

SUSTAINABLE FINANCE IN NIGERIA: PERFORMANCE AND OUTLOOK

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- 1 Introduction
- 2 Nigerian Sustainable Finance Principles
- 3 Sustainable Finance in Nigeria: Performance and Outlook
- 4 Conclusion
- 5 O & A

INTRODUCTION TO SUSTAINABLE FINANCE

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WHAT IS SUSTAINABLE FINANCE?



SUSTAINABILITY AND SUSTAINABILITY MANAGEMENT



Sustainability means “Meeting the needs of the present without compromising the ability of future generations to meet their own needs”.

-United Nations World Commission of Development and Environment



Sustainability management is the application of sustainable practices in the categories of businesses, agriculture, society, environment, and personal life by managing them in a way that will benefit current generations and future generations.



WHAT IS SUSTAINABLE FINANCE?



Sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects.

- European Commission (2017)

Pillars of ESG:



Environmental



Social



Governance



“We are not asking corporations to do something different from their normal business; we are asking them to do their normal business differently.”

*Kofi Annan, UN Secretary General (1997 – 2006)
and Founder of the UN Global Compact*



**SUSTAINABLE
DEVELOPMENT GOALS**

SUSTAINABLE DEVELOPMENT GOALS



SUSTAINABLE DEVELOPMENT GOALS



In September 2015, the United Nations, General Assembly adopted the 2030 Agenda for Sustainable Development which includes the seventeen (17) Sustainable Development Goals (SDGs). The Sustainable Development Goals (SDGs), also known as the Global Goals.

NIGERIAN SUSTAINABLE FINANCE PRINCIPLES

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NIGERIAN SUSTAINABLE FINANCE PRINCIPLES



The Nigerian Sustainable Finance Principles (NSFP), developed by the Financial Services Regulation Coordinating Committee (FSRCC), focuses on the role of the financial services industry in facilitating economic prosperity, while ensuring environmental sustainability and social development.

The Securities and Exchange Commission adopted the FSRCC's NSFP and developed Guidelines on Sustainable Principles for the Nigerian Capital Market.

As a member agency of the FSRCC, NGX Group has also implemented the NSFP in its operations and activities, and has constituted a Steering Committee (SteerCo) to this effect. The NSFP are explained below:



Considerations

Embed Environmental, Social and Governance (ESG) considerations into the organization's operations and decision making processes to avoid, minimize or offset negative impacts.



Collaborative Partnerships & Capacity Building

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.



Financing of priority sectors of the economy

Promote financing of priority sectors of the economy, while ensuring balance with ESG considerations.



Human rights, women's economic empowerment, inclusion

Respect human rights, promote women's economic empowerment, support job creation, and enhance financial inclusion.



Reporting and Disclosures

Regularly report progress in implementing these principles and require supervised entities to make appropriate disclosures on their ESG issues.



Sustainability at The NGX



The NGX recognizes its crucial role in supporting economic growth by ensuring an efficient and sustainable capital market. In 2013, NGX developed a comprehensive Corporate Social Responsibility strategy and commenced the implementation of policies and procedures that will align its business strategy with good corporate citizenship. The NGX has also adopted global best practice principles and frameworks to support this effective mainstreaming. NGX'S Corporate Social Responsibility strategy is anchored on **four** pillars:



WORKPLACE

Fostering a qualitatively oriented work environment that values employee diversity and wellbeing and harnesses the talents and skills of our people

- Male to Female Ratio is 1:2



MARKETPLACE

Promoting a market-based approach to (ESG) imperative amongst all stakeholders

- CGRS
- Joined the Sustainable Stock Exchanges Initiative
- United Nations Global Compact (UNGC)



COMMUNITY

Contributing positively to the communities where we live and work

- *NGX Essay Competition*
- *NGX Corporate Challenge*
- *Global Money Week*
- *Facts Behind the Sustainability Report (FBSR)*



ENVIRONMENT

Focusing on reducing the environmental impact of the Exchange's operations

- *Efficient use of energy*
- *Waste Recycling*
- *Lagos Island Revitalization Project*

OUR FOCUS – ALIGNMENT WITH NSFP



NGX's CSR Strategy Framework hinges on four pillars – Community, Marketplace, Workplace and Environment which addresses the five (5) Nigerian Sustainable Finance Principles (NSFP)

1



ESG Considerations

- Reduced our energy consumption by 70%; Recycles 8% of our waste in the workplace. Reduction in paper use by employees.
- Implemented electronic filing of regulatory reports by stakeholders i.e. via X-Issuer for Issuers and X-BOSS for Trading License Holders.
- Promotion of gender diversity and human rights in our workforce through the Nigeria2Equal Programme.
- Alignment of CSR Initiatives with the UN Sustainable Development Goals (SDGs).
- Audit and reviews of CSR programmes are conducted by relevant departments and executive management.
- Social: implement a number of initiatives including NGX Corporate Challenge, X-Tour (financial literacy tours), Global Money Week, NGX Essay Competition, executive health programme, employee volunteering and give-back initiative etc.).

2



Collaborative Partnerships and Capacity Building

- Member of the Sustainable Stock Exchanges (SSE) Initiative, Global Reporting Initiative Community member, United Nations Global Compact (UNGC), International Organization of Securities Commissions (IOSCO), World Federation of Exchanges (WFE), and African Securities Exchange Association (ASEA).
- Partnership with EFCC which allows us to bring to justice offenders of existing market rules.
- Collaboration with GRI to host capacity building sessions for the Nigerian capital market.
- Presentation of the green bond market development proposal to the Ministry of Environment. This culminated in the issuance and listing of the inaugural Federal Government of Nigeria green bond.



3



Financing of priority sectors of the economy

- NGX provides a platform for Small and Medium Scale Enterprises (SMEs) to raise capital through its Growth Board.
- Listing of priority sector companies like transportation, manufacturing, hospitality is enabled and encouraged.

4



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

- Human Resources Policy supports Human rights.
- Various financial literacy and inclusion policies like the X-tours, NGX Essay Competition, X-Academy, Global Money Week celebration, etc.
- Support women economic empowerment through the celebration of the International Women's Day and participation in the Ring the Bell for Gender Equality initiative. We also signed the UN Women Economic Principles in 2016.
- Advocate of job creation and empowerment for youths through the NGX Graduate Trainee Programme.

5



SUSTAINABILITY
REPORT 2022
Prioritizing Sustainable Growth




- Sustainability disclosure guidelines for Issuers.
- Production of an annual Sustainability Report.

Reporting Disclosures

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In 2015, Nigeria signed up to the Paris Agreement. Through this, it pledged to reduce its greenhouse gas emissions by 20% by 2030, when compared to “business-as usual” levels. This pledge rises to 45% on the condition of international support. Nigeria ratified the agreement in 2017.

It was adopted by 196 Parties at the United Nations (UN) Conference of Parties in Paris, on 12 December 2015 and entered into force on 4 November 2016. Its goal is to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels — a time before the industrial revolution when fossil fuel burning was yet to change the climate. In order to achieve the climate plans set in the Paris Agreement, the Federal Government of Nigeria in December 2017 issued the first Green Bond in Nigeria. This earned Nigeria the title of the first African country and fourth worldwide to issue a Green Bond.

The UN Environment Inquiry into the Design of a Sustainable Financial System report indicated that the demand for additional sustainable investment in Nigeria is US\$92 billion annually out to 2030 which presents an enormous investment opportunity. Nigerian investment experts identified potential areas of investments such as: clean energy systems, sustainable cities, agriculture and sustainable land use, health care and education, transport, digital infrastructure etc.

The Sustainable Development Solutions Network (SDSN) produced a comprehensive framework to calculate SDG investment needs in 2015, using assumptions about GDP growth rates, the implied annual sustainable investment needs for Nigeria were between US\$59 billion and US\$63 billion per annum in 2018. SDSN projections for lower middle-income countries, roughly 43% of this total is expected to come from private sources, while 57% is expected to come from public funding at the aggregate level.





The annual sustainable finance flow is estimated at just over US\$8 billion which implies that annual sustainable finance will need to increase by approximately 1000% to capitalize on the opportunities identified in the UN Environment Inquiry report by 2030. The majority of current sustainable finance flows are from public sources. The net foreign direct investment (FDI) in 2017 in Nigeria was US\$2.21 billion.


In 2016, FGN accounted for more than 90% of Nigeria's bond market. The corporate bond issuance in 2017 amounted to US\$65 million, and an average annual corporate bond issuance of US\$300 million, a gross issuance of corporate bonds (sustainable) in 2017 was calculated as US\$3 million.

The United Nations Conference on Trade and Development (UNCTAD)* anticipates that current annual infrastructure investments of US\$3.4 trillion will need to increase to approximately US\$6 trillion with developing countries facing a US\$2.5 trillion investment gap for SDG-related sectors. The African Development Bank estimates Nigeria's infrastructure to reach \$3trillion by 2044 (about \$100billion annually). Infrastructure financing needs are estimated at \$130billion to \$170billion a year.

The Sustainable Banking Network (SBN) Progression Matrix report indicated that Nigeria had put comprehensive implementation actions in place and begun to report on results and impacts of sustainable finance.

Nigeria encourages digital innovations which will unlock opportunities, including increasing energy access to the Bottom of the Pyramid (BoP) considering that Nigeria is Africa's largest mobile market, with 210 million subscribers (as at August 2022).

Though the current flows of sustainable finance in Nigeria are inadequate, Nigeria is exploring the various sustainable investment opportunities, which would help promote the integration of sustainable finance into all aspects of its financial ecosystem.



OVERVIEW OF GLOBAL SUSTAINABLE FINANCE PERFORMANCE IN THE CAPITAL MARKET



The past decade witnessed the accelerating growth of a sustainable investment market focused on equities and bonds. The period of voluntary self-regulation transitioned towards a mandatory regulated sustainable investment market, which is likely to influence the future direction of the whole global financial market ecosystem.

Sustainability performance and ratings have expanded from company disclosure to an emphasis on fund disclosure and asset owners, such as pension funds.

United Nations Conference on Trade and Development (UNCTAD) has been working for more than a decade to promote the uptake of sustainability by capital markets and other financial market actors, particularly in developing countries.

UNCTAD estimates that sustainability-dedicated investments – investment products targeting sustainable development-related themes or sectors – amounted to \$3.2 trillion in 2020, up more than 80% from 2019. These capital market investments consist mainly of sustainable funds (over \$1.7 trillion), green bonds (over \$1 trillion), social bonds (\$212 billion) and mixed-sustainability bonds (\$218 billion).

The upstream institutional investors such as the Pension Funds managed/reported global assets of \$52 trillion and Sovereign Wealth Funds (SWFs) managed/reported global assets of \$9.2 trillion, in 2021, respectively. The Insurance companies investable assets reached \$32 trillion in 2018 and the banks investable assets reached \$155 trillion in 2019 respectively.

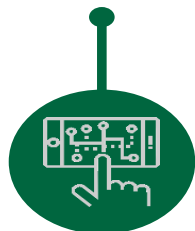


**SUSTAINABLE FINANCE
INVESTMENTS &
INITIATIVES IN THE
NIGERIAN CAPITAL
MARKET**

SUSTAINABLE FINANCE INVESTMENTS & INITIATIVES IN THE NIGERIAN CAPITAL MARKET



Publication of guidelines



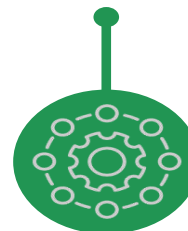
In line with global best practice, the SEC demonstrated leadership by publishing guidelines to spur the emergence of green bond corporate issues starting with a sovereign green bond issuance created a benchmark for market participants and potential future green bond issuances.

Renewable Energy



In 2016, NGX conceptualized and developed the Green Bond Product Paper which was embraced and championed in partnership with the Federal Ministry of Environment, Federal Ministry of Finance and the Debt Management Office. This effort led to the issuance of the maiden N10.69Bn 13.48% 5-year FGN Sovereign Green Bond in 2017 to fund projects to develop renewable energy which was the first to be issued by any nation on the continent.

Launch of Green bonds



Listing of the inaugural sovereign FGN green bond and listing of corporate green bonds including the N15 billion (US\$36 million), 15.5% 5-year Fixed Rate Senior Unsecured Green Bond issued by Access Bank of Nigeria Plc, the N8.5 billion (US\$21 million), 15.6% 15-year Guaranteed Fixed Rate Senior Green Infrastructure Bond by North South Power Company (NSP), and the Series II N15 billion, 14.5% FGN 7-year sovereign green bond in 2019, which recorded a 220% subscription rate and was oversubscribed by N17.93 billion (US\$44 million).

Other Green Initiatives













In 2014, NGX launched its Corporate Governance Rating System (CGRS) for listed companies in Nigeria.

In 2018 FMDQ Securities Exchange launched the Nigerian Green Bond Market Development Programme in partnership with Climate Bonds Initiative (CBI) and Financial Sector Deepening Africa (FSD Africa).



USE OF PROCEEDS – GREEN FINANCE

The proceeds of green bond issuances are mainly used to finance or refinance projects with clear environmental benefits.

-  1 Renewable energy
-  2 Energy Efficiency
-  3 Sustainable waste management
-  4 Sustainable land use
-  5 Clean transportation
-  6 Non-energy GHG emissions reduction
-  7 Sustainable water management
-  8 Climate change adaptation
-  9 Green trade
-  10 Efficient green buildings

NGX SUSTAINABLE FINANCE INITIATIVES FOR THE NIGERIAN CAPITAL MARKET

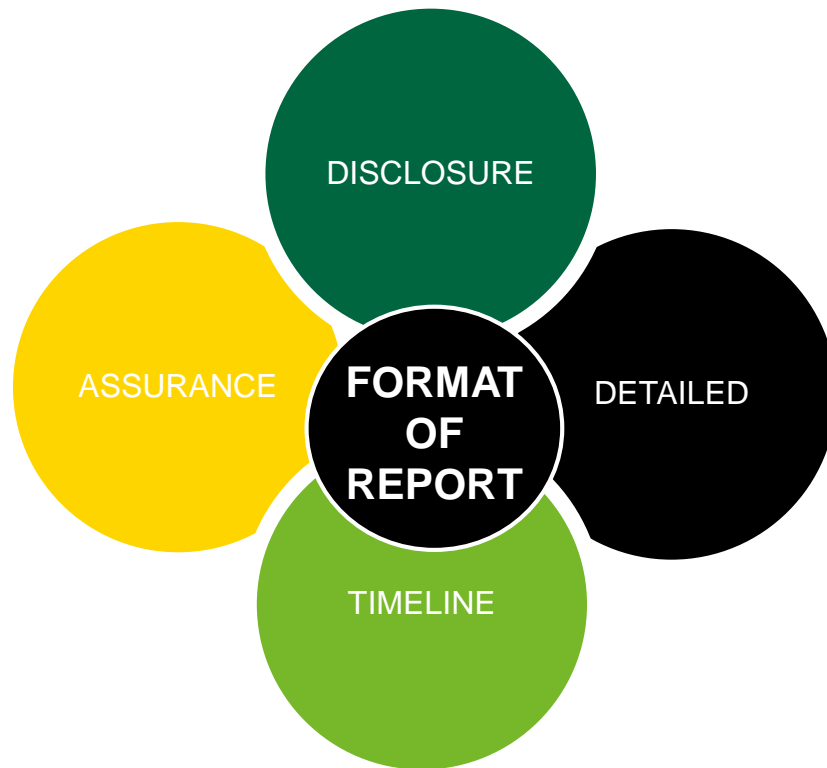


S/N	INITIATIVES
1	In 2019, NGX signed a Memorandum of Understanding (MOU) with the Luxembourg Stock Exchange (LuxSE), to cooperate in promoting cross-listing and trading of green bonds in Nigeria and Luxembourg. This partnership yielded its debut transaction with the successful cross-listing of Access Bank’s N15 Billion Green Bond on the NSE and LuxSE.
2	The Sustainability Disclosure Guidelines of the NGX was approved by the Securities and Exchange Commission (SEC) in Nigeria, on 9 November 2018. The guidelines became effective on 19 March 2019 and primarily provide the value proposition for sustainability in the Nigerian context. It also articulates a step-by-step approach to integrating sustainability into organizations, and highlights indicators which should be considered when providing annual disclosure to NGX.
3	NGX in collaboration with the International Finance Corporation (IFC) launched the first-of-its-kind gender gap assessment report which highlights the gender gaps in Nigeria’s private sector through a study of the 30 most capitalized companies on NGX.
4	NGX in collaboration with IFC launched a 2-year Peer Learning Platform to support listed companies in their quest to improve the gender performance in leadership, employment and entrepreneurship on 6 August 2021.
5	NGX participated in the Sustainable Stock Exchanges Initiative (SSEI) working group led by Mark Carney, UN Special Envoy for Climate Action and Finance to develop a Model Guidance on climate reporting for securities Exchanges. The Model Guidance was launched in July 2021.
6	NGX collaborated with IFC, United Nations Global Compact Network Nigeria (GCNN) and UN Women to commemorate the 2021 International Women’s Day (IWD) and the 7th Ring the Bell for Gender Equality.



Reporting Obligations

All Issuers are encouraged to comply with the foregoing sustainability reporting requirements. On an annual basis.



NGX published its 1st CSR Report in 2015 and it has been recognized annually for its sustainability efforts.

DISCLOSURE

An Issuer may disclose its sustainability information and data in its annual report or in a stand alone sustainability report.

DETAILED

The report should contain a comprehensive description of the Issuer's management overview and of economic, environmental, social and governance risks and opportunities. The Issuer should consider the principles and themes set out in NGX's Sustainability Disclosure Guidelines.

TIMELINE

The reporting period should be in alignment with the financial reporting period. The report should be submitted to NGX within the period allowed for the submission of annual accounts.

ASSURANCE

NGX also encourages reporting companies to consider getting their reports assured or independently verified against international standards. Assurance of sustainability data increases the credibility of the report by establishing that the information is accurate.


SUSTAINABILITY REPORTS/EVENTS



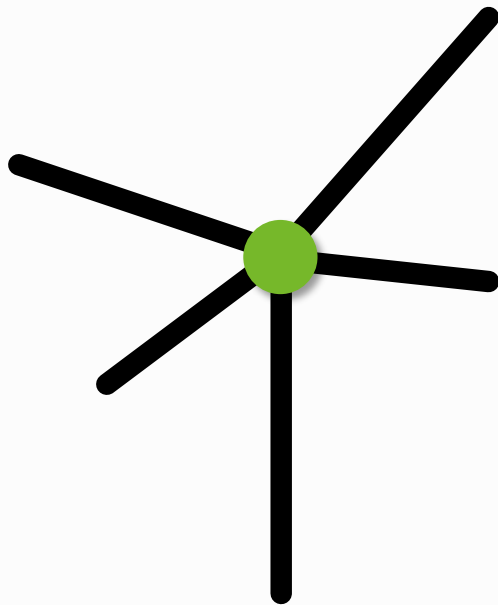
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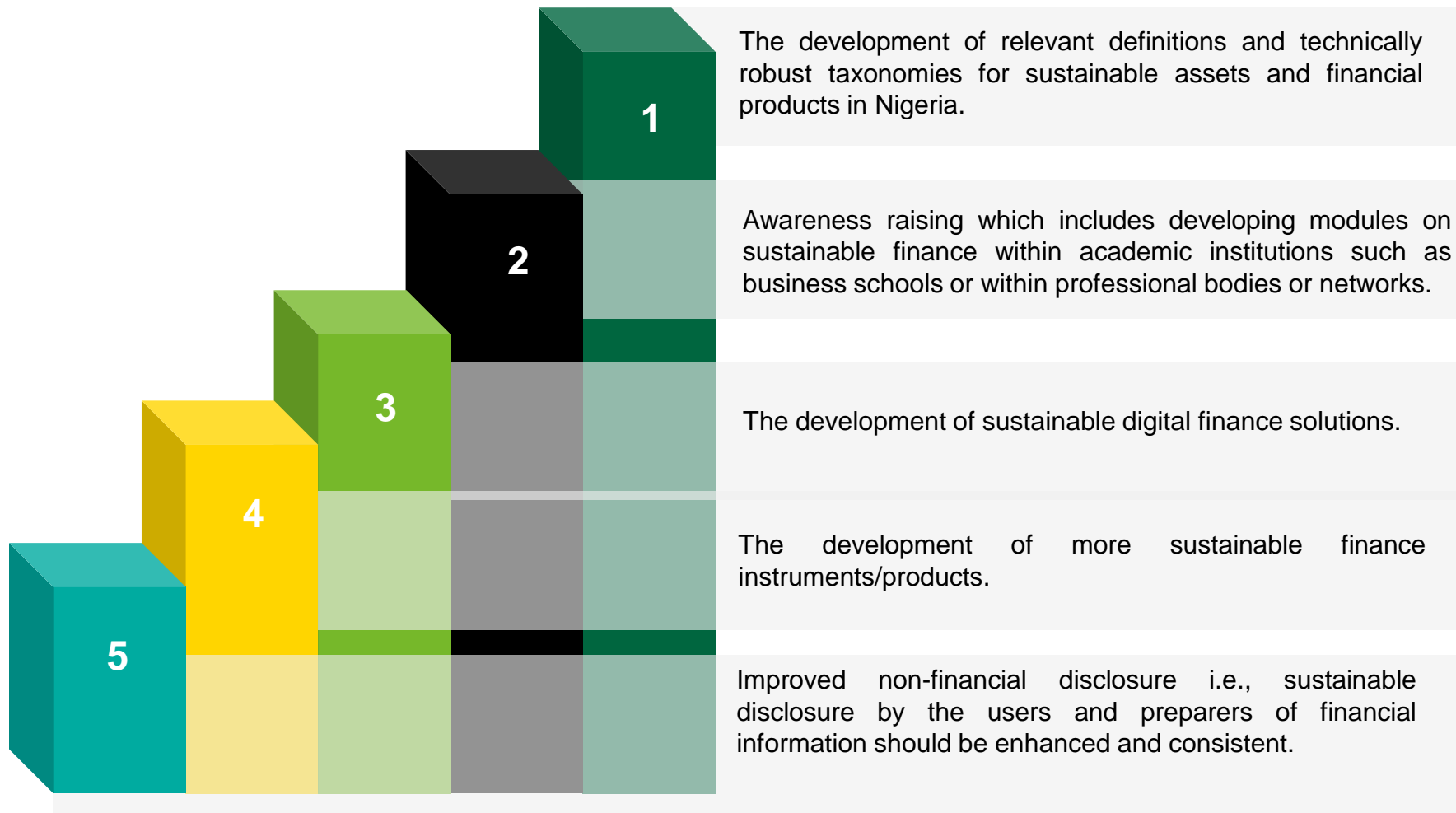


**CHALLENGES,
SOLUTIONS & POSITIVE
EFFECTS**



- ❖ Inadequate Analytical Capabilities
- ❖ Limited Sustainable Investment Opportunities
- ❖ Limited Appetite for Sustainability
- ❖ Lack of Non-Financial Sustainability Data
- ❖ Cost of Doing Business
- ❖ Lack of Long-Term Capital
- ❖ Underdeveloped Sustainable Finance Toolkit for Financial Decision Makers

POSSIBLE SOLUTIONS TO THE CHALLENGES/BARRIERS OF SUSTAINABLE FINANCE IN NIGERIA





Impact of the Capital Market

The Capital market has had a significant impact on the level and direction of sustainable finance and will continue to contribute towards filling the financing gap for the SDGs.

Business Growth

Sustainable finance promotes job-creation technological innovation. It catalyses business opportunities for the financial industry through the creation of new products (such as green bonds or sustainable loans), tools and services.

Best Practices

Companies will continue to leverage available guidelines, frameworks and resources in line with global best practices as they continue to facilitate and engage relevant stakeholders in the development of the sustainable finance markets in Nigeria and Africa at large.



OUTLOOK





- Globally, UNCTAD identified three fundamental transitions which would improve the sustainable investment market such as:
 - ✓ Growing sustainable investment from “market niche” to “market norm”, by making sustainability integration universal rather than a strategy of a subset of the larger market.
 - ✓ Transforming the sustainable investment market from a developed-country phenomenon to a global market, which benefits all countries, in particular developing economies.
 - ✓ Strengthening the credibility of sustainability ratings and reporting with more robust and regulated standards and taxonomies.
- Nigerian issuers, governments and corporates, regulators, exchanges and other key stakeholders need to collaborate more to develop and issue necessary instruments to attract additional foreign capital into the country. The ESG factors are to be integrated to the instruments.
- The development of robust rules and guidelines to establish industry standards and governance requirements with an aim to bring transparency, predictability and credibility to the market.

COMMITMENT TO INTERNATIONAL BEST PRACTICES





”

"IT IS TIME FOR ALL
COMPANIES TO FIGURE
OUT HOW THEIR OWN
OPERATIONS, PRODUCTS
AND SERVICES CAN PLAY A
ROLE IN CREATING THE
WORLD WE WANT."

LISE KINGO

CEO AND EXECUTIVE DIRECTOR OF
THE UN GLOBAL COMPACT



THANK YOU