



ESG

Regulatory Framework
In Nigeria

Introduction

As global focus intensifies on sustainable and ethical business practices, Environmental, Social, and Governance (ESG) compliance has become a critical issue for companies not only across the globe but particularly Nigeria.

In Nigeria, regulatory requirements, investor appeal, and other stakeholder interest are aligning to make ESG compliance a non-negotiable component of doing business in Nigeria.

While ESG at the moment is by no stretch of imagination fully rooted in the Nigerian Corporate culture, it is clearly very much making the leap towards its. Companies can no longer afford to treat ESG as a public relations issue. Companies now tend to give it due consideration in the context of risk management, regulatory compliance, and long-term profitability.

In this article, we examine the legal landscape, regulatory drivers, and risk of non-compliance with ESG requirements in Nigeria.

Understanding ESG

ESG is an acronym which stands for Environmental Social and Governance. It was conceived in the 2004 World Bank report titled "Who Cares Who wins"¹.

The report is the outcome of a joint initiative of financial institutions invited by then United Nation's Secretary General Kofi Annan to develop guidelines and



recommendations on how to better integrate environmental, social and corporate governance issues in asset management, securities brokerage services and associated research functions².

Since 2004 ESG has evolved beyond the financial sector into all economic sectors.

Projects and businesses are increasingly being evaluated using ESG as a tool for sustainable development, corporate accountability, and ethical impact.

As earlier alluded to the **"E" in ESG** stands for Environmental. It's focus is on how a company's activities impacts climate change, its carbon foot print, its responsible use and or management of natural resources. And water conservation. It involves without limitation compliance with environmental regulations, management of gas flaring and oil spills by oil & gas companies, proper waste and water management practices in industries, increased adoption of renewable energy, amongst other sustainable practices.

In addition, the **"S" in ESG** stands for Social which relates to how companies interact with their employees, communities, acts demonstrating corporate social responsibilities probably occasioned by a series of community engagement, as well as other social practices such as diversity equity and inclusion.

Lastly the **"G" in Governance** refers to a company's internal operations with regards to the promotion of principles of accountability, ethics, and transparency. This is often demonstrated by the board composition, policies and compliance with extant corporate governance codes.

Adoption of ESG in Nigeria

From just being the result of a joint initiative of financial institutions and the United Nation, the adoption of ESG has evolved beyond the financial sector to a wide range of sectors. It has evolved beyond being a largely private sector driven initiative to one that continues to enjoy statutory support across a wide range of sectors.

In Nigeria the adoption of ESG is promoted mainly by several statutes, regulatory guidelines, and government bodies. Below is an overview of some of these statutes , regulatory guidelines and government agencies driving ESG adoption in Nigeria:

1. Central Bank of Nigeria (CBN):

The CBN has embedded ESG in Nigeria's financial sector by introducing the Nigerian Sustainable Banking Principles (NSBP) in 2012. These principles require banks and other financial institutions to integrate environmental and social considerations into their risk assessment, credit decisions, and investment portfolios³.

Banks are expected to mitigate negative environmental impacts, promote gender inclusion, and support community development as part of their operational ethos.

In addition, CBN has aligned itself with global ESG initiatives such as the Network for Greening the Financial System (NGFS) and the Taskforce on Nature-related Financial Disclosures (TNFD)⁴.

2. Climate Change Act 2021:

This Act regulates and creates primary obligations for the government, government agencies, private entities within Nigeria on the development and implementation of mechanisms aimed at promoting a low carbon emission, environmentally sustainable and climate resilient society.



3. Companies and Allied Matters Act (CAMA) 2020:

CAMA 2020 enhances ESG governance through legal mandates that require board accountability and duty to act in good faith for the success of the company, including ensuring their Company has regard for the environment, employees and communities in which they operate⁵.

The Act mandates disclosure of beneficial ownership⁶, strengthen transparency and anti-corruption, allow virtual Annual General Meetings and digital filing to foster inclusive governance and reduce administrative barriers.

4. Constitution of the Federal Republic of Nigeria of the Federal Republic of Nigeria 1999 (As Amended):

This is the source of all laws in Nigeria and by extension all laws derive their validity from it particularly with regards to the legal, social, economic and political affairs of the country.

5. Environmental Impact Assessment Act, 1992 ("EIA") -

The EIA sets out the general principles, procedure and methods to enable the prior consideration of environmental impact assessment on certain public or private projects.

6. Financial Reporting Council of Nigeria (FRCN):

FRCN sets the tone for ESG through overseeing observance of the Nigerian Code of Corporate Governance (NCCG)⁷ by respective organizations Principle 26 of the NCCG specifically mandates the Board of each organization to integrate ESG values into their governance systems for long-term success.

FRCN is also driving ESG in Nigeria by adopting the IFRS S1 and S2 sustainability disclosure standards, with mandatory reporting for public interest entities by 2028 and Small and Medium sized Enterprises by 2030⁸.

7. National Environmental Standards and Regulations Enforcement Agency (NESREA):

As Nigeria's environmental watchdog, NESREA plays a crucial role in promoting the environmental dimension of ESG.

The agency enforces compliance with national environmental laws and international conventions, particularly by mandating Environmental Impact Assessments (EIAs) for industrial projects⁹ and monitoring compliance with emission limits, waste management protocols, and hazardous substance control.

By issuing sector-specific regulations and conducting environmental audits, NESREA ensures businesses align with Nigeria's sustainability and ecological preservation goals¹⁰.

8. Nigeria Exchange Group sustainability disclosure guidelines 2018

The Guidelines contain provisions for sustainability reporting and disclosure by companies listed on the Nigerian Exchange which encompasses economic, environmental, social and governance factors.

9. Petroleum Industry Act, 2021 ("PIA")-

The PIA provides for the legal, governance, regulatory and fiscal framework for the Petroleum Industry in Nigeria.

The PIA contains provisions on ESG such as Sections 234- 257 on host communities' development, Section 261 on the charge of hydrocarbon tax and many other provisions that fall under the ESG preview

10. Securities and Exchange Commission (SEC):

The SEC promotes ESG through its 2021 Guidelines on Sustainable Financial Principles, which require publicly listed companies to Integrate social inclusion, community development, and fair labour practices in operations, disclose sustainability-related information such as board diversity, ethics, and risk management in annual reports, emphasize transparency, ethical conduct, and accountability in corporate governance structures.



These efforts embed ESG into capital market practices, enabling investors to assess the long-term sustainability of businesses.

These provisions promote responsible business conduct, ethical leadership, and stakeholder trust.

Effect of Non ESG Compliance in Nigeria

As ESG standards gain traction globally and locally, Nigerian businesses that fail to adapt face serious consequences, below are some risks of ESG non-compliance:

1. Exposure to Lawsuits:

Companies that ignore ESG responsibilities often expose themselves to lawsuits, resulting in huge financial implications. A notable example is Shell, which paid £111 million in compensation to the Ejama-Ebubu community in Rivers State after years of legal dispute over oil spills¹¹. Similarly, residents of Ogale and Bille communities have sued Shell in London High Court for long-term environmental pollution.¹²

Failure to comply with ESG standards can lead to devastating legal and financial consequences, making it critical that companies seek expert legal guidance to navigate ESG obligations and avoid similar liabilities.

2. Loss of Investor Confidence:

Modern investors prioritize ESG-conscious businesses. In Nigeria, ESG controversies such as oil spills or governance failures have contributed to a reduction in foreign direct investment and a withdrawal of capital from affected industries.

For example, in the global space, the BP Deepwater Horizon spill caused the company to lose over 55% of its market value, showing that poor ESG outcomes directly affect investor sentiment.¹³

3. Higher Operational Costs from Inefficiency:

Neglecting sustainability often leads to inefficient resource use, higher energy bills, and waste-related costs. In contrast, companies that embrace ESG can reduce these costs significantly. For example, Nigerian Breweries saved costs and reduced emissions by transitioning to solar power and improving water recycling.¹⁴



4. Regulatory Fines and Sanctions:

One of the most immediate risks of failing to comply with ESG standards is exposure to regulatory sanctions and hefty fines. Nigerian regulators such as the Nigerian Communications Commission (NCC)¹⁵ and the NESREA have become increasingly strict, enforcing environmental, social, and governance rules.

In May 2025, it was reported that NESREA shut down 21 facilities in the Federal Capital Territory for violation of the Environmental Laws and failure to conduct the mandatory Environmental Impact Assessment¹⁶.

5. Loss of Consumer Trust:

Failing to comply with ESG standards such as fair treatment of customers, ethical governance, or environmental responsibility can quickly erode consumer trust.

When people perceive a business as irresponsible or unethical, they lose confidence in its products and services, often turning to competitors who demonstrate stronger values.

Steps To ESG Compliance

To ensure ESG compliance, corporate clients should consider the following steps:

1. Engage a Legal Counsel with ESG Expertise

The first and most crucial step is to work with a legal professional who understands the ESG regulatory landscape in Nigeria.

An ESG-focused legal counsel will identify applicable laws and industry-specific ESG obligations, draft and review policies on environmental sustainability, employee welfare, data protection, corporate governance, consumer rights and other sustainability practices. Legal Counsel can also ensure proper disclosure and reporting, especially for listed companies or companies seeking funding.

They can mitigate legal risks by identifying gaps in contracts, operations, and governance practices as well as represent the organization before regulators, if ESG-related audits, sanctions, or disputes arise.

2. Conduct an ESG Risk and Compliance Assessment

After legal guidance is secured, organizations must perform an internal ESG audit to assess current practices and identify areas of risk.

This includes evaluating environmental impact, reviewing employee welfare, customer protection practices, and examining internal governance structures and ethical standards.

This assessment helps businesses set clear ESG priorities and benchmarks for improvement.

3. Train Management and Staff/ Monitor Compliance:

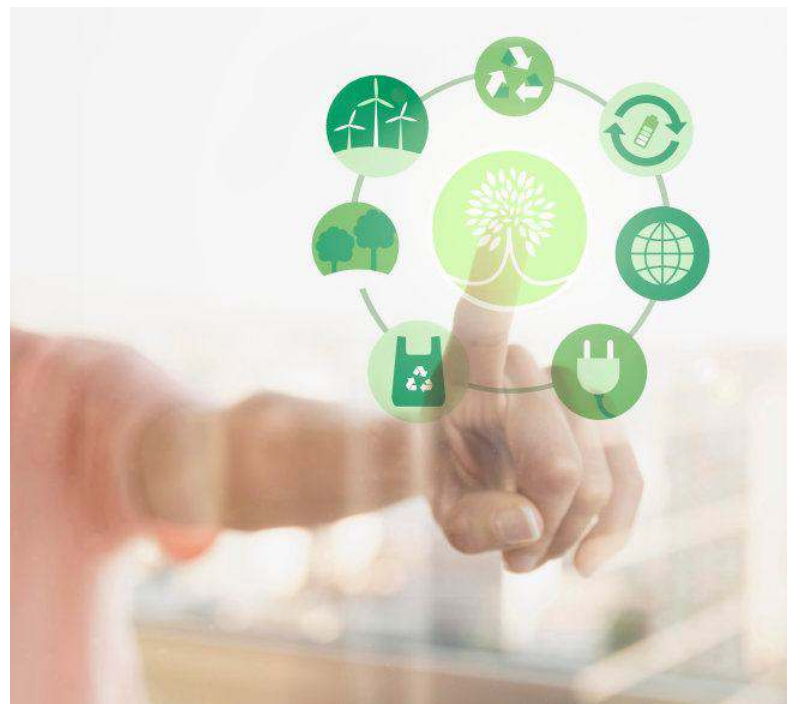
Finally, organizations should build a culture of ESG by training their staff and management team to understand the importance of ESG and their roles in contributing to compliance.

Regular reviews and updates should be conducted to ensure ongoing alignment and improvement.

Conclusion

As Nigeria intensifies its commitment to sustainability and ethical business conduct, ESG compliance is no longer optional. For corporate entities, 2025 marks a turning point.

Those who embrace ESG now will be better positioned to navigate regulatory complexities, attract investment, and build resilient, future-proof businesses. Legal counsel plays a critical role in helping companies embed ESG into their core strategy and operations. As ESG compliance experts, we are committed to supporting your journey towards compliance, sustainability, and long-term success.



Footnote

¹<https://documents1.worldbank.org/curated/en/280911488968799581/pdf/113237-WP-WhoCaresWins-2004.pdf>

² ibid

³The Nation "CBN to Banks - Pursue Sustainable Banking Practice" February 18, 2013 - <<https://thenationonlineng.net/cbn-to-banks-pursue-sustainable-banking-practice>>

⁴ Financial Nigeria "Commitment of the CBN to Sustainability" Sept. 01, 2022 - <<https://w.financialnigeria.com/commitment-of-the-cbn-to-sustainability-interview-166.html?>>

⁵ Section 305 CAMA, 2020

⁶ Section 119 CAMA, 2020

⁷ Nigerian Code of Corporate Governance (NCCG), 2018.

⁸ Reuters report - March 2024 <<https://www.reuters.com/world/africa/nigeria-gives-businesses-four-years-adopt-eco-friendly-reporting-standards-2024-03-22/>>

⁹Section 2 of Environmental Impact Assessment Act 1992

¹⁰NESREA official Website <<https://nesrea.gov.ng/our-functions>>

¹¹Financial Times "Big Oil's dirty legacy in Nigeria" Nov. 6 2024 <https://www.ft.com/content/a9850445-50be-41e3-95f9-0238d7a0218b>

¹²Isaac Kaledzi " Nigerian communities take Shell to court over oil spills" February 20, 2025 <<https://www.dw.com/en/nigerian-communities-take-shell-to-court-over-oil-spills/a-71633878#:~:text=Thousands%20of%20members%20of%20the,communities%20in%20the%20Niger%20Delta.&text=A%20pivotal%20hearing%20is%20underway,the%20case%20could%20go%20ahead.>>

¹³Webauthor: " The Hidden Costs of Ignoring ESG - What Every Organisation Must Know" - February 5, 2025 <https://www.csr-in-action.com/the-hidden-costs-of-ignoring-esg-what-every-organisation-must-know/#:~:text=A%20Nigerian%20oil%20servicing%20company,if%20no%20impossible%2C%20to%20rebuild>

¹⁴<https://www.nbplc.com/nigerian-breweries-pioneers-first-solar-powered-brewery-in-africa/#:~:text=The%20solar%20plant%20will%20supply,the%20lifespans%20of%20the%20plant.>

¹⁵<[https://en.m.wikipedia.org/wiki/MTN_\\$5.2_billion_fine?](https://en.m.wikipedia.org/wiki/MTN_$5.2_billion_fine?)>

¹⁶Premium Times: "NESREA shuts 21 facilities in Abuja for violating environmental laws" May 14, 2025 <https://www.premiumtimesng.com/regional/north-central/794269-nesrea-shuts-21-facilities-in-abuja-for-violating-environmental-laws.html>

For more information on ESG, please contact us on

+234 707 587 3516 or at hello@templewoodlp.com