SECURITIES & EXCHANGE COMMISSION, NIGERIA

GUIDELINES ON SUSTAINABLE FINANCIAL PRINCIPLES FOR THE NIGERIAN CAPITAL MARKET

SEC NIGERIA

SECURITIES AND EXCHANGE COMMISSION, NIGERIA

April 2021

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INTRODUCTION

The Nigerian Capital Market plays a major role in the industrialization and economic development of Nigeria. However, the pursuance of these key objectives involves activities that give rise to a range of challenges including air and water pollution, climate change, water and natural resource scarcity, environmental degradation, growing population density and poverty. These externalities and other social impacts affect not only businesses but also the communities where they operate.

Sustainable finance principles are guidelines developed to help address the impact of these externalities, ensure long term economic growth while safeguarding the environment and society. The primary objective is to achieve a balance in the pursuit of economic prosperity while ensuring environmental protection and social development. To this end, the principles help create an economic, environmental and social organization that ensures and improves economic efficiency, prosperity, and sustained economic competitiveness while contributing to protecting and restoring ecological systems, enhancing cultural diversity and social well-being.

In the financial services industry, there is an increasing realization that sustainable practices have a potential to save costs, grow revenues, reduce reputational and legal risks, as well as drive the development of human capital and improve access to finance. Consequently, the adoption of financial sustainability principles and its reporting are vital steps towards achieving a sustainable global economy.

The Securities and Exchange Commission has adopted the Nigerian Sustainable Finance Principles (NSFP) as developed by the Financial Services Regulation Coordinating Committee (FSRCC).

The objectives of the SEC guidelines on NSFP are to:

1. Stimulate a resilient, competitive and sustainable capital market that promotes economic development and improves the quality of life for all;

2. Improve corporate governance practices to ensure that the participants in the capital market operate in a transparent and sustainable manner;

3. Nurture an environment that facilitates job creation and diversity, women empowerment, human rights protection, access to affordable capital market products by the economically less privileged.

4. Contribute to efforts aimed at reducing global warming and other environmental footprints resulting from our activities and those of our stakeholders.

The SEC guidelines and approach are principles based and therefore do not prescribe specific implementation requirements. However, these principles should be applied by each regulated entity[1]in a manner that fits individual mandates, core values, and enterprise risk management framework.

Reporting enhances companies' accountability for the effects of their social impacts which in turn fosters social responsibility in organizations and therefore enhances trust, while facilitating shared values on which to build a more cohesive society.

Consequently, regulated entities must report regularly on the extent to which they apply these principles.

ABOUT THE PRINCIPLES

In implementing these principles, regulated entities are expected to:

1. **Establish the standards for their organization and be committed to it:** Regulated entities should set the pace for the integration of the Principles into their organizational culture, such that the Board and Management are committed to sustainable finance and ensuring successful implementation. The entity's commitment to the Principles should be demonstrated through policies and decisions and also ensure their supervised organizations do the same.

2. **Establish sustainable operations approach:** A regulated entity should have a set of procedures that detail how ESG and related issues are managed and aligned with existing internal decision-making processes.

[1] Regulated Entities include Capital Market Operators (CMOs), Trade Groups, Self-Regulated Organizations (SROs) and Capital Trade Points

3. **Ensure proper reporting:** Regulated entities should ensure that appropriate reports are prepared detailing their progress and performance regarding their commitment to ESG guidelines.

THE PRINCIPLES

The following principles were developed taking into cognizance the need for economic prosperity, environmental protection and social development.

Principle 1:

Environmental, Social and Governance (ESG) Considerations

Regulated entities will embed Environmental, Social and Governance (ESG) considerations into their operations and decision making processes to avoid, minimize or offset negative impacts.

Regulated entities should put in place effective governance structures and consider the impact of their operations and activities on the environment and society.

The entities should innovate and implement measures that promote the good of the communities and the natural environment in which they operate. Factors to be considered include:

- Efficient use of resources, such as energy and water;
- Effective waste management;
- Compliance with applicable labour and social standards; and
- Alignment of their community development programmes with Nigeria's overall goal for sustainable economic and social development.

In order to implement principle 1, regulated entities should do the following:

- **Development of appropriate ESG policies and procedures**
    - Entities should develop appropriate policies to integrate ESG considerations into decision-making processes and enterprise risk management framework.
    - They should also develop robust and transparent procedures, which entail clear governance structures, limits of authority, standards and

codes of conduct, to support implementation of their policies and the Principles.

- **Development of environmental management programmes**
  - Entities should put in place programmes for managing their environmental and social footprints. The programmes should reduce greenhouse gas emissions, promote efficient use of water and energy, and improve waste and construction management.
- **Compliance with relevant labour and social standards**
  - Entities should outline the minimum labour and social standards they will apply in managing their operations consistent with good practice, such as the United Nations Declaration of Human Rights and the International Labour Organisation Charter.
  - They should establish appropriate ways to encourage and promote desired behaviours of employees to meet ESG standards.
- **Implementation of Corporate Social Responsibility Programme**
  - Entities should develop and promote investment in community projects and initiatives with the aim of contributing to the sustainable development of their host communities.
- **Application of ESG standards to relevant third parties**
  - Entities should articulate, in their sustainable finance policies and procedures, ESG procurement standards for suppliers, contractors, and other third party service providers.
  - They should monitor the service providers to ensure compliance with the standards.
- **Establish internal and external ESG audit procedures**
  - Entities should regularly conduct internal reviews of the integrity and quality of ESG practices and procedures for continuous improvement. External audit of ESG practices and procedures may also be undertaken.

Principle 2:

Collaborative Partnership and Capacity Building

Regulated entities should collaborate with stakeholders to raise awareness on ESG issues, build capacity, manage risks, develop innovative solutions and promote widespread action across the Nigerian financial system.

The entity should first develop its ESG policy e.g. sustainable policy – to serve as a tool and strategic framework to guide and support the entity in the delivery of its sustainable agenda. The entities must have a dedicated Corporate Sustainability Office (CSO) to work primarily on ensuring the effectiveness of its sustainable policies.

Implementation of this principle will be based on 4 pillars:

- Development of structural mechanisms to guide the implementation of the structural policies and guidelines;
- Development of the internal capacity to support the implementation of sustainable policies and guidelines;
- Engaging and obtaining the buy-in of key stakeholders to support the implementation of the policies and;
- Development and implementation of the entity's sustainable strategy.

Principle 3:

Financing of priority sectors of the economy

Regulated entities should promote financing of priority sectors of the economy, while ensuring balance with ESG considerations.

In consideration of the nationwide efforts to catalyse the national economy, entities are expected to contribute to national rebirth by supporting priority sectors of the economy such as Green Finance. To this end, entities should measure and disclose the level to which they have supported priority sectors.

To implement this principle, entities should on the basis of verifiable business plans/feasibility reports identify priority sector(s) such as Green Finance, in which they operate and disclose products and services designed to facilitate financing of these sectors.

Also, entities should report the monetary value of actual investments undertaken in products and services in financing of priority sectors of the economy.

Further, entities should record and report total monetary value of assistance received from government(s) for financing/investing in priority sectors of the economy. This should cover items such as:

- Subsidies

- Tax reliefs and tax credits
- Financial incentives
- Royalty holidays
- Export promotion grants

Principle 4:

Human rights, women's economic empowerment, job creation and financial inclusion

Regulated entities will respect human rights, promote women's economic empowerment, support job creation and enhance financial inclusion.

In order to implement this principle regulated entities should:

- Balance the ratio of employment between men and women and bridge the gap in favour of women;
- Encourage policies that better the lots of women, for example building crèche; increasing the period of maternity leave; setting up of standing committees and by-laws to protect sexual harassment in offices;
- Create equal opportunities for employment, career growth and capacity building;
- Organize quarterly seminars/sessions on economic savings and empowerment;
- Collaborate on how to design programs/projects that will encourage macro, small, and medium enterprises (MSMEs) to be active in the financial market.
- Embark on initiatives that promote financial literacy and financial inclusion in the capital market.

Principle 5:

Reporting and Disclosures

Regulated entities are ***mandated*** to report their progress in implementing ESG principles and require organisations they supervise and/or finance to make appropriate disclosures on their ESG issues.

Entities should recognise that sustainability issues have gained global recognition and acceptance, and consequently businesses are increasingly being assessed on the importance they attach to sustainability issues. Entities should seek to report on their sustainability practices in a manner that reflect their commitment and level of implementation which may form the basis for stakeholders informed decision making.

In order to implement this principle, entities should undertake the following:

Development of appropriate ESG reporting criteria: Entities should set criteria for reporting their ESG risk assessment processes on their business operations and activities.

Frequency and medium of reporting: Report ESG issues annually either on a stand-alone basis or as an integral part of its annual report to stakeholders. The timing of the reporting should be the same as the financial performance report of the organization.

Set clear targets and performance indicators: Articulate clear goals, targets and measurement indicators for each principle.

Establish a sustainable finance reporting template: Develop a reporting template that is incorporated into its management information system. Reports should demonstrate progress against the indicators set for each principle. The SEC Reporting template attached to the SEC Sustainable Finance Principles could be used as a guide.

a) Report Content

Define the scope of activities and identify stakeholders

Sustainability Context: Performance should be reported in relation to local or global expectations.

Materiality and completeness: Concentrate on aspects of operations that have significant ESG impacts that may influence the decisions of stakeholders.

b) Report Quality

Reporting should be transparent and comprehensive covering both positive and negative aspects of performance.

Comparability: Information should be presented in a consistent manner so as to allow for comparison over a period of time.

Clarity: Ambiguity to be avoided. Information is to be presented in clear and understandable manner.

Reliability: All information employed in the preparation of the performance report should be gathered, recorded, compiled, analyzed and disclosed in such a manner as to allow for independent examination to establish the quality and materiality of the information. Entities are advised to adopt the GRI or any other internationally recognized reporting standard in preparing their report.

SUSTAINABLE FINANCE AND PUBLIC COMPANIES

Part E, Principle 26 of the National Code of Corporate Governance (NCCG) specifically addresses sustainability issues which public companies are expected to consider in their operations and covers some of the key elements in the FSRCC Sustainability project.

It states in part "paying adequate attention to sustainability issues including environment, social, occupational and community health and safety ensures successful long term business performance and projects the Company as a responsible citizen contributing to economic development."

SEC guidelines on sustainability should be adopted by public companies to complement existing requirements of the NCCG and the SEC Guidelines on Corporate Governance.

Also, the sustainability policy report must be filed by public companies to provide necessary disclosure on ESG and related issues in line with best practices.

CONCLUSION

The SEC guidelines on sustainable financial principles set out broad principles and recommendations for better practice in sustainable finance. Since investments in assets, especially long term assets directly impact a nation's development, it is crucial to get the allocation of financial capital right. The capital market operators' role as intermediaries means they are critical channels through which pricing, regulation and their interaction with society, can direct financial capital to more or less sustainable economic activity.

These principles, which should be adopted by regulated entities, are essentially a preferred benchmark on which their ESG practices must target. The opportunities that this path is opening, for both growth and value, make these principles relevant to all mainstream financial institutions.

Finally, it is hoped that these principles will raise awareness and trigger the implementation of sustainable finance ideals among regulated entities and help facilitate the financing of the transition path to a sustainable economy.