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MPROVING CORPORATE SUSTAINABILITY: THE DEVELOPMENT, SIGNIFICANCE, AND PROSPECTS OF NIGERIA'S ESG REPORTING SYSTEM.[1]

1. INTRODUCTION

In recent times, Environmental, Social, and Governance (ESG) has evolved as an important index in examining a company's sustainability and moral standards. In an effort to incorporate environmental, social, and corporate governance considerations into the plans and operations of businesses in the financial sector, the United Nations and major financial institutions launched an initiative that gave rise to the term "ESG." ESG considerations are now relevant to all business sectors and industries and have progressed beyond finance.[2] Nigeria, as a developing country with a growing economy, has also realized the value of ESG reporting in luring capital, encouraging ethical business conduct, and tackling urgent social and environmental concerns. This realization has birthed various efforts to promote ESG reporting in the country.

Against the foregoing background, this piece considers the evolution, impacts, prospects, and challenges of ESG reporting within Nigeria; makes recommendations for charting a way forward in this regard.

2. CONCEPTUAL CLARIFICATIONS OF KEYWORDS

2.1 Environmental

The environmental (E) pillar focuses on a company's environmental impact. It provides indicators for mitigating climate change, conserving resources, waste management, and carbon emissions.[3]For businesses that only engage in office-

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2 Adeolu Idowu, et al. 'The ABC of ESG' (Aluko & Oyebode June 2023 Publication) p. 4.
3 Kaarle Parikka, (Blog Article) 'Unlocking the Power of ESG Reporting: A Comprehensive Overview' <https://blog.falcony.io/en/unlocking-the-power-of-esg-reporting> accessed 6th September 2023.

based operations, the environmental pillar might concentrate on how effectively the company uses power sources, plastics, paper, and other single-use goods, manages and disposes of electronic battery waste, etc.[4]

2.2 Social

The Social (S) pillar considers how a business affects society. It includes workplace policies (remuneration, hiring, promotion), human rights, inclusion and diversity, corporate social responsibility within the host community, and product safety.[5]

2.3 Governance

The governance (G) pillar assesses a company's internal controls and governance, risk management methods, board make-up and diversity, CEO compensation, shareholder rights, etc.[6]

2.4 ESG Reporting

This is the practice by which businesses disclose their environmental, social, and governance initiatives data. Another name for ESG reporting is Sustainability reporting. Its goal is to increase investor transparency, draw attention to a company's ESG initiatives, and encourage other organizations to follow suit.[7]

3. EVOLUTION OF ESG REPORTING IN NIGERIA

The emergence of ESG reporting in the business community, with reference to the oil and gas and financial sectors considering their significant contributions to the economic development of a country, has become a global trend that has been receiving recognition from the appropriate stakeholders. Nigeria is no exception to this trend. The Nigeria Securities and Exchange Commission, the Central Bank of Nigeria, the Association of National Accountants of Nigeria (ANAN), the Banks Committee, the Institute of Chartered Accountants of Nigeria (ICAN), and numerous labor and trade unions have all contributed to the evolution of the ESG reporting framework in Nigeria.[8]

Early in the new millennium, international pressures and corporate demands for more open and sustainable business practices sparked Nigeria's entry into her ESG reporting era. In 2012, the Nigerian Stock Exchange (NSE) market played a crucial

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4 Adeolu Idowu, et al op. cit., n. 2.
5 Kaarle Parikka, op. cit., n. 3.
6 Ibid.
7 Fabrizio Tocchini and Grazia Cafagna 'The ABC's of ESG Reporting: What are ESG and Sustainability Reports, Why are they important, and what do CFO's need to know' <https://www.wolterskluwer.com/en/expert-insights/the-abcs-of-esg-reporting> accessed 6th September, 2023.
8 Aminu Abdullahi and Umar Makama, 'Sustainability Reporting in Nigeria' Al-Hikmah *Journal of Arts and Social Sciences Education,* Vol. 3 No. 1 June 2021.

part when the corporate governance rating system (CGRS), which includes ESG indicators, was introduced.

Furthermore, the Nigerian Securities and Exchange Commission (SEC) formalized ESG reporting in 2018 by introducing the Nigerian Code of Corporate Governance (NCCG). This code mandated listed companies to include sustainability reports in their annual reports focusing on ESG performance.[9]

Nigeria has also embraced international ESG reporting standards, including the Sustainable Development Goals (SDGs) and the Global Reporting Initiative (GRI). Due to this congruence, the national reporting system was able to incorporate worldwide best practices. For example, in 2008, one of the banks with worldwide authorization launched a fully operational sustainability function and implemented employee volunteering across the board. This was the beginning of the banking industry's journey toward sustainability.[10]

Other recent regulations touching on sustainability reporting in Nigeria include the National Climate Change Policy (2021–2030), the Sectorial Action Plans for Nigeria's NDC to UNFCCC, the Revised Environmental Guidelines and Standards for the Petroleum Industry in Nigeria ("EGASPIN") 2018, National Action Plan on Gender and Climate Change for Nigeria, and Nigeria's Adaptation Communication to the Paris Agreement.[11]

4. IMPACTS OF ESG REPORTING IN NIGERIA

4.1 Attraction of Foreign Investment

With the youngest and fastest-growing population in Africa, Nigeria has the largest economy and is a great destination to invest.[12] Nigeria is now more appealing to foreign investors who value ethical and sustainable investments due to its acceptance of ESG reporting. It has also made it easier for Nigerian businesses to raise money by facilitating access to global capital markets.

4.2 Ensures Transparency and Accountability

ESG reporting enables businesses to share their ESG performance and progress transparently, assisting key stakeholders and the public in making well-informed

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9 SEC Corporate Governance Guideline and Revised Form 1 <https://sec.gov.ng/sec-corporate-governance-guideline-and-revised-form-01/> accessed 6th September, 2023.

10 Aminu Abdullahi, Umar Makama, supra n.8.

11 Dayo Adu, et al., 'Environmental, Social, & Governance Law Nigeria 2023' <https://iclg.com/practice-areas/environmental-social-and-governance-law/nigeria> Accessed 7th September 2023.

12 Congressional Research Service, 'Nigeria: 'Current Issues and U.S. Policy' (September 18, 2020)' <https://fas.org/sgp/crs/row/ RL33964.pdf> accessed 6th September, 2023.

decisions based on ESG concerns.[13] Even where there are no mandatory regulations to ensure effective sustainability reports, voluntary disclosure by companies of their ESG commitments initiatives improves their reputation of transparency.

4.3 Promotes Communication and Engagements with Stakeholders

ESG reporting helps to facilitate engagement with interested parties by being honest about the sustainability activities the company is pursuing. The effectiveness of the company's sustainability plan may be increased due to this two-way communication. It may also result in fresh chances for collaborations and partnerships.[14]

4.4 Fosters ESG Practices

Companies are becoming more conscious of their social and environmental responsibilities and are taking steps to reduce the negative impact of their activities on the environment, improve working conditions, and positively impact their communities. These activities have spurred firms to embrace more sustainable practices.

5. CHALLENGES AND THE FUTURE OF ESG REPORTING IN NIGERIA.

As mentioned earlier, ESG/Sustainability reporting has gained substantial importance worldwide as businesses strive to incorporate sustainability and ethical practices into their operations. This practice has also gradually gained ground in Nigeria through its reflection in various regulations, thus affirming the country's commitment and readiness to promote its application among business communities in Nigeria to benefit from its potential. Although there are regulations mandating ESG reporting from companies, the trend is that companies either choose to report on their ESG initiatives or decide otherwise, escaping punishments. Therefore, some of the challenges of ESG Reporting in Nigeria, as discovered, are discussed below:

5.1 Multiplicity of Regulations

This problem is not associated with Nigeria alone but is common with other jurisdictions. The fact that regulations mandating sustainability reports are duplicated across various enactments and not in a single comprehensive law poses challenges to companies, as they may not find it easy to completely comply with these laws, thus leading to low turnout in reporting.

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[13] EVORA 'Enhancing Transparency and Accountability: The Importance of ESG Reporting' https://www.gresb.com/nl-en/enhancing-transparency-and-accountability-the-importance-of-esg-reporting/#accessed 7th September 2023.

[14] Dean Emerick, 'How Sustainability Reports Increase Transparency' (Blog Article) <https://www.esgthereport.com/sustainability-reports-how-to-reduce-environmental-impact-and-increase-corporate-transparency/#3-reducing-business-risks-and-costs> accessed 7th September, 2023.

5.2 Regulatory Enforcement

While regulations exist, there is room for improvement in enforcement. Nigeria is particularly known for having a plethora of laws (many times over the same subject), but the level of enforcement of these laws is not in tandem with the abundance of regulatory provisions. Various regulations on ESG reporting in Nigeria were identified earlier in this work. Despite these laws, companies still escape penalties for non-compliance.

5.3 Data Quality and Availability

One of the ongoing challenges in Nigeria's ESG reporting framework is the quality and availability of data. Reliable and standardized data is critical for meaningful reporting. Many companies, especially smaller ones, struggle to collect and report accurate ESG data due to limitations in resources and expertise. For Nigerian companies to improve in this regard, they might need to employ the services of experts in data analysis.

5.4 Corruption and Ethical Concerns

Corruption has long been a problem in Nigeria. This phenomenon presents a significant problem for ESG reporting since businesses can be reluctant to disclose their full environmental and social impact out of concern for their reputations and legal standing. ESG reports lose credibility as a result of this lack of openness.

5.5 Lack of Adequate Awareness

The lack of knowledge and comprehension of ESG concepts among Nigerian companies, investors, and the public is one of the country's biggest problems. The implementation of ESG reporting is hampered by the fact that many stakeholders in Nigeria are not completely aware of its significance.

The foregoing, amongst several other issues, has, in recent times, posed serious challenges to a viable ESG reporting regime in Nigeria. It is, therefore, of immense importance that the government, businesses, and stakeholders make concerted efforts beyond the enactment of laws to ensure that these challenges are addressed for the improvement of corporate sustainability reporting

6. CONCLUSION AND RECOMMENDATIONS

This paper has briefly discussed the evolution, impacts, challenges, and future of ESG reporting in Nigeria, clearly showing that the practice has a lot of merits if effectively adopted among business communities. Given the challenges and everything discussed in this work, the following recommendations are indicated:

6.1 Efforts should be made to increase the awareness of ESG Reporting and its benefits in the country.

6.2 Investment should be made in capacity building through training and education on ESG reporting.

6.3 Regulatory agencies should do more in terms of enforcement of ESG reporting regulations.

6.4 Nigeria should keep its ESG reporting aligned with international sustainability programs like the SDGs. This alignment can provide a roadmap for addressing key environmental and social challenges.

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