SUSTAINABILITY REPORTING IN NIGERIA: FREQUENTLY ASKED QUESTIONS

At the 2022 United Nations Climate Change Conference (COP 27), the Financial Reporting Council of Nigeria announced that it would move to adopt the International Sustainability Standards Board (ISSB) IFRS Sustainability Disclosure Standards in Nigeria when they are issued in 2023.

Consequently, on the 7th of June, 2023 the Federal Government of Nigeria declared that all companies involved in the Climate Change Fight will begin disclosure of financial accounts starting from January 1, 2024,[1] in line with the International Sustainability Standards Board (ISSB) to promote transparency and accountability of financial information to investors.

With the statement of the Federal Government, sustainability reporting in Nigeria is projected for an all-time increase. This brings to the forefront the importance of a mindset shift and an increased consideration of ESG-related matters across business operations and investment decisions of organisations and stakeholders.

This article provides answers to the frequently asked questions on sustainability reporting in Nigeria.

Q What is Sustainability reporting?

Sustainability reporting is the annual public disclosure and communication of a company's environmental, social and governance (ESG) goals, the company's progress towards attaining them and the impact on their business. It requires companies to disclose the risks and opportunities that their operations are exposed to across the ESG spectrum and their commitments towards sustainability. Sustainability reporting involves setting key metrics for measuring, tracking and reporting on a company's response to sustainability issues.

Q Is there an advantage to reporting on a company's sustainability efforts?

Yes, there are.

Sustainability reporting provides stakeholders such as investors, government regulators, customers, employees and the general public with transparent and accurate information about the company's sustainability practices and performance.

By reporting on sustainability, organisations can demonstrate their commitment to boosting their company culture, enhancing employee engagement and retention, managing risks, attracting sustainability-conscious investors, and driving positive change and innovations within their operations and value chains.

Sustainability reporting also serves as a readily available and easily accessible guide to a wide range of mapped stakeholders of a company, internal or external, who factor sustainability-related metrics in making investment decisions.

[1] https://punchng.com/companies-to-begin-sustainability-reporting-2024-fg (last accessed on 13th June, 2023)

Q What are the globally accepted sustainability disclosure frameworks and standards?

Sustainability frameworks and standards guide companies on how to report on the relationship between their business operations, the environment and society. While sustainability reporting standards are comprehensive and specific guidelines established upon the principles set by frameworks, sustainability reporting frameworks are a set of guidelines or structured approaches which provide organisations with a framework to measure, manage and report on sustainability issues relevant to their business operations.

In comparison to sustainability frameworks, sustainability standards provide precise requirements, benchmarks and indicators that organisations should employ when reporting on their sustainability performance.

Organisations employ several globally recognised and widely implemented sustainability disclosure frameworks and standards to guide their sustainability reporting process. Some of which are:

- Global Reporting Initiative (GRI): GRI offers a universal and complete set of general reporting guidelines for economic, environmental, and social impacts applicable to all organizations, as well as subject-specific standards tailored to specific industries. The GRI standards provide detailed guidance on materiality, stakeholder participation, and reporting principles.
- Sustainability Accounting Standards Board (SASB): SASB focuses on industry-specific disclosure requirements. It establishes rules for reporting financial and material sustainability information across multiple industries, assisting businesses in identifying and reporting on the most pressing sustainability concerns in their industry.
- Task Force on Climate-related Financial Disclosures (TCFD): The TCFD makes reporting recommendations on climate-related risks and opportunities. It encourages organisations to publish information on governance, strategy, risk management, and climate change indicators and targets.
- Carbon Disclosure Project (CDP): CDP is a global environmental disclosure platform that assists businesses and municipalities in measuring and disclosing their environmental impacts. It focuses on carbon emissions, climate change initiatives, water utilisation, and the risks of deforestation.
- Integrated Reporting Framework (IR): The IR framework was designed by the International Integrated Reporting Council (IIRC), which encourages organisations to present an integrated perspective of their financial performance as well as its social, environmental, and governance context.
- United Nations Sustainable Development Goals (UN SDGs): The UN SDGs provide a global framework for sustainable development. Organisations usually align their sustainability reporting, corporate social responsibility initiatives and overall corporate goals with the UN SDGs to demonstrate their contributions towards achieving these goals.

It is important to note that organisations often choose one or a combination of these frameworks and standards depending on their specific reporting needs, industry sector, geographical location, stakeholder expectations and sustainability priorities.

Q What is the most utilised framework and standard in Nigeria?

The Global Reporting Initiative (GRI) framework is extensively utilised and recognised as the most frequently used sustainability reporting methodology in Nigeria and globally. An example of the widespread adoption of this framework is its recommendation by the Nigerian Exchange Group (NGX) as the preferred sustainability reporting framework for listed companies.

However, with the move of the Financial Reporting Council of Nigeria to adopt the International Sustainability Standards Board (ISSB) IFRS Sustainability Disclosure Standards in Nigeria when they are issued, this reporting standard is expected to gain more traction.

Nonetheless, alternative forms of sustainability frameworks and standards, such as the Sustainable Development Goals (SDGs) and the United Nations Global Compact, are also gaining prominence in Nigeria.

Q Are there existing sustainability reporting obligations in Nigeria?

There are existing and specific regulations which encourage sustainability reporting and disclosure.

Some of these are:

- The Climate Change Act 2021: The Act mandates sustainability reporting for companies with more than 50 employees.
- Nigerian Sustainable Banking Principles: The Central Bank of Nigeria (CBN) has introduced the Nigerian Sustainable Banking Principles, which encourage banks, discount houses and development finance institutions to incorporate sustainability practices into their operations.

- Nigerian Stock Exchange(NES) Sustainability Disclosure Guidelines 2018: The Nigerian Exchange Group has issued sustainability disclosure guidelines for listed companies. While not mandatory, these guidelines encourage listed companies to integrate sustainability reporting into their annual reports and disclose relevant environmental, social, and governance (ESG) information.

- The Nigerian Code of Corporate Governance issued by the Financial Reporting Council in 2018 requires adequate attention to sustainability issues.

- The Companies and Allied Matters Act, 2020 also imposes an environmental obligation on the directors of incorporated companies in Nigeria.

Q
What are the recent trends in terms of reporting in Nigeria?

Sustainability reporting in Nigeria has been gaining momentum, with several trends and developments observed in recent years. Here are some of the notable trends:

- Stakeholder engagement and materiality: Organisations in Nigeria are increasingly collaborating with stakeholders to identify and prioritise material sustainability challenges. This trend entails actively soliciting input from stakeholders including employees, customers, communities, and investors to understand their issues and expectations about sustainability performance. This strategy assists businesses in focusing their reporting on the problems that are most important to their stakeholders.

- Increased adoption of sustainability reporting: More Nigerian companies, particularly those in the banking, energy, and manufacturing sectors, are recognising the importance of sustainability reporting. There has been a gradual increase in the number of organisations voluntarily adopting sustainability reporting frameworks to disclose their ESG performance.

- Integration of the UN SDGs and adoption by Nigerian organisations.

- Non-financial reporting frameworks: Companies in Nigeria are increasingly recognising the need for non-financial reporting in addition to financial reporting. Non-financial reporting involves reporting on ESG considerations and other non-financial components that reflect their commitment to sustainable business practices.

Q
Do the United Nations' Sustainability Development Goals play a role in sustainability reporting?

Yes, they do. The UN SDGs are a set of 17 goals established to address global social, environmental, and economic challenges by 2030. They provide a framework for sustainable development and serve as a common language and reference point for organisations worldwide.

Organisations can identify which specific SDGs are most relevant to their operations, products, or services. They can assess the positive and negative impacts of these goals on their businesses and prioritise the SDGs that are most aligned with their sustainability strategy.

Organisations can align their key performance indicators (KPIs) and metrics with the SDGs, providing a clear and consistent way to track and communicate their sustainability performance.

Q
What internal policies can corporate leaders set within their organisations to drive ESG practices?

Corporate leaders can establish several internal policies within their organisations to drive Environmental, Social, and Governance (ESG) practices. These policies can help integrate sustainable business operations throughout the organisation. Here are some examples:

- ESG Policy Statement: Corporate leaders can develop a clear and comprehensive ESG policy statement that outlines the organisation's ESG goals, principles, values and commitment to sustainable practices.

- Sustainability Reporting Policy: Establishing a policy that mandates regular sustainability reporting, defines reporting requirements, specifies reporting frameworks or standards to be used, and establishes internal procedures for collecting, analysing, and disclosing ESG data can help drive ESG practices.

- Employee Engagement and Training: Corporate leaders can prioritise employee engagement programs, workshops, and other capacity-building activities on sustainability, responsible business practices, and the organisation's ESG goal. This will promote awareness and understanding of ESG issues.

- Performance Incentives: Linking employee incentives and performance evaluations to attaining sustainability goals can foster a culture of sustainability within the organisation. Rewarding employees for meeting ESG targets and demonstrating responsible behaviours can help drive engagement and commitment.

- Continuous Improvement and Review: Establishing a culture of continuous improvement and regular review of ESG policies is essential. Corporate leaders should periodically assess the effectiveness of existing policies, identify areas for improvement, and adapt their approach to evolving ESG challenges and stakeholder expectations.

Q What are the likely implications of failure to report on your company's sustainability efforts?

Failure to report on a company's sustainability efforts can have several implications, both internally and externally. Here are some likely consequences:

- It may create a perception of lack of transparency and hinder the organisation's credibility.
- Failure to report on sustainability efforts can lead to reputational damage, as stakeholders may perceive the organisation as indifferent or non-compliant with responsible business practices. This can result in negative media coverage, public scrutiny, and loss of trust.
- Loss of competitive advantage.
- Exposure to regulatory and legal risks, given the proposed mandatory reporting obligations.
- Organisations may miss out on opportunities to identify and address ESG risks, improve operational efficiency, enhance stakeholder relationships, and drive innovation.

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Q How can the use of sustainability reporting promote business growth?

Sustainability reporting shows a company's commitment to responsible business practices and environmental and social stewardship. By reporting on sustainability, a company's reputation and brand value are enhanced, customers who prioritise sustainability and ethical considerations are attracted and an eventual increase in market share, and revenue growth occurs.

Sustainability reporting allows organisations to showcase their ESG performance, goals, and achievements, positioning them as leaders in sustainability. This puts them in a position to attract investment and secure capital from investors who prioritise sustainable investments. This access to capital can fuel business growth, support expansion plans, and promote investments in innovation and sustainability initiatives.

Sustainability reporting has the potential to stimulate innovative ways of doing business, and the creation of novel products, services, and models of business. Companies can explore new markets, solve demand ratios, and capitalise on changing consumer preferences.

CONCLUSION

Prior to the Climate Change Act 2021 and the statement release, sustainability reporting was generally voluntary in the Nigerian corporate ecosystem. In this era, inclusive of the period after the enactment of the Climate Change Act, the trend among reporting companies was the merger of the company's annual report and sustainability report into one single published document.

However, with Nigeria's goal of net-zero emissions by 2060, the enactment of the Climate Change Act and the most recent statement release, there is a projected shift, backed by regulation, from voluntary to mandatory sustainability reporting.

In summary, sustainability reporting is no longer a choice but a necessity for organisations striving for long-term success.

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