

Sustainable Finance & ESG Reporting: Driving Positive Change In Markets

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Introduction

Sustainable finance refers to making investment decisions that consider the social and environmental impacts, rather than financial returns solely.

According to the World Bank, it is the process of taking due account of environmental, social, and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects. In brief, these elements can be put in proper context:

- **Environmental:** this has to do with an organization's impact on the planet e.g., greenhouse gas emission, pollution, water consumption, etc.
- **Social:** this has to do with the impact on people, including staff, customers, and the community – e.g., human rights, inequality, health & safety, etc.
- **Governance:** how an organization is governed – transparency, board independence, shareholders' rights, etc.

It refers to a set of criteria used by investors, businesses, and other stakeholders to evaluate a company's sustainability and ethical impact. These criteria are used to assess how a company performs on key environmental, social, and governance issues, which are increasingly being recognized as important factors in determining long-term financial performance and risk management. By considering ESG factors, investors seek to align their investments with their values, reduce risks associated with environmental and social issues, and promote sustainable business practices.



Sustainable Finance in Nigeria

In Nigeria, the template to evaluate the sustainable finance and ESG (Environmental, Social, and Governance) reporting standards is still being developed; however, they have gained significant traction due to increasing global and local awareness of sustainability issues. For this discourse, we start by examining ESG under the following headlines:

- a. Forecasting
- b. Investing
- c. Budgeting
- d. Savings
- e. Lending
- f. Borrowing

Sustainable Forecasting

This refers to predicting future financial outcomes while considering the impact on environmental sustainability, social equity, and corporate governance practices. This may involve forecasting the financial implications of adopting renewable energy technologies, implementing sustainable supply chain practices, or addressing social issues within the workforce.

Sustainable Investing

Allocating funds to investments that promote sustainability goals, such as renewable energy projects, eco-friendly businesses, or companies with strong ESG performance. Sustainable investing aims to generate positive financial returns while contributing to environmental protection and social progress.

Sustainable Budgeting

Planning and managing financial resources in a way that supports sustainability objectives. This can include budgeting for investments in energy efficiency, waste reduction, employee well-being programs, and other initiatives that align with sustainable development goals.

Sustainable Savings

Setting aside money in savings accounts or investment vehicles that prioritize sustainability criteria. This may involve choosing financial products offered by banks or investment firms with sustainable finance initiatives or investing in sustainable businesses and projects.

Sustainable Lending

Providing loans to individuals or organizations for projects or activities that promote environmental sustainability, social welfare, and good governance practices. Sustainable lenders may offer financing or renewable energy installations, affordable housing developments, or social enterprises tackling pressing societal issues.

Sustainable Borrowing

Obtaining loans or credit for purposes that support sustainability objectives. Borrowers may seek financing to invest in energy-efficient upgrades for their homes or businesses, support sustainable agriculture practices, or fund social impact initiatives.

By integrating sustainability considerations into these financial activities, individuals, businesses, and financial institutions can contribute to the transition to a more sustainable and equitable economy. This approach supports environmental and social goals and helps to manage long-term financial risks and opportunities in a rapidly changing world.



Overall, the tonic for sustainable finance in Nigeria was the introduction of green bonds. The Nigerian Exchange Limited (NGX) has played a crucial role in this development by launching the Green Bond Market Development Programme. This initiative was instrumental in the issuance of Nigeria's inaugural sovereign green bond in 2017, worth N10.69 billion (approximately \$26 million) by the Federal Government of Nigeria. This bond aimed to fund renewable energy projects and afforestation, setting a benchmark for subsequent green bond issuances in the country. Other significant issuances, including green bonds by Access Bank Plc and North-South Power Company, followed this, further solidifying the market's growth.

In addition to green bonds, Nigeria has also explored other sustainable finance instruments such as social bonds, which target social development projects. The Nigerian Sustainable Finance Principles (NSFP), developed by the Financial Services Regulation Coordinating Committee, guide financial institutions in aligning their operations with sustainability goals. These principles emphasize the roles of various stakeholders in fostering economic prosperity, environmental sustainability, and social development.

Reporting Standards and Initiatives

Global Reporting Initiative (GRI)

- Many Nigerian companies adopt the GRI standards for their ESG reporting. GRI provides a global framework for comprehensive sustainability reporting, covering significant ESG aspects such as climate impact, human rights, governance, and social well-being.

Sustainability Disclosure Guidelines

- The Nigerian Stock Exchange (NGX) issued these guidelines to help listed companies integrate sustainability into their reporting processes. These guidelines encourage companies to disclose their impact on the economy, environment, and society.

Principles for Responsible Investment (PRI)

- Although not a regulatory requirement, some Nigerian financial institutions have started aligning with the PRI, which encourages investors to use responsible investment to enhance returns and better manage risks.

Challenges & Opportunities

Challenges

- **Awareness and Expertise:** There is still a significant gap in the understanding and expertise required to implement effective ESG practices and reporting.
- **Data Availability:** Reliable data collection and verification systems are lacking, and can hinder accurate and transparent reporting.
- **Integration into Core Business Strategies:** Many companies view ESG reporting as a peripheral activity rather than integrating it into their core business strategies.

Opportunities

- **Capacity Building:** Increasing investment in training and development can improve ESG expertise among professionals.
- **Technology Utilization:** Leveraging new technologies can help collect and analyze ESG data more effectively.
- **Policy Development:** There is room for more robust policies and incentives to promote sustainable practices and reporting.

How can I Start Reporting on ESG?

- **Identify stakeholders, and build your team**

Once you have determined the internal and external stakeholders interested in reading your ESG reports, it's time to tap into your company network. You will need a team of self-motivated good learners to start your ESG program. Build a diverse, cross-functional team with expertise in different areas.

- **Research industry leaders' ESG reports**

Download peers' ESG reports to determine what data they're disclosing and which frameworks they use. Based on this research, engage stakeholders to brainstorm which metrics are important to your organization, identify what data you're already collecting, and determine the data you still need.

- **Build your ESG roadmap**

Engage stakeholders to refine the metrics and values that matter to your organization. Then map the journey to achieving your goals for ESG reporting and ESG performance overall.

- **Reporting data you can trust**

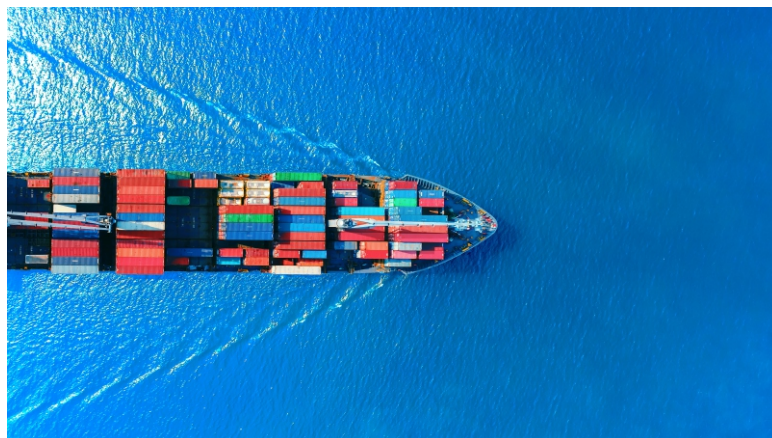
Remember, you are sharing your ESG data with critical stakeholders. Report data you can trust and ensure your story is consistent, verifiable, and the same, every time.

The International Sustainability Standards Board (ISSB)

The International Sustainability Standards Board (ISSB) announced new global sustainability and climate disclosure standards, expected to form the basis for emerging sustainability reporting requirements by global regulators, and marking a major step towards the integration of sustainability reporting into the broader financial reporting process. The new standards include "IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information," and "IFRS S2 Climate-related Disclosures." The core content of each standard includes disclosures relating to general sustainability and climate-specific risks and opportunities, respectively, including Governance, or the processes, controls, and procedures used to monitor and manage those risks and opportunities; Strategy or the approach used to manage the risks and opportunities. Integrating ESG considerations into corporate strategy involves embedding sustainability principles into business operations, risk management, and performance measurement. This holistic approach fosters long-term value creation and resilience in a rapidly changing global landscape.

Conclusion

As global interest in sustainable finance grows, Nigerian entities are increasingly encouraged to adopt international best practices in ESG reporting. Progress in regulatory frameworks and standards will enhance transparency and accountability, and position Nigerian businesses favorably in the global market. Building a sustainable financial system in Nigeria will require ongoing collaboration between the government, regulatory bodies, and stakeholders involved.



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