Examining Environmental, Social, and Governance Practices in Nigeria

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Abstract

This article examines the evolution and development of environmental, social and governance (ESG) in Nigeria. In Nigeria, there is no unitary legal framework that articulates all ESG obligations that companies are required to comply with, and this is not unusual given the breadth of the ESG pillars. However, the article outlines the multilayered regulation and the multistakeholder approaches within the emerging framework. It highlights that the private sector has been identified as a significant driver of ESG but also suggests that some improvements in ESG reporting frameworks and more robust legal frameworks to discourage greenwashing would enhance ESG practice. It suggests that Nigeria must shift from isolated successes to a systemic framework to fully realize the potential of ESG practice.

Keywords: Nigeria; business; corporate; governance; social; responsibility; environment; accountability.

[A] INTRODUCTION

Nigeria is a country with a diverse multi-ethnic population of approximately 229 million people located in West Africa. (United Nations Population Fund 2024). It is one of the most populous countries in the world. It has an emerging economy and a significant impact in the African markets. It is ranked as the second biggest capital market in Africa (Imhanzenobe 2023; Martin 2023). It is also a key global energy sector country: as well as being a major oil and gas producer and a member of the Organization of Petroleum Exporting Countries (International Energy Agency 2024).

Yet, there are limited opportunities for Nigeria's young population with World Bank estimates of a poverty rate of 38.9% in 2023 and the seventh lowest human capital index in the world (World Bank 2024). Nigeria has state recognition of the duty towards environment and social development objectives enshrined within Chapter 2 of the Constitution of the Federal Republic of Nigeria 1999 (CFRN) as amended, although these are framed as "fundamental objectives and directive principles". The responsibility for these objectives can only be actualized in partnership with key economic actors, such as businesses and other stakeholders. This corresponds with recognition of the importance of the business contribution to the development sphere, in the United Nations (UN) Sustainable Development Goals (SDGs) and the African Union's Agenda 2063. This is also what prompted an earlier Bill, which attempted to mandate corporate social responsibility (CSR) in Nigeria (Okoye 2012).

Therefore, environmental, social and governance (ESG) standards in Nigeria are recognized as a key issue for development and the country is growing its regulatory instruments and policies as a result. Like many countries, Nigeria does not have a single unitary ESG framework to guide all sizes of companies, instead the country's ESG strategy can be found in some laws and regulations which recognize a duty to consider environmental, social and governance issues in the company framework and decision-making.

These include: the Central Bank of Nigeria (CBN) Sustainable Banking Principles 2012; the Nigerian Exchange Group (former Nigerian Stock Exchange) Corporate Governance Rating System (CGRS) launched in 2014; the Nigerian Exchange Group Sustainability Disclosure Guidelines 2018; the Nigerian Code of Corporate Governance (NCCG) 2018; the Nigerian Company and Allied Matters Act (CAMA) 2020, section 305(3) on environmental impact in the community; the Nigerian Security Exchange Commission (SEC) Sustainable Finance Principles 2021; the Nigerian Climate Change Act 2021; and the Nigerian Petroleum Industry Act 2021.

Nigeria is a federation of 36 states and a federal capital territory (Okechukwu & Kuna 2016), so there are other internal state regulations which may have an impact on companies' ESG policy at a subnational level, especially with large commercial states such as Lagos State (Adebisi & Ors 2015). This subnational regulation plays an important role in the ESG policy of small and medium enterprise (SME) companies.

This article outlines a detailed overview of ESG in Nigeria and proposes that the current direction appears to be one of increasing ESG regulatory instruments. However, there is a need to measure the efficacy of the multilayered regulatory approach, and the results may then drive towards an integrated systemic regulatory approach to ESG. This could be enshrined in an identifiable purposive instrument.

[B] EVOLUTION OF ESG RULES IN NIGERIA

Historically, Nigeria had a prominent role in the publicity of wider CSR issues globally because of the dominance of oil exploration and production in the economic life of the country. This publicity had specific focus on the environmental and social—including community and human rights issues. The Shell in Nigeria case study became the trigger for a rethink in how large corporations addressed social responsibility. (Boele & Ors 2001b; Edoho 2008). The embrace of sustainability reporting by these large corporations operating within Nigeria could be traced back to community concerns with human rights and environmental issues. Shell, for example, voluntarily embraced sustainability reporting with the "People, Planet and Profits" report following both the 1995 Brent Spar crisis and the 1995 Ogoni–Ken Saro Wiwa crisis (Shell 1999; Boele & Ors 2001a; Elkington 2012).

Nigeria had an early enactment of environmental laws such as the Associated Gas Re-injection Act 1979, banning gas flares subject to a fine, and the Environment Impact Assessment Act 1992 (EIA Act), requiring an environment impact assessment (EIA) for projects. There were also other laws which covered social protections for those such as employees and consumers (Udo Udoma & Belo-Osagie 2024). However, robust implementation of these laws was lacking due to issues with capacity, political will, and processes (Ogunba 2004; Frynas 2009; Afinotan 2022).

CSR and ESG as concepts are inter-related, although there is a difference in the context of the emergence of the terminology, "ESG" and the emphasis on "governance" as a distinct aspect (Gillan & Ors 2021). Globally, modern ESG terminology can be traced to the "Who Cares Wins" initiative of the UN in 2004, focused on connecting financial markets to a changing world (World Bank 2017; Golden 2023; Idowu & Ors 2023). The history of ESG regulation in Nigeria mirrors the global trends because ESG emerged from financial-sector regulation such as the CBN Sustainable Banking Principles 2012.

Viewed as the first initiative of its kind globally, the CBN Sustainable Banking Principles, launched on 24 September 2012, enjoined "banks, discount houses and development finance institutions to develop a management approach that balances the environmental and social risks identified with the opportunities to be exploited through their business activities" (Amaeshi & Ogbechie 2013). Principle 6 of the CBN Sustainable Banking Principles specifically mentions the implementation of robust ESG practices within the institution and an assessment of the ESG of clients. The guidance provided further details on implementation including assigning responsibility, developing practice, establishing audit procedures and increasing public dialogue, among others. The Sustainable Banking Finance Network (SFBN) which collates data on ESG indicators in this sector, shows significant progress on the ESG indicator for the Nigerian sector in 2024 (SFBN 2024).

In Nigeria there has been a long history of different sectoral and regulatory corporate governance codes. Marshall identified the following list of codes in 2015:

> Code of Corporate Governance for Public Companies, 2003 issued by Securities and Exchange Commission (SEC); Code of Corporate Governance for Banks Post Consolidation, 2006 issued by CBN; Code of Corporate Governance for Licensed Pension Operators, 2008 issued by Pension Commission (PENCOM); Code of Good Corporate Governance for Insurance Industry, 2009 issued by (National Insurance Commission) NAICOM; enactment of FRC Act, which among others created FRC; Code of Corporate Governance for Public Companies, 2011 issued by SEC and its recent amendment 2014 and the Code of Corporate Governance for Banks and Discounts Houses in Nigeria and Guidelines for Whistle Blowing in the Nigerian Banking Industry 2014 (Marshall 2015: 50).

The Nigerian Exchange Group also launched a corporate governance rating system (CGRS) for listed companies in 2014 (Onyema 2014) as a driver for improved practice. The CGRS was done in conjunction with the Convention on Business Integrity.

Overall, this has resulted in a landscape with multifaceted diverse governance codes. However, there have been recent attempts by the Financial Reporting Council of Nigeria (FRCN) to create an all-encompassing NCCG for various corporate entities. This includes a three-tiered corporate governance code, in 2016, which was not well received (Herbert & Durosomo 2019) and the current NCCG was unveiled in 2018, which adopts the apply-and-explain philosophy.

The landscape for large companies will therefore include the CAMA 2020, the NCCG 2018 and the SEC Code of Corporate Governance for

Public Companies 2020. The potential for ESG to act as a framework which could lead to a more streamlined approach is a theme to be exemplified by the review of regulations and the sections on implementation that follow.

[C] REGULATION OF ESG IN NIGERIA

In Nigeria, ESG as a composite framework of concepts and principles has been mostly driven by the private sector, though there are various policies and legislative instruments at both federal and state levels that prescribe rules that can be compiled to articulate the foundation of the ESG requirements for corporate or business entities. There is no unified legislation that materially addresses ESG. There are several legislative instruments at the federal and state levels that separately address persistent challenges like environmental degradation, social inequalities, and governance deficiencies, which are all subject matters that ESG seeks to encapsulate for the benefit of a myriad of stakeholders such as investors, relevant communities, society at large, international stakeholders, governments, and other organizations. The application of these legislative instruments differs depending on the subject, sector or industry involved in terms of whether they are mandatory obligations or recommendations for voluntary compliance.

Environmental pillar

Some of the key laws enacted at the federal level create obligations which have impact on the environmental issues. These are summarized below.

The Climate Change Act 2021, a landmark legislation on climate change and environmental sustainability in Nigeria, was enacted to honour and implement Nigeria's commitments to the Paris Agreement 2015 and the updated Nationally Determined Contributions made at the 26th Conference of Parties to the UN Framework Convention on Climate Change (UNFCCC) in Glasgow (COP 26) (Aluko & Oyebode 2022). The Act imposes a broad obligation on private companies or legal entities with 50 employees or more to establish measures to achieve Nigeria's annual carbon emission reduction targets and designate a climate change officer or environmental sustainability officer who will submit to the National Council on Climate Change annual reports on efforts taken by the organization in meeting self-designed carbon emission reduction and climate adaptation plans.

The Petroleum Industry Act 2021 imposes environmental protection obligations, including a requirement for licensees or lessees in the upstream and midstream sector in Nigeria to: submit an environmental management plan for projects which require EIAs to the Nigerian Upstream Petroleum Regulatory Commission or Nigerian Midstream and Downstream Petroleum Regulatory Authority, as is applicable, and further prescribes more stringent prohibition on gas flaring; the payment of a financial contribution to the environmental remediation fund; and the establishment of host communities development trust funds.

The Electricity Act 2023 provides for the continued obligation to promote the generation of electricity but also from renewable sources and, in granting licences, offers tax breaks and other incentives for the generation and consumption of energy from renewable sources.

The EIA Act 1992 was enacted to require EIAs in specific circumstances and sets out general principles, procedures, and methods for the prior consideration of the environmental impact of proposed projects that may have significant effects on the environment.

There are other guidelines and policies under the environmental pillar arising from Nigeria's international agreements and commitments which include: the 2018 revised Environmental Guidelines and Standards for the Petroleum Industry in Nigeria which outline the requirements for environmental management and pollution abatement at all stages of the petroleum production process; National Climate Change Policy for 2021–2030 detailing Nigeria's commitment and policy direction to achieving low-carbon emissions and climate resilience; Sectoral Action Plans for Nigeria's nationally determined contribution (NDC) to the UNFCCC which outline Nigeria's plan for NDC implementation, including the High Level Roadmap to guide work across government to take forward the commitments made under the Paris Agreement.

Also notably, in June 2023, Nigeria became the first African country to adopt the International Financial Reporting Standards Sustainability Disclosure Standards (IFRS Standards) (Nwachukwu 2023). The FRCN released a Roadmap Report for Adoption of IFRS Sustainability Disclosure Standards in Nigeria 2024 to guide its phased adoption of the IFRS Standards (FRCN 22 April 2024). The first phase was completed in December 2023 by the following public listed companies in Nigeria: Access Bank plc, Fidelity Bank plc, MTN Nigeria plc and Seplat Energy plc (FRCN 28 August 2024). Nigeria is currently in its second phase of voluntary adoption spanning 1 January 2024 to 31 December 2027 requiring entities to build capacity and prepare for mandatory adoption to subject themselves to the readiness test assessment.

States also have specific laws, regulations, and policies such as the Lagos State Environmental Management Protection Law 2017, Lagos State Waste Management Authority Law 2007, and Rivers State Environmental Protection Agency Law 2014, all addressing pollution control, waste management, and resource sustainability.

Sector-specific regulators, especially in the financial sector, have also introduced regulations and guidelines such as the CBN Sustainable Banking Principles 2012, Nigerian Stock Exchange Sustainability Disclosure Guidelines 2018, Securities and Exchange Commission (SEC) Green Bond Rules 2018 and Guidelines on Sustainable Financial Principles for the Nigerian Capital Market 2021 to drive and incentivize investments and businesses that align with the regulations.

Social pillar

The principles that underly the "social" pillar in Nigeria have developed, underscoring its importance beyond mere CSR to a necessity for business sustainability. Social issues such as high unemployment and poverty rates, corruption, inadequate and poor infrastructure and social amenities, insecurity, terrorism and banditry, host communities' agitation, and so on portend real risks to the sustainability of businesses and corporate entities as well as an opportunity to be involved, contribute to the development of the communities they operate in and drive innovation for the resolution of such issues.

Laws and regulations govern multiple facets of the social pillar, which includes employment and labour rights, fundamental human rights, diversity, equity, and inclusion, consumer protection, data privacy and protection, social security and welfare, community relations, and the SDGs.

The CFRN provides a solid foundation for the social pillar with provisions for the protection of traditional rights such as fundamental human rights and establishment of the courts and access to justice. The CFRN also permits the direct implementation and enforceability of international labour agreements and standards. Furthermore, the Labour Act 1971 which establishes minimum standards for wage protection, employment contracts, and working conditions; the Factories Act 2004, aimed at safeguarding the health, safety and welfare of workers in industrial environments to reduce workplace accidents; and the Employees Compensation Act 2010, which mandates compensation for employees or their dependants in cases of work-related injuries, illnesses, or fatalities, and creates the Employee Compensation Fund, financed by employer contributions, to support compensation, rehabilitation, and workplace safety programmes.

There are also other relevant statutes, such as the Federal Competition and Consumer Protection Act 2018, which prohibits anti-competitive practices and aims to ensure consumer protection, and the Nigeria Data Protection Act 2023, which addresses data privacy and protection. Recently, the intensified activism from stakeholders and civil society along with the enforcement actions of regulators have led to a greater emphasis on social factors, thereby reinforcing the social pillar within the ESG frameworks of private entities.

Governance pillar

The Governance pillar encompasses ethical leadership, accountability, and effective management practices, such as board diversity, transparency, anti-corruption measures, and adherence to regulations.

The CAMA 2020 prescribes provisions regarding company administration, along with the roles, powers, and responsibilities of directors, auditors, and other officers, establishing essential standards for accountability and transparency integral to the governance framework.

The NCCG 2018 prescribes minimum corporate governance standards for entities while sector-specific regulators have also established corporate governance guidelines such as the Corporate Governance Guidelines for Commercial, Merchant, Non-Interest and Payment Service Banks in Nigeria issued by the CBN in 2023, the SEC Corporate Governance Guidelines for Public Companies in Nigeria 2020, the National Insurance Commission Corporate Governance Guidelines for Insurance and Reinsurance Companies in Nigeria 2021 and the National Pension Commission Guidelines on Corporate Governance for Pension Fund Operators 2021.

Nigerian corporations have adopted various corporate governance best practices tailored to organizational size and industry. These include the appointment of independent directors, addressing gender diversity issues, conducting corporate governance audits and board performance assessments, term limits for directors, separation of chairperson and chief executive officer roles and providing directors' training. These measures have aligned Nigerian governance standards with global best practices while addressing local industry needs.

Companies are now required to hold themselves accountable and apply best practice even where there are no rules or regulations compelling them to, and when companies fail to do so, their customers or other stakeholders may apply punitive measures through product or service boycotts, social media backlash and reputational damage, all of which may impact the financial position of the organization significantly. Finally, investor demands and participation in transactions or arrangements that involve international organizations that require ESG reporting such as the UN Principles of Responsible Investing and the UN Global Compact also significantly influence the ESG frameworks of corporate entities operating within the Nigerian jurisdiction.

[D] CASE STUDIES

The implementation of ESG in Nigeria has been driven by sustainability reporting regulations and legislation, by the funding prescriptions of investors or financial institutions and through the adoption of ESG best practice or policies by organizations especially multinationals or corporates with international exposure. Implementation strategies therefore range from voluntary initiatives and sector-specific practices to compulsory provisions in the legislations.

Organizations in Nigeria are starting to recognize the importance of balancing sustainability with profitability and so seek to create a positive impact through their operations, which can be measured using ESG metrics.

This section examines the implementation of ESG in Nigeria and explores case studies of successful and unsuccessful ESG implementation. Some implementations will be discussed under categories of sustainability reporting and sustainability financing.

Successful ESG implementation

Sustainability reporting

Lafarge Africa PLC (Lafarge)

Lafarge demonstrates a comprehensive approach to sustainability reporting that involves critical areas such as climate and energy, circular economy, nature, people, and net-zero targets in its latest sustainability report (Lafarge 2023).

Lafarge reported that it employs a combination of industrial waste, agricultural waste, tyre chips and biomass as alternative fuels to energize some facilities, and Lafarge's Ashaka plant operates entirely on the national grid to reduce reliance on outdated, inefficient diesel generators.

Lafarge's Stakeholder Management and Communication Policy underpins its stakeholder engagement strategy. In its 2023 Sustainability Report, the company identifies stakeholders as individuals or entities that influence the company's business activities or are impacted by them (Lafarge 2023). Lafarge states that it is committed to upholding human and labour rights in its operations and business activities and, as such, actively engages with stakeholders to address or remediate any adverse consequences generated by its activities. Lafarge's CSR is focused on stakeholders within its operating communities. It includes educational initiatives that offer scholarships at the primary, secondary and tertiary levels to members of its host communities and supplies of educational materials to underprivileged students within the community; health programmes that focus on construction of health centres and provision of care to the older members of the host community; economic empowerment programmes centred on skill acquisition for local youth; and the development of infrastructure, like community halls for meetings and restoration of dilapidated buildings.

Dangote

Dangote Cement plc is a Nigerian corporate entity that has made significant pronouncements regarding its ESG practices articulating its commitment to climate change in its policy, recognizing the UNFCCC Paris Climate Change Agreement's objective to limit global warming and undertaking to mitigate the impact of its energy consumption and other CO_2 sources in its operations. In 2023, CO_2 reduction initiatives were implemented with an emphasis on thermal energy substitution, alternative fuels and raw materials, clinker substitution (CK ratio), electrical energy management, operational efficiency, and tree-planting campaigns (Dangote 2024).

Dangote Cement is also driving efforts to implement and enforce some of its commitments to the "S" aspect of the ESG. Its 2024 Sustainability Report revealed that incentives and long-service awards were provided to employees who have maintained the company values while rendering exceptional customer service.

Dangote engages in open discussion with stakeholders to assess its focus and ensure alignment with the most pressing concerns. In 2023, Dangote conducted a materiality assessment by engaging in discussions with employees, host communities, investors, and supply chain partners. The conversations mostly centred around the stakeholders' problems and their expectations from the organization. To enhance these discussions, this assessment examined the company's sustainability performance, operational processes, responsible supply chain practices, investment decisions, and stakeholder views. The survey results identified critical themes including employee welfare, responsible sourcing, infrastructure development, enhanced vendor participation, and customer privacy. As a result of the survey and subsequent stakeholder engagement, Dangote successfully integrated the identified topics into its business strategy and sustainability action plans.

The company reported in its Sustainability Report that it is dedicated to assessing its operations and the possible environmental and social repercussions of these operations on its stakeholders. The organization has recognized stakeholder participation to mitigate social incident disruptions, thereby influencing business operations. In its Sustainability Report, Dangote noted a 6% rise in community participation in 2023, rising from 763 in 2022 to 810 in 2023. This facilitated a 9% reduction in social incident disturbance. The company also recorded a 13% decrease in hours lost due to social situations. The corporation recorded a 61% decrease in the rate of grievances filed. Due to proactive grievance management strategies, 71% of reported community grievance complaints in 2023 were successfully resolved (Dangote 2024). The company has recognized its stakeholders as employees, distributors, consumers, vendors, host communities, investors, regulators, and industry peers, as these groups significantly impact its operations.

Sustainability financing

In December 2017, Nigeria became the first African nation to issue a sovereign green bond, raising NGN10.69 billion to finance projects aimed at reducing greenhouse gas emissions and fostering a low-carbon economy. This milestone aligned with Nigeria's commitments under the Paris Agreement and demonstrated a commitment to achieving the UN SDGs. The proceeds were allocated to projects in renewable energy, afforestation, and transportation, setting the stage for sustainable development.

Access Bank

Long before major financial institutions in Nigeria began to incorporate ESG into their business strategies, Access Bank had an existing framework that embedded sustainability into the fabric of its own business operations (World Finance 2024).

In May 2019, Access Bank expanded its product and service offerings with sustainable financing, with the issuance of a NGN15 billion corporate green bond designed to help investors meet environmentally sustainable investment goals and provide an avenue for customers to realize growth opportunities of developing a low-carbon economy.

In 2022, Access Bank successfully closed a second green bond issuance, to a tune of USD50 million to fund eligible green assets that align with the Climate Bonds Initiative guidelines and the Green Bond Principles of the International Markets Association (Access Bank 2024).

In the social sphere, Access Bank partnered with Nigerian social enterprise SME Funds to develop the Green Social Entrepreneurship Programme which provided households with clean energy stoves to replace the traditional cooking stoves which often posed a health risk to human health and the environment (World Finance 2024). The new stove converts waste-based biomass into biofuel.

Chapel Hill Denham

In May 2021, Chapel Hill Denham, an asset management organization, became a signatory to the UN-supported Principles of Responsible Investment (PRI), joining a global network of about 4000 signatories representing over USD100 trillion in assets under management who are committed to incorporating ESG measures into their investment decision-making and practices (Chapel Hill Denham 2021). The company joined the PRI because it represents how they invest and have operated the firm (Bolaji Balogun, quoted in Vanguard 2021).

ESG in the telecommunications sector

MTN Nigeria Communications plc (MTN)

MTN has taken steps in the implementation of ESG strategies within the telecommunications sector with the introduction of eco-friendly SIM cards in 2023. Globally, over 6 billion SIM cards are produced annually, generating 18,000 kilograms of plastic waste. These SIM cards are non-biodegradable and, when disposed of at the end of their life cycle, cannot be broken down by natural substances therefore MTN's paper-based SIMs mitigate this environmental burden. It is expected that the mobile subscriber base in Nigeria will surpass 200 million by 2025 therefore paper-based SIMs will mitigate the environmental burden the SIM cards would have caused. The biodegradable SIMs are in line with the company's Project Zero goals which seek to reduce emission and achieve net zero emissions by 2040 (Egwuatu 2024).

Unsuccessful ESG implementation

Some organizations in Nigeria have encountered challenges in implementing ESG strategies and some have fallen short of meeting their own sustainability commitments.

Coca-Cola

In December 2024, Coca-Cola announced new 2035 environmental goals, updating, and revising previous targets and, in some cases, deferring its prior sustainability commitments. Coca-Cola had earlier announced its goal to increase the use of recycled materials, a goal which has now been moved to a target of 35% to 40% by 2035, compared to its prior goal of 50% by 2030. Coca-Cola announced most of its prior packaging ambitions in 2018 as part of its "World Without Waste" initiative (Segal 2024). This included making 100% of its packaging recyclable by 2025, using at least 50% recycled content in its packaging by 2030, and to collect and recycle a bottle or can for each one sold by 2030. In 2022, it announced that it intended to have at least 25% of all its beverages globally sold in refillable and returnable glass or plastic bottles or in refillable containers. However, in its 2023 Environmental Update Report, Coca-Cola revealed that it was still on track to meet most of its environmental sustainability goals but was behind on its recycled content and collection goals. The company also lowered its collection ambition from 70%-75% by 2035, against its initial "collect and recycle a bottle or can for each one sold by 2030" (Segal 2024).

The decision by Coca-Cola to scale back on some of its voluntary environmental initiatives is a corporate-level shift, however, this move is likely to impact the environmental sustainability efforts and commitments of affiliates in Nigeria, particularly for the Nigeria Bottling Company, which holds the franchise to bottle and sell Coca-Cola beverages in the country. The impact of this decision at the global level is likely to trickle down across the local market, affecting the environmental sustainability initiatives within this market as it relates to disposable plastics or PEP bottles and cans.

Corporate governance failures in the banking sector

Corporate governance failures may have drastic consequences that extend to national economies, businesses, and the larger society, and regulatory agencies continue to exercise and assert their oversight powers to identify incidents or areas where entities they regulate have not met required governance standards.

The CBN has repeatedly had to step in from time to time to address corporate governance failures within the banking sector. In January 2024, the CBN dissolved the boards and management of Union Bank plc, Keystone Bank plc, and Polaris Bank. It was reported that the actions became necessary due to non-compliance of these banks and their respective boards with some of the provisions of the Banks and Other Financial Institutions Act 2020 (CBN 2024). The banks' infractions were reported to vary from breaching licence conditions, regulatory non-compliance, engaging in activities that threaten the financial health of the bank and corporate governance failures.

The CBN also, in June 2024, revoked the banking licence of Heritage Bank plc. This decision was allegedly made due to the bank's failure to improve its financial performance (Adaji 2024), despite several opportunities given and commitments made by its management.

There is a recurring thread of failures of corporate governance on the part of the boards and management identified in these bank failures—validating the importance of governance and ESG—ultimately resulting in critical interventions by the CBN to ensure the protection of the financial system and maintenance of public confidence.

Cadbury Nigeria plc

The Cadbury Nigeria plc scandal highlighted the damaging effects of corporate governance failures. It was reported that the financial statements released by the company were altered through stock buybacks, cost deferrals, trade loading, and fraudulent supplier stock certificates. The board and top management were also said to have exhibited a lack of transparency, and the company's corporate oversight mechanisms and systems were found to have been compromised. The auditor's performance was inadequate, as the company's accounts, which underwent regular audits, were overstated from 2002 to 2006. The profit forecasts were overly optimistic, and there was insufficient professional scepticism regarding the authenticity of the documents submitted by the company.

The incident resulted in a 68% decline in the company's share price, a financial penalty imposed on the company, and the termination of both the managing director and finance director. Additionally, there were significant layoffs at the director level, and some were prohibited from assuming directorship roles in any public company in Nigeria. The British parent company of the firm made a provision of GBP15 million for the impairment of goodwill associated with the company. The regulators imposed penalties and reprimanded the external auditor and the registrars.

Though the scandal dates to 2006, it is significant as an ESG case study for multiple governance failures in a publicly traded multinational company with the facade of a strong governance pedigree, along with governance and professional failures by its well-respected auditors.

The Oil and Gas Sector

The exploration and production of fossil fuels has had major and lasting negative impacts on the environment across the globe, including in Nigeria. There has been a recent wave of international oil companies divesting from onshore assets in Nigeria for reasons attributed to insecurity, oil theft, and entrenched hostilities in host communities, all of which ultimately contribute to the high costs and risks of continued operations (Stakeholder Democracy Network 2022). Some of these divestments appear to have been the outcome of failures in one or more of the ESG pillars.

There have also been cases where companies create a façade of ESG consciousness. The Centre for Constitutional Rights, in its article "Shell's Environmental Devastation in Nigeria" (2009) reported that despite Shell's questionable ESG record in Nigeria and elsewhere, the company continues to try to falsely portray itself as "green" in its advertising. This seemed to align with the United Kingdom's Advertising Standards Authority (ASA) finding in 2007 that Shell's environmental claims violate its advertising rules, when Friends of the Earth filed a complaint against Shell for falsely claiming that its carbon dioxide waste was used to grow flowers. The ASA condemned Shell's actions and forced it to withdraw the advertisement (Tryhorn 2007).

State-level ESG implementation

Lagos State is Nigeria's largest commercial hub. It has been instrumental in advancing ESG strategies as it serves as a benchmark for other states, owing to its economic importance and pro-active policy approach. Lagos State had issued and published a ban on styrofoam and other single-use plastics in January 2024 given that increasing polystyrene and plastic waste pollution has significantly hindered drainage systems and caused urban flooding along with other concerns including the costs of cleaning and evacuation. The ban aligned with section 18 of the National Environmental (Sanitation and Waste Control) Regulation 2009 which provides that plastic bags made from plastic films having a wall thickness of less than 80 micrometres cannot be manufactured, traded, or sold.

The ban was, however, not implemented. In October 2024, after engagement and consultation with stakeholders, Lagos State published a staged enforcement strategy and expanded the focus to include styrofoam plates, cups, straws, cutlery, and nylon bags under 40 microns. Starting in January 2025, the staged strategy aims to limit the impact of plastics pollution on urban infrastructure and public health.

Challenges and policy recommendations

The widespread adoption and implementation of ESG strategies remains in the early stages for most SMEs in Nigeria. Large businesses have the necessary awareness and have moved towards increased adoption compelled by law, the need for funding or by influential business stakeholders. As the Nigerian economy grows and appropriate legalization and regulations come into force, ESG will become a business imperative. For meaningful implementation, legislation and regulations in Nigeria providing consistent standards and guidance for measurement of ESG metrics will be useful for evaluations and investments decision-making so that businesses can be compared and assessed on the same set of criteria.

Selected policy recommendations could improve effectiveness of ESG practice in Nigeria, and this includes, firstly, establishing standardized ESG reporting guidelines that organizations are mandated to comply with when reporting on ESG. A standardized reporting framework will promote consistent disclosures, enhance transparency and enable effective monitoring and accountability. Secondly, there should be mandatory ESG impact forecasting which could mean that companies operating within sectors and industries with high environmental and social impact, such as oil and gas, manufacturing and construction, may be legally required to submit quantifiable ESG commitment plans. These plans should include specific initiatives targeting environmental protection and community preservation, a timeline and financial allocation for each initiative and independent audit to validate proposed figures. This will ensure proactive accountability and verification of ESG efforts, particularly within sectors that have higher negative impact on the communities or society that they operate in. Thirdly, there should be a legal framework to enforce ESG commitments. Nigeria could benefit from the introduction of a regulation that penalizes ESG backtracking on certain classes of activities where companies scale back on such ESG commitments without regulatory approval and prior public disclosure. This regulation would oblige companies that intend to alter or scale down their already declared ESG commitments to go through a specified procedure which will include a thorough explanation that justifies the scale-back or alteration. Such regulation will protect the integrity of ESG disclosures, discourage greenwashing and ensure that companies do not make lofty and ambitious ESG declarations for the sole purpose of branding themselves in glowing terms, thereby attracting investors and other stakeholders. Finally, the legal framework could incentivize the adoption of ESG practices by SMEs.

[E] RELEVANCE OF ESG IN NIGERIA

Global trends indicate that this is a period of significant interest in ESG, with the development of disclosure regimes, framework and regulatory instruments. Edmans points out that "now is the peak of ESG. It's front and center in the minds of executives, investors, regulators, business students, and even the public" (2023: 3). Nevertheless, the field is still developing and complex but gives a potential roadmap. This is the case in Europe (PWC (Belgium) nd) and the United States (US) (Cifrino 2023). Although the roadmap for the US has become somewhat uncertain (Engler 2024).

The global regulatory landscape is still a patchwork of disclosure regulations, environmental regulations, corporate governance codes, and self-regulatory mechanisms drawn from international standards. This aligns with the landscape in Nigeria where significant activity in this area is driven by the private sector in anticipated response to issues of investment, growth and sustainability. It also ties in with studies which show potential for "consumer satisfaction, market acceptance, lower cost of debt and the societal values it brings to its stakeholders" (Mohammad & Wasiuzzaman 2021: 1). The key issues highlighted in this section include SMEs, sector-specific challenges and the development objective.

There is a vacuum of significant data and examples of the SMEs in this space. SMEs are estimated to constitute up to 80% of Nigeria's business sector, therefore significant impact could be made with encouraging integration of ESG considerations into company practice at this level. Victor-Laniyan observes that SMEs are vital to Nigeria's economies and contribute to social equity, poverty alleviation, environmental protection and have the potential to surpass the contributions of large corporations (2023). There is also evidence that SMEs carry out indigenous ESG practices which could be captured and scaled up (Ekekwe 2021). Such indigenous ESG practice, for example community-based apprenticeship systems and entrepreneurial schemes, could address a key Nigerian social challenge of unemployment. The World Bank suggests that: "Weak job creation and entrepreneurial prospects stifle the absorption of the 3.5 million Nigerians entering the labor force every year” (2024).

The practices of the SMEs are key to addressing aspects of ESG, but the financial sustainability and the economic survival of these SME businesses themselves are uncertain (Ajibola 2020; Nwosu & Ors 2021; Victor-Laniyan 2023). This highlights the role of ESG regulation specific to SMEs in Nigeria and the role for ESG practice in the banking sector to provide inclusive finance and support to SMEs. Firstly, there is some evidence of the lack of an enabling regulatory environment and this will hamper sustained ESG practice of SMEs (Ufua & Ors 2020). A study in another emerging country, Malaysia, also suggests the need for governmental regulation to incentivize integration of ESG in company practice, especially for SMEs (Mohammad & Wasiuzzaman 2021). Secondly, regarding the banking sector, this is reflected in the emerging examples of banks, such as Access Bank in Nigeria, including strategic inclusive finance in the agricultural sector and towards young entrepreneurs (Victor-Laniyan 2023). This highlights potential that large companies’ ESG policy may help foster SMEs’ ESG practices.

There are sector-specific challenges as highlighted by the case studies above, which include the banking sector and the oil and gas sector. The banking sector also has a number of successful examples, such as the Access Bank case study, as well as the unsuccessful examples, such as Heritage Bank. This indicates some limitations for a ratings and self-regulated approach for such a vital sector. Banks are uniquely positioned to link financial development to sustainable economic growth and ensure integration of ESG practices in the framework of the banks and their customers. However, Abubakar and Gani highlight some challenges specific to the Nigerian sector from research:

> the results revealed that the credit to private, government expenditure and interest rate spread exert negative influence on growth in the long run. This might be as a result of the fact that, private credit in Nigeria is marred by high interest rate, lop-sidedness in credit allocation in favour of few sectors and the willingness of banks to commit a substantial part of their funds to financing government through the purchase of treasury bills (Abubakar & Gani 2013: 55).

Therefore, the continued integration of ESG in the banking sector will be measured by its impact on relevant stakeholders including customers and community. In 2024 the CBN embarked on another banking sector recapitalization which would have medium-term impacts for the focus of the sector especially on corporate governance and risk management (Odude 2024).

The oil and gas sector is a major sector in the Nigerian economy with heavy reliance on revenues for use at national and subnational levels. However, the oil and gas sector faces significant challenges from environmental risks including climate change and environmental pollution. The issue of remediation of the environment remains a significant challenge for the sector. There is significant need for the adoption of a specific ESG framework for this sector, and this is acknowledged by industry stakeholders (Eze 2024; Ezeoha 2024). There is also need for the inclusion of state-owned enterprises, such as the Nigerian National Petroleum Company Limited which is a key stakeholder in the sector. This was also recognized at a 2024 programme organized by the Centre for Public Sector Governance, affiliated with the Society for Corporate Governance Nigeria (Onyekwere 2024).

Finally, the development goals outlined both by the UNSDGs and the African Union Agenda 2063 can only be achieved with the public–private sector partnership and private-sector engagement, so ESG strategy can support development priorities in the Nigerian context. The Agenda 2063 objective of economic progress with a people-centred approach would benefit a strategy that embeds ESG within the framework of doing business as this would create mutual benefit and foster sustainability.

[F] CONCLUSION

The effective integration of ESG principles in Nigeria will signify a crucial step in the country's pursuit of sustainable development and accountable corporate governance. Nigeria is already emerging as a leader in ESG implementation in Africa, amidst considerable environmental challenges, socio-economic disparities, and global sustainability commitments.

Nigeria has signalled its capacity to reconcile economic growth with environmental stewardship and social equity through initiatives such as the issuance of sovereign green bonds, corporate sustainability reporting and deploying innovative financing models. These milestones indicate the potential of development of a robust ESG framework that will progressively integrate sustainability into the fundamental aspects of governance and commerce. The journey presents various challenges including regulatory inconsistencies, capacity constraints, and the current voluntary nature of numerous ESG commitments hindering progress. The examined case studies demonstrate the significant positive impact of effectively implemented ESG strategies and the consequences of failing to meet commitments, highlighting the necessity for some mandatory rules sitting side by side with voluntary commitments.

Nigeria must shift from isolated successes to achieving systemic impact to fully realize the potential of ESG. A cohesive legal framework is necessary to establish clear reporting standards, promote innovation in sustainable financing, and ensure accountability at all levels. Collaboration among stakeholders, including government, private-sector entities, and civil society, must transition from mere rhetoric to quantifiable actions. The recommendations include a standardized reporting framework, mandatory ESG impact forecasting, a legal framework to enforce ESG commitments and a legal framework to incentivize ESG practices across SMEs.

ESG initiatives should align with Nigeria's distinct socio-economic context, emphasizing inclusivity and long-term resilience rather than temporary benefits. The potential to transform governance, enhance environmental stewardship, and promote social responsibility is attainable. Through the conversion of ambition into actionable outcomes and the targeted addressing of systemic barriers, Nigeria has the potential to establish itself as a global model for ESG-driven transformation. The future requires a clear purpose, ongoing commitment, and a consistent alignment of business practices with societal advancement. Nigeria will thus safeguard its future and establish a benchmark for others in the global pursuit of sustainability.

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