains a challenge, particularly in the non-bank financial sector, where there are at present limited in-depth training programs to support the implementation of the 2016 Nigerian Sustainable Finance Principles. Nigeria has already issued a sovereign green bond, which is identified as a key challenge in peer countries.

“*In the case of Nigeria, both the Nigeria Sustainable Banking Principles and the Nigeria Sustainable Finance Roadmap were developed both to enhance the implementation of sustainable finance in the Nigerian financial system and to promote poverty reduction by encouraging the development of policies to increase financial inclusion and women empowerment.*”

- Central Bank of Nigeria

Figure 4 Ongoing challenges to be met in developing and implementing sustainable finance for Nigeria

		High	Medium	Low	N/A
Enabling environment and capacity building	Build the capacity of regulators and financial institutions	• • • • •			
	Enhance cooperation among financial institutions	• • • • •	• •		
	Provide clear incentives for sustainable finance	• • • • •	• •		
	Develop and launch a sustainable finance roadmap	• • • • •	•		•
	Expand sustainable finance to other financial sectors	• • • • •	• • •	• •	
Specific regulations or tools	Develop a taxonomy of green/socially inclusive projects	• • • • •	•		
	Promote publicly available environmental data	• • • • •	• •		
	Create green asset guidelines, incentives, and awareness	• • • • •	• •	•	

Notes: Large dots represent Nigeria's responses; small dots represent those of other countries.

Source: SBN IDA Diagnostic Survey responses

4. Broader financial sector development

How does sustainable finance in Nigeria connect with broader ambitions?

In Nigeria, stakeholders are concerned about financial sector development more broadly, both with regard to cross-cutting issues and within specific sectors. Figure 5 compares Nigeria's concerns related to financial sector development to the concerns faced by the other SBN members from IDA countries. In Nigeria, as in these other countries, the highest priorities for financial sector development are agriculture finance, climate and green finance, SME finance, financial inclusion, and fintech/digital finance. In addition, the CBN identified the oil and gas and power sectors as being critical to financial sector development.

The CBN considers sustainable finance as a tool

to alleviate poverty and contribute to sustainable development. The objective of the NSBP is to achieve economic growth that is environmentally responsible and socially relevant, including through the following strategies:

- Understanding and appropriately managing E&S risks and opportunities associated with banks' business activities and operations.
- Enhancing people's lives by protecting human rights, promoting women's economic empowerment, and increased access to finance for the unbanked segments of the population.
- Working together to develop the right governance structures, E&S management capacity, and collaborative partnership necessary to implement the NSBP.
- Measuring and reporting progress.

There is particular emphasis on financial inclusion, which is recognized as an enabler for inclusive growth. The NSBP sits alongside other initiatives, such as the

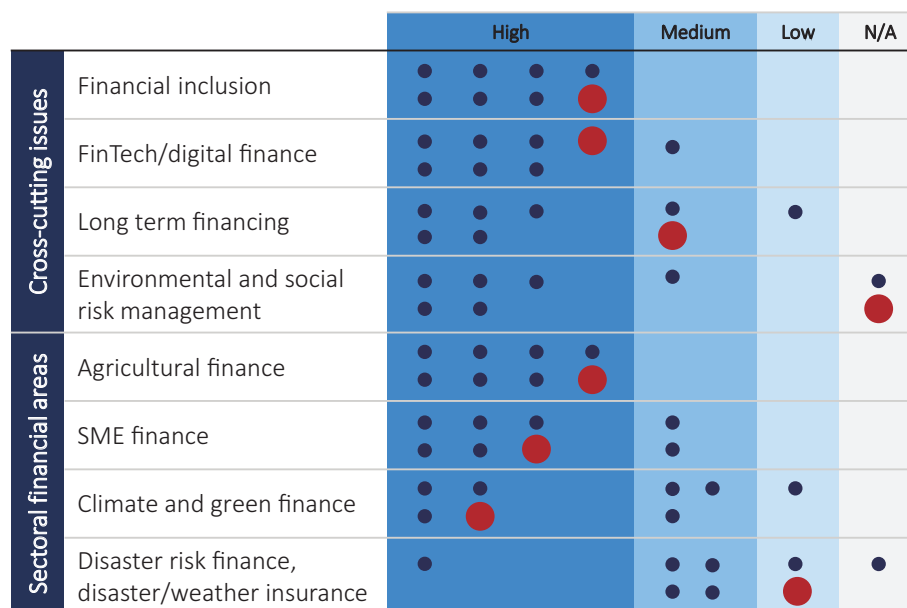
CBN's 2012 National Financial Inclusion Strategy, which aims to reduce the portion of the adult population that is financially excluded to 20 percent by 2020. The exclusion rate had dropped to 41.6 percent in 2016, from 46.3 percent in 2012³, and continues to trend downward.

Climate and green finance is also of high priority. The country launched its Green Bond Market Development Program in 2018, and in 2019 the Nigeria Stock Exchange (NSE) listed over N49 billion (\$136 million) in green bonds.⁴

Agriculture finance is also a key aspect of the sustainable finance agenda. To support sustainable and climate-resilient agriculture, the CBN has introduced the following tools:

- *Nigeria Incentive-Based Risk Sharing System for Agricultural Lending*, which aims to facilitate banks' lending to agriculture through a \$300 million risk-sharing facility that offers credit risk guarantees.
- *Anchor Borrower's Programme* develops linkages between smallholder farmers and large-scale processors, as well as support for farmers, including Revenue Index Insurance, which provides a safety net for farmers against loss in yield or revenue. From 2015 to early 2020, the program created over 250,000 direct jobs for farmers and up to 1.25 million indirect jobs.
- *Agri-Business Small and Medium Enterprises Investment Scheme*, which is a vehicle established by the Bankers' Committee and requires all Deposit Money Banks to set aside 5 percent of their annual Profit After Tax (PAT) as equity investment for SMEs in the agriculture or manufacturing sectors.
- *Energising Economies Initiative*—the Bankers' Committee has approved a pilot for long-term funding of solar minigrids at a blended concessionary rate.

Figure 5 Key areas of concern related to financial sector development for Nigeria



Notes: Large dots represent Nigeria's responses; small dots represent those of other countries.
Source: SBN IDA Diagnostic Survey responses

¹ IFC. 2016. Climate Investment Opportunity Report.

² CBI, Access Bank PLC profile (last assessed in May 2020).

³ Central Bank of Nigeria. 2017. Annual Report National Financial Inclusion Strategy Implementation.

⁴ THISDAYLive. 2020. "Intensifying Sustainable Finance."

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Access the SBN Necessary Assessment Report
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