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September 24, 2012

**FPR/DIR/CIR/GEN/01/33**

**Circular to all Banks, Discount Houses and Development Finance Institutions**

**IMPLEMENTATION OF SUSTAINABLE BANKING PRINCIPLES BY BANKS,  
DISCOUNT HOUSES AND DEVELOPMENT FINANCE INSTITUTIONS IN NIGERIA**

The Bankers' Committee, at its retreat of July 14, 2012, approved the adoption of the Nigeria Sustainable Banking Principles by banks, discount houses and development finance institutions in Nigeria. This is in furtherance of the Bankers Committee's commitment to deliver positive development impacts to society while protecting the communities and environment in which financial institutions and their clients operate.

To enable effective implementation of these principles, the following documents, which were considered at that meeting, are hereby issued to banks, discount houses and development finance institutions:

- 1) The Nigeria Sustainable Banking Principles;
- 2) The Nigeria Sustainable Banking Principles Guidance Notes;
- 3) Nigeria Sustainable Banking Principles Power Sector Guidelines;
- 4) Nigeria Sustainable Banking Principles Agriculture Sector Guidelines;  
and
- 5) Nigeria Sustainable Banking Principles Oil and Gas Sector Guidelines.

Successful implementation of these principles and guidelines will require banks, discount houses and development finance institutions to develop a management approach that balances the environmental and social (E&S) risks identified with the opportunities to be exploited through their business activities. E& S risk management will ensure stronger overall risk management for the concerned institutions.

The adoption of these principles will no doubt enhance the adopting institutions' financial success over the longer term while ensuring that they remain environmentally and socially responsible.

The Central Bank of Nigeria (CBN) directs full adoption and implementation of these principles and guidelines by all banks discount houses and development finance institutions and will provide incentives, as necessary, to those institutions that take concrete measures to embed the provisions of these principles and guidelines into their operational, enterprise risk management and other governance frameworks.

To enable the CBN track the progress of implementation and adherence to the Principles and Guidelines, banks, discount houses and development finance institutions will be required to submit regular reports to the CBN in line with reporting requirements which will be made available to the industry.

This circular supersedes our circular referenced FPR/DIR/CIR/GEN/01/030 dated September 3, 2012 and takes effect from September 26, 2012.



**Sola Awoyungbo**  
For: Director,  
Financial Policy and Regulation Department

# **Nigerian Sustainable Banking Principles**

**FINAL VERSION**

**July 2012**

## **Joint Commitment Statement**

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The Bankers' Sub-Committee on Economic Development and Sustainability, in conjunction with sector regulators and financial services providers, hereby commit to the following set of principles herein known as the Nigerian Sustainable Banking Principles. In addition, guidelines for engaging three priority sectors have been developed: Agriculture Sector Guideline, Power Sector Guideline and Oil and Gas Sector Guideline. The undersigned further commit to apply these guidelines in support of the implementation of the Principles.

Central Bank of Nigeria  
Nigeria Deposit Insurance Corporation  
Access Bank Plc  
Associated Discount House Ltd  
Bank of Agriculture  
Bank of Industry  
Citi Bank Nigeria Limited  
Consolidated Discounts Ltd  
Diamond Bank Plc  
Ecobank Plc  
Enterprise Bank Ltd  
Express Discounts Ltd  
Federal Mortgage Bank of Nigeria  
Fidelity Bank Plc  
First Bank of Nigeria Plc  
First City Monument Bank Plc  
First Securities Discount House Ltd  
Guaranty Trust Bank Plc  
Jaiz Bank  
Kawaka Discounts House Ltd  
Keystone Bank Ltd  
Mainstreet Bank Ltd  
Nigeria Agricultural Cooperative And Rural Development  
Nigeria Export Import Bank  
Skye Bank Plc  
Stanbic IBTC Bank Plc  
Standard Chartered Bank Nigeria Ltd  
Sterling Bank Plc  
Union Bank Of Nigeria Plc  
United Bank Of Africa Plc  
Unity Bank Of Nigeria Plc  
Urban Development Bank Of Nigeria Plc  
Wema Bank Plc  
Zenith Bank Plc

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## Introduction

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As business leaders in the Nigerian financial sector, the banking sector is uniquely positioned to further economic growth and development in Nigeria through its lending and investment activities. The context in which business decisions are made is, however, characterised by complex and growing challenges relating to population growth, urban migration, poverty, destruction of biodiversity and ecosystems, pressure on food sources, prices and security, lack of energy and infrastructure and potential climate change legislation from our trade partners, amongst others. Increasingly, it has been demonstrated that the development imperative in Nigeria should not only be economically viable, but socially relevant and environmentally responsible.

The members of the Bankers' Committee have adopted these Principles in recognition of the Nigerian banking sector's role and responsibility to deliver positive development impacts to society whilst protecting the communities and environments in which we operate. We believe that such an approach, one of sustainable banking, is consistent with our individual and collective business objectives, and can stimulate further economic growth and opportunity as well as enhance innovation and competitiveness.

We seek to lead by example, by considering the direct impacts on the environment and society arising from our own business operations. We will work to be a driving force for good in the communities and natural environment in which we operate by finding ways to avoid or mitigate negative impacts whilst innovating new means to achieve positive gains.

We will also consider our indirect impacts on the environment and society arising from our capital allocation decisions. We will seek to avoid negative impacts on the environment and communities where possible, and if these impacts are unavoidable, they should be minimised or offset appropriately.

We believe that adherence to these Principles will provide benefits to our businesses, our clients, our communities and our environment. We are thus prepared to take steps to ensure that our business-decision making activities take the above considerations into account and are, where appropriate, consistent with applicable international standards and practices, but with due regard for the Nigerian context and distinct development needs.

If a journey of a thousand miles begins with a single step, sustainable banking is our journey and these Principles form our first step. We recognise that not all of our signatories are starting the journey from the same place. We thus acknowledge the need for an incremental process that focuses on moving as one. These Principles are intended to serve as a common baseline and framework for the implementation by each adopting organisation of its own internal environmental and social or corporate social responsibility policies and standards, consistent with its own core values and business operations.

We recognise that we may not get everything right the first time. We will review these Principles on an annual basis based on our implementation experience, and in order to reflect on-going learning and emerging good practice. We will thus seek to evaluate and report on an annual basis our individual bank as well as collective sector progress against the Principles. We will celebrate our successes and acknowledge our progress whilst remaining mindful of areas requiring improvement.

We acknowledge that we can better support environmentally and socially responsible economic development in Nigeria by joining forces rather than standing alone. We have adopted these Principles to drive long-term sustainable growth whilst focusing on development priorities, safeguarding the environment and our people, and delivering measurable benefits to society and the real economy.

# The Nigerian Sustainable Banking Principles

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## **Principle 1 | Our Business Activities<sup>1</sup>: Environmental and Social Risk Management**

We will integrate environmental and social considerations into decision-making processes relating to our Business Activities to avoid, minimise or offset negative impacts.

## **Principle 2 | Our Business Operations<sup>2</sup>: Environmental and Social Footprint<sup>3</sup>**

We will avoid, minimise or offset the negative impacts of our Business Operations on the environment and local communities in which we operate and, where possible, promote positive impacts.

## **Principle 3 | Human Rights**

We will respect human rights in our Business Operations and Business Activities.

## **Principle 4 | Women's Economic Empowerment**

We will promote women's economic empowerment through a gender inclusive workplace culture in our Business Operations and seek to provide products and services designed specifically for women through our Business Activities.

## **Principle 5 | Financial Inclusion**

We will promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector.

## **Principle 6 | E&S Governance**

We will implement robust and transparent E&S governance practices in our respective institutions and assess the E&S governance practices of our clients.

## **Principle 7 | Capacity Building**

We will develop individual institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our Business Activities and Business Operations.

## **Principle 8 | Collaborative Partnerships**

We will collaborate across the sector and leverage international partnerships to accelerate our collective progress and move the sector as one, ensuring our approach is consistent with international standards and Nigerian development needs.

## **Principle 9 | Reporting**

We will regularly review and report on our progress in meeting these Principles at the individual institution and sector level.

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<sup>1</sup> **Business Activities:** The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, retail banking, trade and leasing, and other forms of direct lending.

<sup>2</sup> **Business Operations:** The undertakings of employees and the physical human capital, assets and infrastructure (e.g. offices, branches, equipment) that a Bank engages in the course of facilitating its Business Activities. This would also include suppliers, contractors and third party service providers engaged by a Bank in the course of facilitating its Business Operations and Business Activities.

<sup>3</sup> **Environmental & Social Footprint:** The total effect or impact that a Bank's Business Operations have on the environment and society in which it operates (e.g. the amount of natural resources used, the amount of waste produced, or the effects on local/host communities or the Bank's human capital).

# **Nigerian Sustainable Banking Principles**

## **Guidance Note**

**FINAL VERSION**

**July 2012**

## Glossary of Terms and Abbreviations

Term or Abbreviation	Definition or Explanation
<b>Bank</b>	A Nigerian: (a) money deposit Bank; (b) discount house; or (c) development Bank signatory to the Nigerian Sustainable Banking Principles Joint Commitment Statement.
<b>Business Operations</b>	The undertakings of employees and the physical human capital, assets and infrastructure (e.g. offices, branches, equipment) that a Bank engages in the course of facilitating its Business Activities. This would also include suppliers, contractors and third party providers engaged by a Bank in the course of facilitating its Business Operations and Business Activities.
<b>Business Activities</b>	The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, retail banking, trade and leasing, and other forms of direct lending.
<b>CBN</b>	The Central Bank of Nigeria
<b>E&amp;S</b>	Environmental and Social
<b>E&amp;S footprint</b>	The total effect or impact that a Bank's Business Operations have on the environment and society in which it operates (e.g. the amount of natural resources used, the amount of waste produced, or the effects on local/host communities or the Bank's human capital).
<b>E&amp;S risks</b>	The potential E&S issues associated with a client or engagement that may imply exposure to risk and accordingly may need to be taken into account when making business and risk management decisions.
<b>E&amp;S impacts</b>	Any change, potential or actual, to (a) the physical, natural, or cultural environment, and (b) impacts on surrounding community and workers, resulting from a business or business activity to be financed. E&S impacts may be temporary or permanent, involving reversible or irreversible changes on the environment or society. Environmental risks can include changes to the atmosphere, water and land due to human activities (e.g. greenhouse gases, pollution, changes to habitats, etc.). Social risks can include impacts to a client's workforce as well as the surrounding community (e.g. occupational health and safety, human rights and labour standards, land disputes or resettlement, corruption, etc.).
<b>E&amp;S opportunities</b>	New business opportunities arising from meeting E&S challenges such as development of clean or renewable technology, job creation and community development. Taking account of E&S issues in making a business decision, could also lead to potential benefits to the client or the Bank providing financial services to the client.
<b>Equator Principles</b>	The Equator Principles are a voluntary set of standards for identifying, assessing and managing environmental and social risk in project financing.
<b>IFC</b>	International Finance Corporation
<b>Principles</b>	Nigerian Sustainable Banking Principles
<b>SME</b>	Small and Medium Enterprise
<b>Sustainable Banking</b>	We define sustainable banking as an approach that recognises the role of Banks in driving long-term economic development in Nigeria that is not only economically viable, but also environmentally responsible and socially relevant.
<b>UNEP-FI</b>	United Nations Environment Programme – Finance Initiative



## Guidance Note for the Nigerian Sustainable Banking Principles

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### Introduction

**What:** The Principles have been developed by and for the banking sector in Nigeria to signal our commitment to economic growth that is environmentally responsible and socially relevant. As financiers and business leaders, we recognise the role that we can play to deliver positive development impacts to society whilst protecting the communities and environments in which we operate. Banks can deliver on this role by:

- Understanding and appropriately managing the E&S risks and opportunities associated with their respective Business Activities and Business Operations;
- Improving economic stability by improving the lives of people through the protection of human rights, promotion of women's economic empowerment, and increased access to finance for the unbanked segments of the economy;
- Working together to develop across the sector the right governance structures, E&S management capacity and collaborative partnerships necessary to implement the Principles; and
- Measuring and reporting progress.

The implementation of the Principles can serve as a powerful platform to drive the kind of profitable yet sustainable economic growth the banking sector needs and wants to see in Nigeria. In particular, three sector-specific guidelines have been developed to frame the role of the Banks with regard to driving sustainable investment in and lending to three sectors critical to Nigeria's continued economic growth story: agriculture, power and oil and gas.

**Why:** The business activities of the clients that Banks fund can have potentially negative impacts on the environment or local communities where their clients operate. These negative impacts can include air or water pollution, destruction of biodiversity, threats to human health and safety, violations of labour rights, or displacement of livelihoods. Each of these issues may have hidden external costs which in turn hinder the overall growth prospects of the economy and society. When Banks provide financial products and services to clients with poor E&S performance, they not only enable such clients to impose these negative impacts on the environment and society, but expose themselves to risk in the form of credit risk, reputational risk, and legal risk. In addition, a Bank's Business Operations may potentially have negative impacts on the environment or local community in which it operates. We therefore commit to leading by example and improving our own E&S performance.

We believe that Sustainable Banking is good business. If we appropriately manage E&S risks and opportunities, we will enhance our:

- Overall risk management which in turn reduces costs and liabilities;
- Ability to access capital and attract foreign investors and partners;
- Financial and non-financial performance;
- Brands and reputations at the individual organisation as well as sector level;
- Operational efficiencies;
- Ability to attract and retain talent;
- Relationships with our clients by becoming a trusted advisor; and
- Growth prospects by reaching new markets and innovating new products and services.

**How:** The Principles are based on leading international sustainable finance standards and established industry best practice, but they are developed in line with the Nigerian context and development needs. We have adopted a mitigation approach to our Business Activities and Business Operations in which we commit to avoid, minimise or offset negative E&S impacts where possible. At the same time, we have also sought to be pro-active about promoting positive development impacts where we can, recognising that the benefits to society can also drive business opportunities for Banks.

We have taken a Principles-based approach which means that we have not prescribed specific implementation requirements or rules. Therefore, the Principles shall be interpreted and applied by each Bank in a manner that provides for an appropriate fit with the Bank's core values, business model, and enterprise risk management framework. Each Bank will need to develop an E&S management system which incorporates the Principles and balances the identification of E&S risk and opportunities. The degree and level of E&S management should be commensurate with the scale and scope of a Bank's Business Activities and Business Operations.

Each Bank will apply the Principles to its domestic operations. Where relevant, it will be at the discretion of a Bank to determine whether to apply the Principles to its international Business Activities or Business Operations.

This Guidance Note:

- Provides definitions of terms and abbreviations (*see Glossary on page 2*);
- Describes each Principle and how it applies to the Business Activities and Business Operations of Banks;
- Provides targets and recommended approaches to implementing each Principle; and
- Suggests how a Bank can measure, monitor and report on its progress in meeting the Principles.

**When:** Upon adoption of the Principles, the Banks have 12 months to establish an E&S management system which includes, at a minimum, an overarching Sustainable Banking commitment statement, E&S policies and procedures, and a Sustainable Banking reporting framework. Implementation of the E&S management system begins in year two, including data capture for reporting purposes. All Banks must issue an initial Sustainable Banking report detailing their respective Principles implementation progress no later than 31 December 2013. A full Sustainable Banking report will be required from each bank no later than 31 December 2014.

### **Scope of Application**

The Principles and this Guidance Note apply to a Bank's: (a) Business Activities; and (b) Business Operations.

In the case of a Bank's Business Activities, how the Principles will be applied will depend on the nature of the Business Activity to be financed. Typically, the higher the level of E&S risk or E&S opportunity, the higher the level of attention and management required from a Bank. In addition to the type of transaction, the key considerations are the sector in which a client operates and the client's commitment and capability to manage E&S issues.

The Principles and this Guidance Note may not be appropriate for application to some financial services such as asset management or insurance or in the cases where there may be limited opportunity for a Bank to influence a client's E&S performance. A Bank must clearly indicate which financial products or services have been excluded from application of the Principles and provide justification in its Sustainable Banking policy.

## Implementation of the Principles

In summary, each Bank shall:

- **Set the tone from the top:** Integrating the Principles into the organisational culture of a Bank requires strong executive leadership to ensure successful implementations. The Board should demonstrate its commitment to the Principles through its policies and decisions. Senior management shall be responsible for meeting targets set by the Board relating to the implementation of the Principles.
- **Establish Sustainable Banking approach:** A Bank shall develop: (a) an overarching Sustainable Banking policy which defines its commitment and approach to Sustainable Banking and implementation of the Principles; (b) a set of Sustainable Banking procedures which detail how the Bank will manage E&S risk and opportunities consistent with its core business and existing internal decision-making processes; and (c) a Sustainable Banking reporting framework. A Bank's Sustainable Banking approach will:
  - **Articulate how the Principles are relevant** for the Bank's specific Business Activities and Business Operations and how the Bank will apply the Principles.
  - **Integrate the Principles into business decision-making processes** through the provision of assessment criteria and decision frameworks for Business Activities (an E&S management system) and for Business Operations (E&S Footprint management framework). These frameworks for applying the Principles should be consistent with, and integrated into, existing internal processes as well as, where applicable, a Bank's enterprise risk management framework
  - **Incorporate relevant international E&S standards and industry best practice:** In addition to compliance with local laws, all Banks shall apply, where relevant, international E&S standards and industry best practice such as the IFC Performance Standards, the Equator Principles for project finance, the World Bank Group Environmental, Health and Safety Guidelines for lending to different sector activities, or strategies for sustainable financing by UNEP-FI.
  - **Define clear E&S governance structures** relating to roles and responsibilities, practices and standards, codes of conduct, performance-linked incentives, audit procedures and disclosure requirements.
  - **Measure and report progress:** A Bank shall articulate objectives, performance indicators and milestones against which the Bank can measure its progress in implementing the Principles and its Sustainable Banking policy and procedures. As part of its public commitment to adopting the Principles, a Bank will report publicly its implementation progress on an annual basis.
- **Build and maintain sufficient institutional capacity:** A Bank must dedicate adequate resources and capacity to deliver its Sustainable Banking commitments. Appropriate roles and responsibilities across functions must be identified and articulated, relevant employees trained, and performance indicators adjusted accordingly.
- **Leverage collaborative partnerships:** A Bank should actively seek ways to deepen its understanding of sustainability issues and practices. Representation in international sustainability initiatives, platforms and commitments will support this objective but can also help to raise the profile of the Nigerian Sustainable Banking Principles internationally while providing a platform for knowledge sharing.

**Figure 1** below provides an overview of a Sustainable Banking Approach, incorporating each of the nine principles. Note that the main figure represents application of the Principles at the individual Bank level, whereas "Capacity Building" and "Collaborative Partnerships" would apply at the individual Bank level as well as at the sector level.

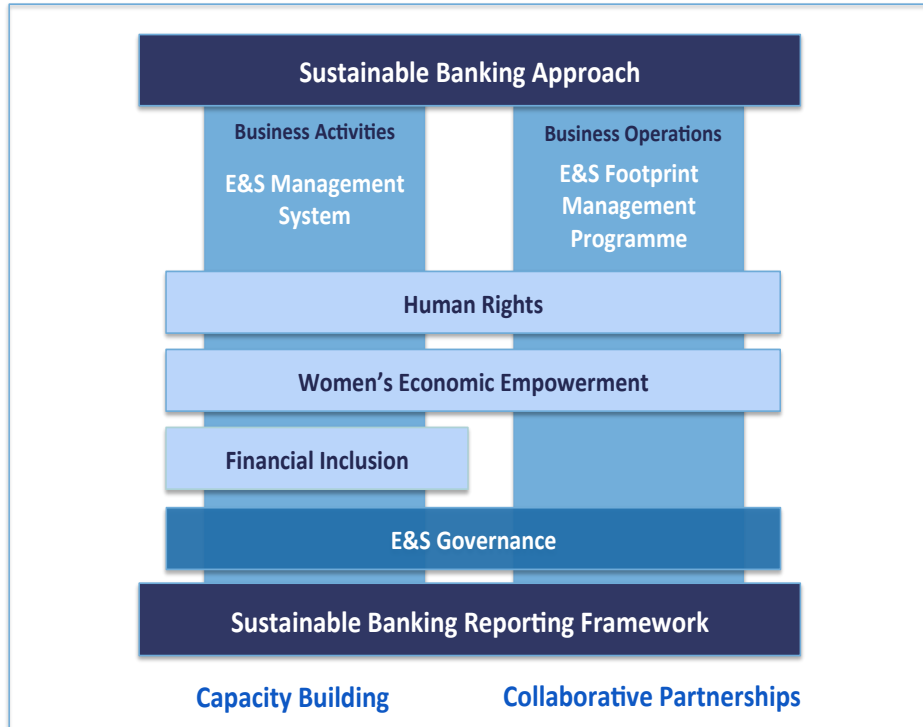


Figure 1: Sustainable Banking Model for Implementation of the Nigerian Sustainable Banking Principles

An overview of the key implementation phases and activities for the next two years is provided below in Figure 2:

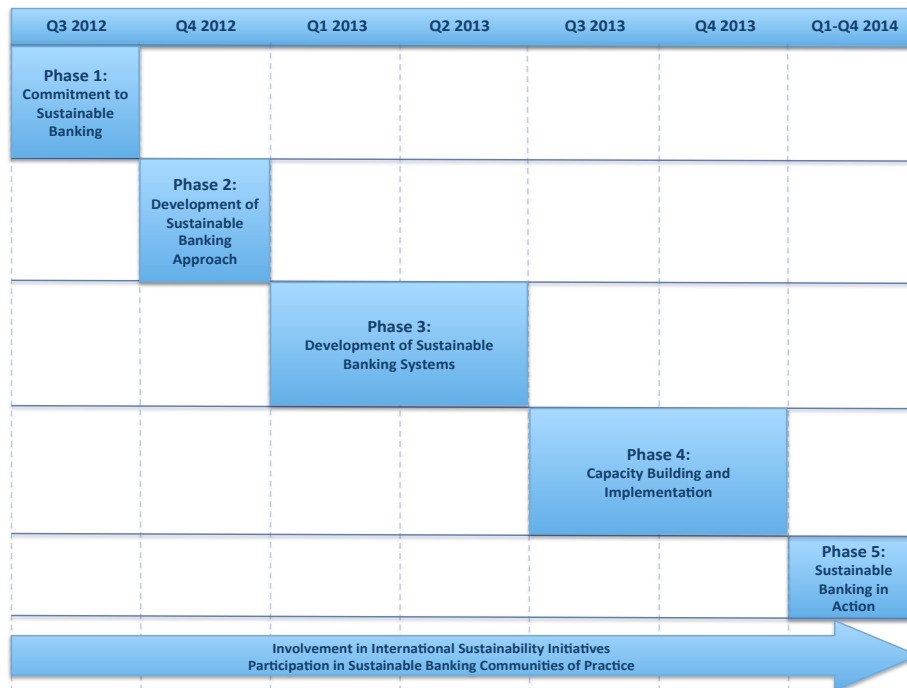


Figure 2: Implementation Phases and Activities Timeline

The table below provides a summary of the implementation phases and activities:

Phase 1: Commitment to Sustainable Banking	Phase 2: Development of Sustainable Banking Approach	Phase 3: Development of Sustainable Banking Systems	Phase 4: Capacity Building and Implementation	Phase 5: Sustainable Banking in Action	Ongoing
Adoption of Principles  Creation of Sustainable Banking Desks/Units: <ul style="list-style-type: none"> <li>• Business Activities</li> <li>• Business Operations</li> </ul> Board Level Capacity Building  Establish Sustainable Banking Committee  Executive Level Capacity Building	Development of Sustainable Banking Approach <ul style="list-style-type: none"> <li>• E&amp;S Management System</li> <li>• E&amp;S Footprint Management</li> <li>• Cross Cutting Themes (HR, WEE, FI)</li> <li>• Institutional Capacity Building</li> <li>• Commitment to Standards</li> <li>• Sustainable Banking Reporting Framework</li> </ul> Establish Sector Guideline approaches (incl. Targets/Reporting)	Develop E&S Governance Framework  Procedures/Systems Development (E&S Management System, E&S Footprint Management)  Implementation Targets and Milestones (incl. 5 Year Plan)  Reporting Criteria	Institutional Capacity Building  Develop and deliver initiatives (WEE, FI)  Client Engagement  <b>Initial Sustainable Banking Progress Report (31 Dec 2013)</b>	<b>First Full Sustainable Banking Report (31 Dec 2014)</b>	Involvement in international sustainability initiatives  Participation in Sustainable Banking Communities of Practice

Further details about the specific activities are included in the following sections covering each of the Principles.

## Principle 1 | Our Business Activities: Environmental and Social Risk Management

**We will integrate environmental and social considerations into decision-making processes relating to our Business Activities to avoid, minimise or offset negative impacts.**

### What does this Principle mean?

In the delivery of its core Business Activities, a Bank may be exposed to the E&S risks associated with the underlying business activities of the clients it finances. These risks may represent credit and/or reputational risk, and a Bank needs to incorporate E&S risks into its enterprise risk management framework. In this way, a Bank can effectively assess and manage the level of E&S risk exposure associated with clients. A Bank's approach must be commensurate with the nature and scale of the client's operations, sector and the nature of E&S risks and potential impacts. By carefully considering the E&S risks and potential impacts associated with its clients, a Bank will be better able to manage reputational risk and improve the overall risk profile of its portfolio (e.g. credit, operational, legal risks). Senior management should, in the longer-term, seek to incorporate E&S risk and Sustainable Banking considerations into wider capital allocation decisions.

In applying this Principle, a Bank will incorporate in its decision-making processes an approach that systematically identifies, assesses and manages E&S risks and potential impacts associated with the client or business engagement. Where avoidance of E&S risk is not possible, a Bank should seek to engage with the client to minimise and/or offset identified risks and impacts, as appropriate.

### Understanding a Bank's exposure to E&S Risk

E&S issues<sup>1</sup> may include, but are not limited to, environmental damage, hazards to human health, safety and security, negative impacts on livelihoods and threats to a region's biodiversity and cultural heritage. A client will have control over the potential E&S impacts associated with its operations and can take the necessary action to mitigate these risks. A Bank can reduce its E&S risk exposure by ensuring that its clients can demonstrate the right level of commitment and capacity to manage E&S risks. Furthermore, a Bank can also assess the track record of its clients in terms of performance in relation to E&S commitment and capacity. By assessing a client's E&S approach and performance, a Bank may identify opportunities to provide additional services to support clients with E&S issues (e.g. new financial services for specifically addressing E&S impacts).

The extent of a Bank's exposure to E&S risk depends on: (a) the type of products or services being provided; as well as (b) the nature of the Bank's involvement with a particular client and the likelihood and/or severity of potential E&S impacts. The financial product or service will be associated with high, medium or low levels of potential exposure to risk based on funding, tenor and the role of the Bank, including cases where the Bank takes an ownership stake in equity or a commodity. The higher the level of risk, the more involved the management response will need to be for any E&S issues associated with the transaction or client's business activities. A broad indication of the different types of financial products/services and potential level of exposure to risk along with the corresponding nature of E&S management response is illustrated in the table below:

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<sup>1</sup> For a more comprehensive list of E&S issues please refer to the following link (<http://firstforsustainability.org/risk-management/environmental-and-social-issues.php>)

Type of Financial Products/Services	Potential Level of Exposure to Risk	Level of Response
Long-term corporate lending, project finance and advisory, investment banking (corporate advisory, structured lending and capital, other debt and equity investments), structured commodity or trade finance with an ownership stake, private equity with a majority ownership, SME lending in a sensitive sector	High to Medium	Requires a more involved approach to managing E&S issues.
Short-term corporate lending, SME lending in a non-sensitive sector, private equity with a minority ownership, and other types of short-term direct lending	Medium to Low	Requires a moderate or lighter approach to managing E&S issues.
Retail banking, other research and advisory, short-term financing, trade, leasing	Low	Requires a light approach, if at all, to managing E&S issues.

Beyond the type of financial product or service, a Bank's exposure to E&S risk is determined by a client's sector, location and ability to manage E&S risks. Clients with higher potential exposure to E&S risk will require more detailed due diligence (for further details, please see the following section).

A Bank should apply its E&S risk management approach according to the expected level and nature of risk exposure to potential E&S impacts.

### Implementation of Principle 1

A Bank should develop and take a practical approach to integrating E&S risk considerations through the:

- **Development of appropriate E&S policies:** A Bank must develop appropriate policies to integrate E&S risk considerations into its decision-making processes and enterprise risk management framework. This should include specific E&S policy application to different financial products and services, as part of the Bank's wider over-arching commitment to Sustainable Banking. E&S policies will need to state the E&S requirements and standards that apply to the different financial products and services of the Bank. If a Bank provides finance to sectors and geographies that are deemed more sensitive, additional sector or location specific E&S policies may need to be developed. All policy approaches should be appropriate for the financial products and services the Bank provides and should give attention to its priority sectors (e.g. Cement, Oil and Gas, Power, Infrastructure etc.). For example, a Bank may require different commitments for different business activities such as Project Finance or Retail Banking. At a minimum, Banks' E&S policies must commit to strictly review and potentially decline clients or engagements that do not comply with local E&S laws and regulations.
- **Development of appropriate E&S procedures:** A Bank should develop appropriate E&S management procedures as a formal part of its client engagement and approval process to implement its E&S policies. These procedures would include:
  - **Screening for potential E&S risks across applicable client engagements and financial product / service types:** Screening would include identification of potential E&S risks which require further due diligence or risk management or exclusion of particular activities that the Bank will not finance (e.g.

some development finance institutions require the application of exclusion lists which prohibit certain activities).

- **Categorisation of potential E&S risks:** A Bank should have in place a system to consistently categorise the potential E&S risks associated with its engagements and clients. A good practice system categorises potential E&S risk as high, medium or low (e.g. under the Equator Principles Category A is high risk with major or irreversible E&S impacts, Category B is medium risk with material but reversible E&S impacts and Category C is low risk with minor reversible E&S impacts). E&S risk categorisation should inform and determine the level and nature of E&S due diligence that is undertaken by the Bank as well as the necessary procedures required. In determining the appropriate level of E&S due diligence, a Bank will need to consider and combine the: (a) level of transaction risk associated with the type of financial services/products being provided (see previous table above); and (b) level of client risk associated with the potential E&S risks arising from the client’s business activities, sector or E&S performance track record. The matrix below illustrates how the relationship between transaction risk and client risk can determine how a Bank shapes its E&S due diligence approach.

TRANSACTION RISK	CLIENT RISK		
	High	Medium	Low
High (Category A)	Detailed Due Diligence	Moderate Due Diligence	Minimum Due Diligence
Medium (Category B)	Detailed Due Diligence	Moderate Due Diligence	Minimum Due Diligence
Low (Category C)	Moderate Due Diligence	Minimum Due Diligence	Minimum Due Diligence

- **Development and customisation of E&S due diligence procedures:** Procedures should be developed, consistent with existing internal procedures and processes, to manage different E&S risk categories, appropriate to the financial products and services of the Bank. In addition, where the Bank finances sensitive sectors with a higher E&S risk profile, E&S due diligence procedures may need to be tailored to incorporate sector-specific considerations and different E&S risk category levels. E&S training should be provided to staff that covers E&S risks and requirements for different financial products and services. Where E&S risks are identified and can be managed or mitigated, a Bank may formally agree the necessary actions with the client before disbursement of funds (e.g. requiring covenanting of E&S management action plans in loan documentation, or appropriate E&S risk disclosures in prospectuses and offering circulars). The review of E&S conditions and requirements should be integrated into client relationship, credit approval review procedures, the issuance of financing agreements and on-going review and monitoring processes.
- **Articulation of E&S governance and approval authority measures:** Effective implementation of a Bank’s E&S policies and procedures requires a defined governance structure with clearly articulated roles and responsibilities, structure and staff to implement E&S policy commitments (as detailed in **Principle 6**).
- **Monitoring E&S risks and reviewing E&S conditions:** It is important to monitor the client’s on-going E&S performance to ensure that its E&S risks are being properly managed over time. Where conditions are not met, the issue should be escalated to the appropriate authority for consideration, consistent with the overall governance structure and procedural approach of the Bank.



- **Provision of client engagement guidance on E&S issues:** Training should be provided to the Bank's client relationship managers and risk staff on how to engage clients on E&S issues (as detailed in **Principle 7**).
- **Development of appropriate E&S reporting criteria:** A Bank will need to report on its E&S risk assessment processes including but not limited to: total number of clients and engagements assessed for E&S risks, by risk category, sector and financial product type.
- **Reporting on implementation progress:** The Bank should report on the progress made in implementing this Principle (as detailed in **Principle 9**).
- **Support for investment in sustainable, innovative business opportunities:** In addition to E&S risk management, Banks should develop processes to identify and invest in business opportunities, clients or sectors that promote the use of advanced E&S risk management practices, new technologies, low carbon activities, entrepreneurial SMEs, etc. in line with extant banking laws and which aim to achieve a positive impact. A Bank may decide to offer preferential financing conditions (e.g. rates, maturity, grace period, eligibility criteria, etc.) for profitable clients or investments that demonstrate strong E&S performance. In addition, investing in sustainable, innovative businesses also positions the Bank as a driver of economic growth and stability.

### Demonstrating Progress

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>E&amp;S policies developed and implemented</b>	<ul style="list-style-type: none"> <li>• Development of an E&amp;S policy - the policy should be disclosed in a Bank's corporate communications such as its website (including the provision of a description of the E&amp;S policy framework and management system). Additional sector or location specific policies, if appropriate, may be developed.</li> </ul>	Developed by Q4 2012; on-going implementation thereafter
<b>Establish Sector Guideline approaches</b>	<ul style="list-style-type: none"> <li>• Development of sector-specific E&amp;S approaches for relevant business units consistent with the Sector Guidelines.</li> <li>• Agree and include targets and reporting requirements on progress.</li> </ul>	Developed by Q4 2012
<b>E&amp;S procedures developed and implemented</b>	<ul style="list-style-type: none"> <li>• Concurrent with E&amp;S policy, development and implementation of procedures for managing E&amp;S issues, with clearly articulated roles, responsibilities, structure and staff. Note that a Bank, may over time, amend or modify its E&amp;S procedures to accommodate minor changes to E&amp;S policies or other related systems and procedures.</li> </ul>	Developed by Q1-2 2013; on-going implementation thereafter
<b>E&amp;S Management System reporting</b>	<ul style="list-style-type: none"> <li>• Development of E&amp;S risk reporting framework and criteria (e.g. basic quantitative data including requirements to report:               <ul style="list-style-type: none"> <li>○ Total number of clients and engagements assessed for E&amp;S risks, by risk category, sector and financial product type;</li> </ul> </li> <li>• Data capture to begin when E&amp;S policies, procedures and risk reporting framework have been finalised and rolled out.</li> <li>• E&amp;S Management System reporting to occur annually as part of</li> </ul>	E&S Management System reporting framework: Q1-2 2013; on-going implementation thereafter

	<p>Sustainable Banking report.</p> <ul style="list-style-type: none"> <li>• Longer term targets for reporting on implementation process year-on-year would focus on: (a) the percentage of clients, and portfolio screened in E&amp;S risk; (b) the extent of impact mitigated; and (c) the number projects/clients with E&amp;S action plans and E&amp;S rating improvements over the time.</li> </ul>	
<b>Client engagement</b>	<ul style="list-style-type: none"> <li>• Capture cases where client engagement on E&amp;S issues resulted in positive outcomes for the client and the Bank.</li> <li>• Organising events to build relationships and raise client awareness on different E&amp;S risk issues and how they are relevant to client business activities. Client feedback or satisfaction levels linked to E&amp;S engagement could be used to demonstrate progress.</li> </ul>	On-going

## Principle 2 | Our Business Operations: Environmental and Social Footprint

**We will avoid, minimise or offset the negative impacts of our Business Operations on the environment and local communities in which we operate and, where possible, promote positive impacts.**

### What does this Principle mean?

Seeking to lead by example, a Bank will consider the direct impacts on the environment and society arising from its own Business Operations. A Bank will work to be a driving force for good in the communities and natural environment in which it operates by finding ways to avoid, minimise or offset negative impacts whilst innovating new means to achieve positive gains. This approach requires the management of a Bank's E&S footprint through:

- Efficient use of materials and resources such as energy and water consumption and effective waste management in physical operations and supply chains;
- Compliance with applicable labour and social standards; and
- Alignment of a Bank's community investment programmes with Nigeria's overall goals for economic and social development (e.g. promoting greater access to finance and basic needs in the community, reducing poverty, improving health, increasing long-term employment, driving economic empowerment of women, etc.)<sup>2</sup>.

This would also include the assessment of the E&S commitment, capacity and track record of its suppliers, contractors and third party providers. By behaving in a responsible manner and upholding the standards it will require of its own clients, a Bank demonstrates a credible and consistent commitment to Sustainable Banking.

### Implementation of Principle 2

A Bank should take a practical approach to managing the potential negative impacts of its Business Operations and promoting positive impacts through the:

- **Development of an environmental management programme with facilities management**, which addresses:
  - **Climate change and greenhouse gas emissions reduction:** A Bank can support energy efficiencies by promoting or utilising renewable power generation, reducing business travel and commuting, and adopting green building standards and practices for operating and maintaining facilities and buildings.
  - **Water Efficiency:** A Bank should promote the efficient use of water and seek to sustainably manage its use of water resources (i.e. reduce, reuse and recycle) that may include improved maintenance of infrastructure and recycling wastewater for grounds management.
  - **Waste Management:** A Bank should improve waste management by eliminating, reducing, and recycling product and paper waste; using not only less material (e.g. less paper, less packaging, etc.) but also implementing more efficient waste management systems to reduce the amount of waste produced.
  - **Environmentally friendly facilities construction and management:** A Bank should strive to improve the energy efficiency of its existing facilities and, where new facilities are constructed, incorporate

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<sup>2</sup> For a Bank with a strong retail presence, this may enhance the reputation of the Bank in the community but will also secure and ensure the future of its customer base.

relevant or leading “green” technology or energy efficient building standards. A Bank should also ensure appropriate health and safety considerations are taken into account in managing physical operations and, where possible, provide positive improvements (e.g. disabled facilities etc.).

- **Compliance with relevant labour and social standards:** A Bank should outline the minimum labour and social standards it will apply in managing its own Business Operations consistent with international good practice standards such as those contained in the United Nations Declaration of Human Rights and the International Labour Organisation.
- **Implementation of a community investment programme:** A Bank should develop and promote investment in community projects and initiatives with the aim of contributing to the sustainability and development of the communities in which its Business Operations are located. This programme, which should be supported by senior management, could include a range of resources and donations such as employee volunteer hours, other in-kind support and financial support to community initiatives that demonstrate clear positive social outcomes, such as new ways to deliver basic services and those that remove barriers to economic participation.
- **Application of E&S standards to relevant third parties:** A Bank should articulate E&S procurement standards for Bank suppliers, contractors, and other third party service providers in the Bank’s Sustainable Banking policy and procedures. The Bank should screen, engage and monitor such service providers to ensure they meet applicable E&S standards and requirements. In addition, the Bank could adopt procurement policies that include responsible sourcing and certification standards.

### Demonstrating Progress

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>E&amp;S Footprint management programme developed and implemented</b>	<ul style="list-style-type: none"> <li>• Development of an E&amp;S footprint management programme, including processes to manage the E&amp;S footprint of a Bank’s Business Operations (i.e. environmental issues relating to climate change, greenhouse gas reduction, water efficiency, waste management, facilities and social issues relating to labour, health and safety, human rights standards). Best practice could include ISO 14001, United Nations Declaration of Human Rights and the International Labour Organisation.</li> <li>• Identification of key roles in procurement/vendor management, facilities management, communications, human resources other relevant departments to develop relevant E&amp;S policies and procedures and E&amp;S management programme.</li> <li>• Development of implementation plan to initially establish and roll-out environmental management programme, with on-going implementation thereafter.</li> </ul>	Developed by Q4 2012; on-going implementation thereafter
<b>Community investment programme</b>	<ul style="list-style-type: none"> <li>• Development of a community investment programme, supported by senior management, which ensures Bank resources are deployed to generate long-term positive</li> </ul>	Developed by Q4 2012; on-going implementation

	community impacts consistent with wider national development goals.	thereafter
<b>E&amp;S standards for third parties developed and applied</b>	<ul style="list-style-type: none"> <li>• Development of third party E&amp;S standards to manage E&amp;S risk and potential impacts associated with engaging third parties (i.e. suppliers, contractors, third party service providers, etc.).</li> <li>• Development of an initial implementation plan, to establish and roll-out appropriate standards with on-going application and monitoring thereafter.</li> </ul>	Developed by Q1-2 2013; on-going application thereafter
<b>E&amp;S Footprint Reporting</b>	<ul style="list-style-type: none"> <li>• Development of E&amp;S footprint reporting framework and criteria (e.g. basic quantitative data) including requirements to report with regard to: <ul style="list-style-type: none"> <li>○ E&amp;S footprint management programme: continuous improvement year-on-year demonstrated through quantifying and reporting results consistent with the Global Reporting Initiative standards for environmental management and other labour and social standards.</li> <li>○ Community investment programme: reporting metrics should include information about level of contributions (human capital, time, financial and other resources) and for what purposes.</li> <li>○ Third party E&amp;S standards: reporting metrics should include information about the number of suppliers, contractors, and third party service providers assessed and the standards that have been applied.</li> </ul> </li> <li>• E&amp;S footprint reporting to occur annually as part of Sustainable Banking report.</li> </ul>	E&S footprint reporting framework: Q1-2 2013;

## Principle 3 | Human Rights

**We will respect human rights in our Business Operations and Business Activities.**

### What does this Principle mean?

Increasingly, human rights are emerging as a prominent business issue. While they were once regarded the purview of governments and state level action, community pressures and political changes worldwide have made human rights an important consideration in business impacts on the community and society. A Sustainable Banking approach recognises and respects human and labour rights in a Bank's Business Operations as well as its Business Activities. Good labour and human resource practices are important to ensure that a Bank retains a talented and productive workforce to meet its business objectives. Having business partners and clients with good human rights records protects a Bank's reputation as an institution worthy of respect and trust. Human rights violations that are associated with a Bank's Business Activities or clients will not only undermine the Bank's standing, it can also make the Bank vulnerable to public scrutiny.

In applying this Principle, a Bank commits to upholding and respecting human rights and internationally recognised standards in its own Business Operations. In addition, though its ability to influence a client's behaviour may be limited, a Bank will assess the human rights commitment, capability and track record of the clients to which it provides financial services.

### Implementation of Principle 3

A Bank should develop and take a practical approach to managing human rights issues in its Business Operations and Business Activities through:

- **Development and implementation of a human rights policy:** A Bank should develop a human rights policy (either as part of a wider Sustainable Banking policy or as a standalone policy). The policy should cover the Bank's commitment to upholding human rights standards in its own operations (including labour and working conditions), as well as conducting due diligence to assess the treatment and management of human rights by its clients. A Bank's approach to human rights should be consistent with promoting the requirements, and improving the enforcement, of: the Nigerian Constitution, the United Nations Declaration on Human Rights, and other international treaties to which Nigeria is a signatory. A Bank will require its clients to adhere to applicable local laws, regulations and the standards contained in conventions (international or otherwise) that apply.
  - Key policies and requirements should include: (a) ban on discrimination against any group or individual, based on race, gender, religion, culture, politics or economic background; (b) recognition of the rights of traditional, indigenous, or rural communities that have unique cultural value; and (c) recognition of employees' entitlement to safe and fair labour conditions and to exercise collective and individual rights to associate and speak freely, as allowed by national law.
  - A Bank should outline the minimum human rights standards it will apply in managing its own Business Operations (e.g. prohibiting the use of child labour and forced labour). Additionally, a Bank should seek to outline the human rights standards it will apply to its clients (e.g. to not support clients and/or transactions where child labour and forced labour is evident), consistent with leading international standards.

- Human rights considerations must be taken into account where Business Operations or Business Activities involve the deployment of security personnel, including adherence to the principles established in the Voluntary Principles on Security and Human Rights.
- **Integration of human rights due diligence into E&S procedures:** A Bank should integrate human rights due diligence into its decision-making processes when assessing clients and engagements and when selecting the Bank's suppliers, contractors and third party service providers (see, for example the [UNEP-FI Human Rights Toolkit](#)). A Bank's approach to human rights should detail how it manages identified human rights issues as well as provide guidance for establishing an appropriate grievance mechanism to address human rights complaints or disputes.
- **Investment in resources and training of staff on human rights issues:** To ensure a Bank has the capacity and resources to successfully implement its human rights policies, a Bank should dedicate resources to train and educate staff on human rights and labour issues in general, and on their relevance to the Bank's Business Operations and Business Activities.

### Demonstrating Progress

In implementing this Principle a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>Human rights approach</b>	<ul style="list-style-type: none"> <li>• Development of human rights policy, either as a standalone policy or integrated into Sustainable Banking policy. The policy will be consistent with the United Nations Declaration on Human Rights, the Nigerian Constitution and local law. Best practice would include the UN Guiding Principles on Business and Human Rights.</li> <li>• Development and implementation of human rights due diligence procedures and tools to screen, assess, and integrate human and labour rights considerations into business decision-making processes.</li> <li>• Clearly defined roles and responsibility for application of human rights standards across the Bank's Business Operations.</li> <li>• Development and implementation of a mechanism for handling grievances and disputes.</li> <li>• Development of implementation plan to initially establish and roll-out human rights policy requirements; on-going implementation thereafter.</li> </ul>	Developed by Q4 2012; on-going implementation thereafter
<b>Human rights training</b>	<ul style="list-style-type: none"> <li>• Training of employees on human rights issues.</li> <li>• Owners of human rights policies sufficiently trained on implementation responsibilities.</li> <li>• Reporting metrics could include level of investment and numbers of employees trained.</li> </ul>	By Q3-4 2013; on-going as needed
<b>International commitments</b>	<ul style="list-style-type: none"> <li>• Adherence to international commitments such as the United Nations Global Compact or participation in international initiatives on human rights can drive deeper understanding of key issues as well as raise the profile of the Nigerian banking sector.</li> </ul>	On-going

<p><b>Human Rights Reporting</b></p>	<ul style="list-style-type: none"> <li>• Development of human rights risk reporting criteria (e.g. basic quantitative data including requirements to report e.g. total number of clients and engagements assessed for human rights risks.</li> <li>• Human rights reporting to occur annually as part of Sustainable Banking report.</li> </ul>	<p>Human rights reporting criteria: Q1-2 2013;</p>
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## Principle 4 | Women's Economic Empowerment

**We will promote women's economic empowerment through a gender inclusive workplace culture in our Business Operations and seek to provide products and services designed specifically for women through our Business Activities.**

### What does this Principle mean?

In many parts of the world, including Nigeria, women often face the barriers of discrimination and persistent gender inequalities which deny them access to finance or the formal economy. But the ability of women to fully participate in the economy (both formal and informal) is fundamental to sustainable economic growth and development. In the context of the Principles, women's economic empowerment refers to the ability of women to participate in, wholly contribute to, and fully benefit from, the Nigerian economy without prejudice and in a way that recognises the value of their contributions, respects their dignity, and creates a fairer distribution of income. Economic empowerment increases women's access to economic resources and opportunities including jobs, financial services, property and other productive assets, skills development and market information. This in turn leads to sustained economic growth and a more equal society. We will promote women's economic empowerment through our Business Activities by developing products and services specifically aimed at women and consistent with the wider CBN women economic empowerment strategy.

In terms of our Business Operations, each Bank will commit to promoting an inclusive workplace culture and initiatives that support the leadership development and positive contribution of female employees at all levels of the organisation. A Sustainable Banking approach recognises that business performance and productivity are enhanced by a diverse workforce and incorporates the value and ability of women to contribute and succeed in the workplace. For example, companies with a high representation of women board directors outperformed those with low or no representation by 53% for return on equity and 66% for return on invested capital<sup>3</sup>.

For Banks, women can mean good business: (1) skilled women represent a broad and motivated talent pool from which to hire and promote to all levels of the organisation; and (2) as half of the population, women not only represent a powerful force for driving economic growth but a vastly underutilised customer base.

### Implementation of Principle 4

A Bank should take a practical approach to women's economic empowerment that is appropriate for its Business Activities and Business Operations through:

- **Developing and implementing a women's economic empowerment policy:** As part of a Bank's wider Sustainable Banking commitment, a women's economic empowerment policy should be developed and implemented to be consistent with CBN strategy and targets (e.g. a minimum of 40% female representation at management and board level by December 2014). The approach should include developing clear short- and long-term objectives for a Bank's: (a) Business Activities: to provide products and services aimed at promoting gender equality for women and consistent with financial inclusion as detailed in **Principle 5** (e.g. financial loans and advice for female entrepreneurs); and (b) Business

<sup>3</sup> Source: Catalyst, 2007, Women Board Directors (WBD) Align with Strong Performance at Fortune 500 Companies.

Operations: to promote a gender inclusive culture and female talent management (e.g. leadership development, leave schemes, child care, wage equality etc.); and. Specific policy approaches should be aligned with existing human resource and product development policies and processes where appropriate.

- **Establish a Women’s economic empowerment committee:** A Bank should endeavour to establish an internal committee comprised of senior leaders from across the business to oversee accountability for gender diversity and to steer gender inclusive strategies consistent with the Bank’s core business activities.
- **Develop initiatives and programmes to promote and celebrate women empowerment:** To create a gender inclusive culture a Bank should support and establish initiatives designed to educate and empower women with new skills and provide opportunities for them to connect with senior role models. This could include setting up internal women’s networks to create connectivity between women at all staff levels and with female clients. A Bank should fully utilise the role of women employees in its core business activities (e.g. utilising female talent to develop products and services for female clients). Additionally a Bank should support sector level initiatives (e.g. the CBN’s ‘Year of the Woman’ in the banking industry) to celebrate and showcase successful women in the banking industry.
- **Invest and dedicate resources for female talent:** A Bank should dedicate specific leadership development and training programmes to support the development of a strong female talent pipeline. This would include coaching and mentoring programs to support the transition of female middle management to executive and board level positions.
- **Support the establishment of a sector-wide women empowerment fund:** In collaboration with the CBN and the Nigerian banking sector, a Bank should support the CBN’s commitment to establish a fund to be accessible by qualified businesses, owned and managed by female entrepreneurs.

### Demonstrating Progress

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>Women’s Economic Empowerment policy</b>	<ul style="list-style-type: none"> <li>• Development of women’s economic empowerment policy, either as a standalone policy or integrated into Sustainable Banking policy. The policy should be consistent with the CBN Women’s Economic Empowerment Strategy. The policy should aim to promote gender equality in two ways: (1) economic empowerment of women through the provision of financial services; and (2) gender diversity in the workplace.</li> <li>• Development of an implementation plan to initially establish and roll-out women’s economic empowerment policy requirements; on-going implementation thereafter.</li> </ul>	Developed by Q4 2012; on-going implementation thereafter
<b>Setup a Women’s Economic</b>	<ul style="list-style-type: none"> <li>• Setup of a dedicated women’s economic empowerment committee (comprised of senior leaders across the business) with defined responsibility for women’s economic empowerment</li> </ul>	By Q3-4 2013

<b>Empowerment Committee</b>	issues in the Bank's Business Operations.	
<b>Women's Empowerment Initiatives</b>	<ul style="list-style-type: none"> <li>• Develop and implement initiatives that focus on promoting gender equality and empowering women in the workplace and society.</li> </ul>	On-going
<b>Women's Economic Empowerment Reporting</b>	<ul style="list-style-type: none"> <li>• Development of women's economic empowerment reporting criteria (e.g. basic quantitative data including requirements to report): <ul style="list-style-type: none"> <li>○ Female composition in banks, across business units, management levels, and at Board level;</li> <li>○ Total investment made towards female employees</li> <li>○ Women's economic empowerment policies, structures and number of initiative programs in place.</li> </ul> </li> <li>• Women's economic empowerment reporting to occur annually as part of Sustainable Banking report.</li> </ul>	Women's Economic Empowerment reporting criteria: Q1-2 2013;

## Principle 5 | Financial Inclusion

**We will promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector.**

### What does this Principle mean?

A Bank should develop an approach that promotes accessible and affordable financial products and services to disadvantaged groups who are either not served or are underserved by the formal financial sector in line with the CBN's financial inclusion strategy. By catering to these needs, financial inclusion brings currently marginalised populations into the mainstream economy, improving their chances for resilient livelihoods and financial stability. For Nigeria's economic and social development, financial inclusion is a critical instrument for achieving key objectives such as: reducing extreme poverty; reducing barriers to economic participation by women and disadvantaged groups; improving financial education and financial literacy for all.

### Implementation of Principle 5

A Bank should take a practical approach to financial inclusion that is appropriate for its Business Activities through:

- **Developing and implementing a financial inclusion policy:** As part of a Bank's wider Sustainable Banking commitment, a financial inclusion policy should be developed and implemented which should be consistent with CBN financial inclusion strategy and targets (i.e. 80% financial inclusion by 2020 through channel growth, tiered KYC or know-your-client approach, enhanced consumer protection, improved financial literacy).
- **Providing development and growth support to SMEs:** A Bank should look to provide commercially viable support for small-scale entrepreneurs, start-ups and SMEs with targeted products and services. This may involve providing access to affordable financial services for micro-enterprises. A Bank should consider a financial inclusion approach that is appropriate for financing individuals as well as more established small enterprises. This is especially relevant given that for very small enterprises, personal finance is sometimes not easily distinguishable from the finances of the enterprise (i.e. sole traders).
- **Improving financial literacy and institutional practices:** A Bank should aim to provide services that remove educational, gender and other barriers to financial access, including initiatives to support 'consumer protection initiatives'.
- **Improving access to Bank facilities and services:** A Bank should seek to provide opportunity for increased access to its products and services through platforms such as cash centres, e-branches, and mobile money and increasing efficiency to serve more clients. A Bank should consider making its physical locations and facilities accessible to physically challenged persons.

### Demonstrating Progress

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
Financial	<ul style="list-style-type: none"><li>• Development of a financial inclusion policy, either as a standalone</li></ul>	The sooner of Q4

<p><b>inclusion policy</b></p>	<p>policy or integrated into the Sustainable Banking policy. The policy will be consistent with the CBN Financial Inclusion Strategy and will:</p> <ul style="list-style-type: none"> <li>○ Support SME development and growth.</li> <li>○ Define a financial literacy framework, promote inclusion of financial literacy curricula in primary, secondary and tertiary institutions of learning by 2020.</li> <li>○ Promote consumer protection: implement consumer protection framework as defined by the CBN by 2012.</li> <li>○ Develop products and services tailored to middle, low income and disadvantaged groups (e.g. female and youth clients) consistent with the CBN strategy including:</li> <li>○ <b>For female client segments:</b> <ul style="list-style-type: none"> <li>• Target of 60% of the micro SME development funds at women borrowers;</li> <li>• Require a minimum level of female staff of 30% in microfinance banks;</li> <li>• Encourage female management at retail agents;</li> <li>• Offer specifically tailored women entrepreneurship development.</li> </ul> </li> <li>○ <b>For youth client segments:</b> <ul style="list-style-type: none"> <li>• Ensure inclusion of 50% of youth that turn 18 every year;</li> <li>• Develop and implement a framework for child and youth finance;</li> <li>• Implement children and youth financial literacy initiatives in Nigerian education institutions.</li> </ul> </li> <li>○ Drive innovation for improved financial system accessibility and usage (e.g. branchless banking, access to physically challenged persons).</li> </ul> <ul style="list-style-type: none"> <li>• Development of implementation plan to initially establish and roll-out financial inclusion requirements; on-going implementation thereafter.</li> </ul>	<p>2012 or as is consistent with CBN Financial Inclusion Strategy</p>
<p><b>Financial Inclusion Reporting</b></p>	<ul style="list-style-type: none"> <li>• Development of Financial Inclusion reporting criteria (e.g. basic quantitative data including requirements to report) consistent with CBN defined criteria including: <ul style="list-style-type: none"> <li>○ Numbers of disadvantaged groups supported, level of investment or loan, and by state location;</li> <li>○ Numbers of new or innovative products or service offerings + uptake of such products or service offerings;</li> <li>○ Numbers of previously unbanked individuals banked, etc.;</li> <li>○ Number of branches segmented by branch type and location by state;</li> <li>○ Number of individual and SME accounts held with the bank, segmented by state location.</li> </ul> </li> <li>• Financial inclusion reporting to occur annually as part of Sustainable Banking report.</li> </ul>	<p>Financial Inclusion reporting criteria: Q1-2 2013;</p>

## Principle 6 | E&S Governance

**We will implement robust and transparent E&S governance practices in our respective institutions and assess the governance practices of our clients.**

### What does this Principle mean?

Robust, transparent governance on E&S issues is an important aspect of a Bank's commitment to Sustainable Banking and critical to its reputation as a credible, responsible institution. The way an organisation is governed provides insight into the organisation's business practices and accountability to its stakeholders. Among the key components of good E&S governance are: transparent organisational structures, clearly defined roles and responsibilities; reporting on and accounting for a Bank's performance and progress made on the implementation of the Principles.

It is also important to assess the E&S governance practices of a Bank's clients. A client with a sustainability commitment but poor E&S governance practices can present a serious business risk to a Bank. By assessing a client's E&S governance practices, and by encouraging improved E&S performance, a Bank can protect itself from potential financial, legal and/or reputational risk that can arise from a client that has poor E&S governance and low levels of accountability.

In applying this Principle, a Bank will establish an effective E&S governance structure in support of its Sustainable Banking commitments and to encourage comparable practices among its clients.

### Implementation of Principle 6

In developing its E&S governance approach, a Bank should consider both its own Business Operations as well as assess the activities of its clients. A Bank should:

- **Establish E&S governance responsibility:** A Bank must establish clear lines of responsibility, authority and accountability in its governing structure when developing its Sustainable Banking policies and procedures. The Bank's Board should have oversight of such policies as part of existing governance mechanisms. Senior management should ensure that relevant employees are given appropriate responsibilities and that appropriate measures are in place to support the Bank's Sustainable Banking commitments and targets.
- **Develop institutional E&S governance practices:** A Bank should develop robust and transparent procedures, which entail a clear governance structure, limits of authority, standards and codes of conduct to support implementation of its policies and the Principles. These procedures should be integrated into, or be consistent with, existing client assessment, decision-making processes and enterprise risk management frameworks.
- **Actively support key industry initiatives that aim to address E&S governance issues with clients operating in sensitive sectors:** Initiatives aimed at sensitive sectors such as the: (a) Extractive Industry Transparency Initiative; (b) Nigerian Extractive Industry Transparency Initiative; or (c) International Hydropower Association Sustainability Guidelines, should, where relevant, be endorsed and considered when conducting E&S due diligence and engaging with clients.

- **Implement E&S performance-linked compensation and incentive schemes:** A Bank should link employee performance to its E&S governance and accountability requirements. Appropriate incentives should encourage and promote the desired behaviours of employees in performing against their stated roles and responsibilities, and in turn meeting E&S governance and accountability standards. Rewarding both the short- and long-term performance objectives would further reinforce enhanced governance practices and performance.
- **Establish internal and, where appropriate, external E&S audit procedures:** A Bank should regularly conduct internal reviews of the integrity and quality of E&S governance and accountability practices and procedures for continuous improvement under its Sustainable Banking policies and procedures. In some cases, an external audit of E&S governance, accountability practices and procedures may be appropriate.
- **Increase public disclosure and dialogue:** A Bank should consider the level and detail of E&S information being publicly disclosed with regard to its progress in implementing the Principles. By bringing increased visibility and transparency to the Bank's efforts to implement the Principles, a Bank can build further credibility and trust with its clients and stakeholders.

### Demonstrating Progress

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>Sustainable Banking governance committee</b>	Establishment of a Board-level Sustainable Banking Governance Committee to oversee the development of Sustainable Banking commitments, which should include governance and accountability for E&S issues and ensure the measuring and monitoring of progress against those commitments.	Q3 2012
<b>E&amp;S governance integrated into risk committee and functions</b>	A Bank's Sustainable Banking policies and procedures should include a governance structure, which details roles and responsibilities relating to assessing and categorising E&S risk potentially associated with clients/engagements. This responsibility could be integrated into existing risk committee structure and function.	Q1-2 2013
<b>E&amp;S Performance-linked incentives</b>	A Bank should align Sustainable Banking governance and accountability performance metrics with its existing performance management indicators and processes to ensure that employees across all relevant functions are incentivised to deliver against agreed E&S related responsibilities and targets.	Q1-2 2013; on-going thereafter
<b>Internal and external E&amp;S audits</b>	As part of a commitment to continuous improvement, a Bank should undertake, on an annual basis: <ul style="list-style-type: none"> <li>• Internal audits to assess progress and monitor the effectiveness of E&amp;S governance structures and accountability practices and procedures.</li> <li>• External audits, using independent third party assessors to review Sustainable Banking and E&amp;S governance and accountability processes, which should be consistent with standard audit processes.</li> </ul>	Q3-4 2013; on-going annual audits

## Principle 7 | Capacity Building

**We will develop individual institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our Business Activities and Business Operations.**

### What does this Principle mean?

To successfully identify, assess and manage relevant E&S risks and opportunities, a Bank's employees must be able to understand how and when E&S issues may be associated with the Bank's Business Activities and Business Operations and what are the consequent implications for the Bank. Therefore knowledge, skills and capacity relating to Sustainable Banking must be built from top levels of management to all relevant employees.

In applying this Principle, a Bank commits to developing the right skills, knowledge and capacity for management and employees to meet individual targets in connection with agreed Bank-wide Sustainable Banking commitments. A Bank will provide the necessary resources and support to equip and train employees on E&S management approaches based on roles, responsibilities and function.

Developing knowledge and awareness of E&S issues will be a continuous process for both individual Banks and the sector as a whole. Banks should seek to collaborate with one another, for example, by establishing a community of practice for shared learning wherever possible to provide for consistency in application of standards and practices.

### Implementation of Principle 7

In developing the appropriate institutional capacity, a Bank should:

- **Identify relevant roles and responsibilities for delivery against Sustainable Banking commitments:** A Bank should determine how E&S considerations impact on its Business Activities and Business Operations to determine appropriate roles and responsibilities for managing E&S issues across the Bank.
- **Provide Sustainable Banking training sessions:** A Bank should create awareness on E&S issues as well as training sessions as part of a Bank-wide learning programme across management levels and operational functions. Training could integrate criteria or baseline requirements that need to be met (e.g. exam scores). Training and capacity building initiatives could include but are not limited to: executive education, programmes delivered through industry platforms such as the Financial Institutions Training Centre or the Chartered Institute of Bankers of Nigeria, workshops delivered by external practitioners or consultants, secondments and staff exchanges or academic learning.
- **Create practical E&S training tools and resources:** A Bank should commit to providing appropriate decision frameworks, assessment and screening tools and resources that support the implementation of the Principles in a manner that is commensurate with the level of E&S risk associated with the nature of the Bank's Business Activities (i.e. type of financial products, sectors, profile of clients). Where possible, any Sustainable Banking content, tools and resources should be integrated into a Bank's general training and development programmes or curricula.



- **Multi-stakeholder capacity building:** Banks across the sector commit to collaborate with each other as well as engage relevant third parties such as the government, clients, development agencies, development finance institutions, industry associations, non-governmental organisations, external experts, academics and others to build sector level capacity and skills (also see **Principle 8**).

### Demonstrating Progress

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>Develop institutional Sustainable Banking capacity</b>	<ul style="list-style-type: none"> <li>• Identification of key roles and responsibilities across Bank functions to deliver against Sustainable Banking commitments within Business Activities and Business Operations.</li> <li>• Develop and deliver Sustainable Banking training sessions for Board and senior management across core business units.</li> </ul>	Q3 2012
	<ul style="list-style-type: none"> <li>• Creation of awareness of E&amp;S issues and development of training programmes across relevant management levels, commercial teams and mid- and back-office functions.</li> <li>• Development and implementation of training and education systems, tools and resources to address E&amp;S issues as part of the Bank's learning and development curricula.</li> </ul>	Q3-4 2013
<b>Develop sector Sustainable Banking Capacity</b>	<ul style="list-style-type: none"> <li>• Sector collaboration and shared learning platforms to create awareness and promote the training of Banks' personnel on practical implementation of applicable standards and practices.</li> <li>• Consider development of Sustainable Banking training and assessment tools and provision of resources to ensure consistency of application of standards and practices at the sector level.</li> <li>• Engage relevant third parties on a regular basis to build sector level capacity and skills.</li> <li>• Participation in Sustainable Banking Communities of Practice.</li> </ul>	On-going
<b>Sustainable Banking Capacity Reporting</b>	<ul style="list-style-type: none"> <li>• Development of reporting criteria: Training programmes developed and delivered (number, frequency, format, content, learning outcomes, numbers of participants trained and in what functions/roles within the Bank, examination results, pass/fail rates, etc.).</li> <li>• Sustainable Banking capacity building reporting to occur annually as part of Sustainable Banking report.</li> </ul>	Sustainable Banking Capacity reporting criteria: Q1-2 2013;

## Principle 8 | Collaborative Partnerships

**We will collaborate across the sector and leverage international partnerships to accelerate our collective progress and move the sector as one, ensuring our approach is consistent with international standards and Nigerian development needs.**

### What does this Principle mean?

Collaborative partnerships recognise and support the role the Banks can play in further developing Nigeria's economy and society whilst acknowledging that the Banks can do more together than they could acting alone.

In applying this Principle, the Banks should collaborate in a sector-wide effort to drive improved standards and progress of Sustainable Banking in Nigeria consistent with international standards and emerging industry best practice.

Banks should actively participate in international and multi-stakeholder initiatives so as to benefit from exposure, as well as contribute, to international standards and best practice, whilst lending credibility and authority to their institutional commitments under the Principles.

### Implementation of Principle 8

To implement this Principle, a Bank should:

- **Collaborate and coordinate with other Banks:** Whilst a Sustainable Banking approach can drive growth and business opportunities for a Bank, the Principles are designed to encourage collaboration and movement as a whole rather than drive competition and distance between individual Banks.
- **Convene sector-wide workshops and events:** Banks should collaborate to build greater Sustainable Banking capacity and impact by convening sector-wide workshops and events to discuss best practice relevant to the Nigerian context. Capacity building workshops and training programmes, designed and resourced collaboratively could be utilised to create a consistent level of understanding and awareness across the sector. Initiatives could include collaboration between Banks and clients in varying industries on addressing specific sustainability and Nigerian development challenges.
- **Commit to international standards and best practice initiatives:** Banks should commit to relevant international best practice standards and initiatives to demonstrate and profile Nigerian Banks' commitment to Sustainable Banking (e.g. the United Nations Global Compact, Millennium Development Goals, UNEP-FI, the Global Reporting Initiative financial sector supplement, the World Business Council for Sustainable Development, the Equator Principles, etc.).
- **Establish and participate in Nigerian sector level initiatives:** In collaboration with the CBN and the Bankers' Sub-Committee on Economic Development and Sustainability, Banks should work together to promote sector-specific initiatives (e.g. proposals for the finance of renewable energy) or economic development objective (e.g. poverty alleviation or economic empowerment of women) and leverage a collective approach for greater impact.

## Demonstrating Progress

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>Sector collaboration</b>	<ul style="list-style-type: none"><li>• Continuous engagement of the Banks within the Bankers' Sub-Committee on Economic Development and Sustainability to promote sector-specific or issue-based initiatives.</li><li>• Regular meetings and capacity building workshops to further the implementation of the Principles.</li><li>• Participation in Sustainable Banking Communities of Practice.</li></ul>	On-going
<b>Commitment to international standards and best practice initiatives</b>	<ul style="list-style-type: none"><li>• Meaningful, public commitments to leading global standards and active participation in international initiatives where relevant to core Business Activities and Business Operations or consistent with the Principles.</li></ul>	Q4 2012; on-going as new standards and initiatives are developed

## Principle 9 | Reporting

**We will regularly review and report on our progress in meeting these Principles at the individual institution and sector level.**

### What does this Principle mean?

Banks should develop and apply metrics for monitoring, measuring and reporting implementation progress.

In applying this Principle, a Bank commits to continuously monitor and measure performance against each of the Principles and will report progress against targets to its relevant internal and external stakeholders. Internal reporting mechanisms on the Principles should feed into the main decision-making processes of the Bank. Increasing the visibility and transparency of a Bank's progress against the Principles, at the individual as well as sector level, will help to enhance the credibility of the Nigerian banking sector as a whole.

### Implementation of Principle 9

To report on the implementation of the Principles, and the progress made against targets, a Bank should:

- **Establish a Sustainable Banking reporting template:** After a Bank has established appropriate Sustainable Banking commitment and implementation plan, a reporting template should be developed that: (a) is consistent with the objectives and reporting requirements of each the Principles; and (b) is aligned with the core values and business model of the Bank. Reporting data can be used to report internally to management, as well as inform external reporting requirements.
- **Set clear targets and relevant performance indicators:** A Bank should articulate clear goals, targets and measurement indicators to be monitored and measured for each Principle, as appropriate for the Bank's different Business Activities and Business Operations. Measurement indicators should show year-on-year growth and demonstrate progress trends for the Bank.
- **Ensure the necessary systems are in place to collect data:** A Bank should, consistent with its internal processes and systems, ensure that it can identify and obtain the right data needed to report internally and externally on the Principles. Information should be collected through existing systems where Sustainable Banking considerations can be integrated into the main data collection systems of the Bank. In addition, internal and external audits can provide data sources for demonstrating the implementation of the Principles. A Bank should collect relevant information relating to its Sustainable Banking policies and procedures, significant achievements and case studies, as well as customer feedback and other data that will demonstrate the progress made on each Principle.
- **Agree the frequency, nature and format of internal and external reporting:** A Bank should make clear in its Sustainable Banking policy and procedures what information will be reported, how it will be reported and to whom it needs to be reported. Reports should include progress demonstrated against the targets articulated for each Principle as well as the targets set within a Bank's Sustainable Banking policies and procedures. A Bank should aim to produce a report on an annual basis on a standalone basis or preferably as an integral part of the Bank's annual report to its shareholders. In addition, a Bank may be required to submit a sustainability report to relevant regulatory authorities as and when required.

- **Contribute to Sector-Level Reporting:** A Bank should produce external reports, at least annually, on the relevant progress and performance that it has made in implementing the Principles, which will inform a sector-level report on the collective success in implementing the Principles.

### Demonstrating Progress

In implementing this Principle, a Bank should be able to report progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>Develop an overall Sustainable Banking Reporting Framework</b>	<ul style="list-style-type: none"> <li>• Development of a reporting template that incorporates all of the relevant reporting criteria described for each of Principles consistent with the Bank's Sustainable Banking commitments.</li> </ul>	Q4 2012
<b>Agreed implementation targets and milestones</b>	<ul style="list-style-type: none"> <li>• Development of clear targets and milestones consistent with the Principles and the Bank's Sustainable Banking commitments, policies and procedures for its Business Activities and Business Operations.</li> <li>• Performance indicators should be articulated to measure progress and monitor year-on-year performance for continuous improvement.</li> </ul>	Clear targets and milestones Q1-2 2013; measurement of continuous improvement on-going thereafter
<b>Internal reporting system</b>	<ul style="list-style-type: none"> <li>• Consistent with sector best practice reporting requirements, a Bank must demonstrate ability to collect relevant data and information to evaluate its performance against the Principles and its Sustainable Banking commitments, policies and procedures. Data collection should be part of existing internal processes for optimal results.</li> <li>• A Bank should seek independent third party review and assurance of its internal reporting system and data collection processes.</li> </ul>	Setup data collection systems Q3-4 2013; Internal and/or independent review on-going thereafter
<b>External reporting</b>	<ul style="list-style-type: none"> <li>• Reporting to external stakeholders, at least annually, on progress against the Principles and the Bank's Sustainable Banking commitments, policies and procedures.</li> <li>• Progress against agreed objectives and targets will be incorporated into the reporting approach.</li> <li>• Reports, which may be standalone or an integrated part of the annual report, should meet reporting requirements specified in the Global Reporting Initiative Financial Sector Supplement.</li> <li>• Where appropriate, independent third party review and assurance of external auditing of reports should be demonstrated.</li> </ul>	Initial Sustainable Banking Progress Report 31 Dec 2013; First Full Sustainable Banking Report 31 Dec 2014; annually on an on-going basis

# **Nigerian Sustainable Banking Principles**

## **Power Sector Guideline**

**FINAL VERSION**

**July 2012**

## Glossary of Terms and Abbreviations

Term or Abbreviation	Definition or Explanation
<b>Bank</b>	A Nigerian: (a) money deposit Bank; (b) discount house; or (c) development Bank signatory to the Nigerian Sustainable Banking Principles Joint Commitment Statement.
<b>Business Activities</b>	The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, retail banking, trade and leasing, and other forms of direct lending.
<b>E&amp;S</b>	Environmental and social
<b>E&amp;S risks</b>	The potential E&S issues associated with a client or engagement that may imply exposure to risk and accordingly may need to be taken into account when making business and risk management decisions.
<b>E&amp;S impacts</b>	Any change, potential or actual, to (a) the physical, natural, or cultural environment, and (b) impacts on surrounding community and workers, resulting from a business or business activity to be financed. E&S impacts may be temporary or permanent, involving reversible or irreversible changes on the environment or society. Environmental risks can include changes to the atmosphere, water and land due to human activities (e.g. greenhouse gases, pollution, changes to habitats, etc.). Social risks can include impacts to a client's workforce as well as the surrounding community (e.g. occupational health and safety, human rights and labour standards, land disputes or resettlement, corruption, etc.).
<b>E&amp;S opportunities</b>	New business opportunities arising from meeting E&S challenges such as development of clean or renewable technology, job creation and community development. Taking account of E&S issues in making a business decision, could also lead to potential benefits to the client or the Bank providing financial services to the client.
<b>GHG</b>	Greenhouse Gas (e.g. sulphur oxides (SO <sub>x</sub> ), nitrogen oxides (NO <sub>x</sub> ), gases with Particulate Matter-10 (PM10))
<b>IFC</b>	International Finance Corporation
<b>NPC</b>	National Planning Commission
<b>Principles</b>	Nigerian Sustainable Banking Principles
<b>Sustainable Banking</b>	We define sustainable banking as an approach that recognises the role of Banks in driving long-term economic development in Nigeria that is not only economically viable, but also environmentally responsible and socially relevant.
<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organisation

# Nigerian Sustainable Banking Principles: Power Sector Guideline

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## 1. Introduction

This Guideline has been designed to complement the **Nigerian Sustainable Banking Principles** whilst focusing on the Power sector.

The objectives of this Guideline are to:

- Assist Banks in the identification and management of E&S risks associated with the provision of financial products and services to the power sector;
- Provide additional sector-specific guidance to supplement the Nigerian Sustainable Banking Principles Guidance Note; and
- Ensure that Banks adopt relevant international standards and best practices in the management of their E&S risk exposures.

In addition to this Guideline, wider recommendations on developing, promoting and financing alternative sources of power generation are provided in a companion document entitled Power Sector Position Statement.

## 2. Scope & Applicability

This Guideline covers the provision of financial products and services for the Power sector which includes, but is not limited to:

- Power generation sources and associated facilities (i.e. oil, gas and hydropower), except nuclear;
- Electricity distribution and transmission infrastructure (e.g. upgrades or extensions); and
- Alternative sources of power generation and associated facilities (e.g. solar, clean coal, wind, biomass, etc.).

The Guideline **applies to** all corporate lending, project and structured finance, equity and debt capital market activities, and advisory services provided to new and existing clients in the Power sector. The extent to which the Principles apply will depend on the level and nature of Power sector Business Activities financed by a Bank. Retroactive application of E&S requirements under this Guideline is not required for existing clients. The Guideline and its E&S requirements will, however, apply to any additional new facilities or services for existing clients.

This Guideline does **not cover** the provision of financial products and services for the extraction, processing and transport of energy raw materials (e.g. the extraction of oil and gas, coal, and other fuel sources). For guidance on oil and gas activities, please refer to the **Oil and Gas Sector Guideline**.

This guideline may not be appropriate for application to some power sector financial services such as asset management, or insurance or in the cases where there may be limited opportunity for a Bank to influence a client's E&S performance. A Bank must clearly indicate which financial products or services have been excluded from the application of the Guideline in a sector-specific approach as part of its Sustainable Banking policy.



### 3. Power Sector E&S Issues

Nigeria’s total installed energy generation capacity is currently derived from oil and gas (77%) and hydropower (23%)<sup>1</sup>. The large dependence on oil and gas for energy production which is traditionally associated with significant negative E&S impacts to the environment and society, also creates vulnerability for Nigeria with respect to potential climate change impacts. In addition, the country has poor electricity transmission infrastructure that makes distributing energy supply difficult.

The NPC recognises the challenges associated with power generation, transmission and distribution and noted these in the national transformation agenda under the Vision 2020 for Nigeria, which aims at transforming the nation’s economic landscape<sup>2</sup>. The National Technical Working Group on the Energy sector reported in the Vision 2020 document that energy is critical to economic development. In summary, the Nigerian power sector needs to ensure that:

1. Enough sustainable energy (both non-renewable and renewable sources) can be produced to meet demand (including the promotion of alternative and renewable energy sources);
2. Electricity infrastructure is improved and sufficient to deliver energy supply to users; and
3. All power generation, distribution and transmission activities are conducted in a sustainable manner, so as to effectively manage E&S issues.

Various types of power generation are associated with a diverse range of E&S impacts. The impacts can be significant owing to the size of the projects and the footprint of the power plant and associated infrastructure. As increasing attention is brought to the E&S risk profile of power generation technologies (notably with respect to GHG emissions), operations are likely to face more scrutiny (particularly in relation to fuel and technology choices). E&S risks vary greatly depending on the scale and type of power activity being financed. Table 1 below highlights some of the main E&S risks that may be encountered. Additionally, a summary of E&S considerations for different power generation sources is provided in **Appendix 1**.

**Table 1: Potential E&S risks associated with the power sector**

Risk Type	Potential Risk Issue
<b>Environmental</b>	<ul style="list-style-type: none"> <li>• <b>Increased GHG emissions</b>; air pollutant emissions, or locations where existing air quality is already poor due to <b>cumulative impacts</b> from combined pollution sources.</li> <li>• Not deploying <b>best available control technologies</b> for emissions and waste (e.g. hazardous pollutant deposits in water bodies and land).</li> <li>• <b>High water extraction</b> for cooling operations and which will affect water flow and quality to other ecosystem services that require water.</li> <li>• <b>Habitat defragmentation</b> with the construction of roads, transmission pylons and distribution lines, increasing access to previously remote areas and natural habitats.</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>• <b>People and economic displacement</b> (e.g. loss of assets such as land, crops, fisheries, agricultural</li> </ul>

<sup>1</sup> The World Bank Development Indicator Database, Country: Nigeria ([Link](#))

<sup>2</sup> Nigerian National Planning Commission, Vision 2020 ([Link](#))

	<p>land etc.).</p> <ul style="list-style-type: none"> <li>• <b>Conflict with local communities</b> as a result of the siting of plant or storage facilities due to the real and perceived risk of explosion, plants and storage facilities that are situated near populated areas may be of particular concern to local stakeholders.</li> <li>• <b>Damaged cultural heritage</b> including UNESCO sites, objects of religious, archaeological, natural significance.</li> <li>• Operations in areas subject to <b>natural hazard</b> (e.g. earthquake, extreme weather), which could affect the structural integrity of the plant (e.g. hydropower station/dam).</li> <li>• <b>Infringement of labour and human rights.</b></li> </ul>
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To support the achievement of the Vision 2020 for Nigeria, a more diverse and sustainable energy mix is required. This would include incorporating alternative solutions such as clean gas and coal technologies and renewable energy sources as well as encouraging greater energy efficiency across the value chain.

The banking sector has a key role to play in driving the national vision of attaining a secure and sustainable energy supply pivotal for the success of the Nigerian economy. However, it is recognised that Banks should support and finance current and future energy generation and distribution activities in a manner that takes into account due regard for the environment and society and is consistent with the Nigeria Sustainable Banking Principles and internationally accepted standards.

#### 4. Banking Requirements for Power Sector Financing

For all activities that fall within the scope of this Guideline a Bank shall:

1. Undertake appropriate E&S due diligence on power sector clients and activities to identify and assess potential E&S risks, as well as, determine a client’s ability to effectively manage identified risks. For new power developments, a Bank will require a client to provide a detailed E&S impact assessment and for existing developments require a recent E&S audit (for additional E&S considerations, see **Appendix 1**).
2. Require power sector clients to comply with Nigerian laws governing E&S issues (see **Appendix 2**).
3. Encourage power sector clients to meet the requirements of the IFC’s Performance Standards and relevant Environmental, Health and Safety guidelines that represent the minimum internationally accepted good practice (see **Appendix 3**).
4. Refer to key sustainability initiatives and good practices relevant for power projects during E&S due diligence. Where relevant, Banks will request their clients to work toward enhanced performance consistent with such initiatives, standards, and good practice (see **Appendix 3**).
5. Promote and encourage the uptake of opportunities relating to energy efficiency, clean technology, and renewable energy as appropriate.

#### 5. E&S Risk Implementation for Power Sector Business Activities

To meet these commitments and successfully manage E&S issues associated with the provision of financial products and services to power generation, a Bank should refer to the Nigerian Sustainable Banking Principles Guidance Note for implementing a robust E&S management system. A Bank should develop a sector-specific E&S approach for its power sector Business Activities as part of its Sustainable Banking policy and E&S management system. A Bank should seek to implement the recommended guidance as detailed in the Guidance Note appropriately. The Guidance Note includes

information for developing E&S policies and procedures as well as monitoring and reporting E&S risks. The following sections provide sector-specific guidance to be used in conjunction with the Guidance Note.

## **6. E&S Risk Categorisation of Power Sector Investments**

The following information serves to illustrate and support the categorisation of E&S risks for different power transactions. Typically a transaction will be categorised as high, medium or low risk but in the power sector, most transactions carry either a high or medium level of risk. The purpose of categorising the risk of a potential transaction is to guide Banks on the degree of E&S due diligence required to inform credit risk approval or underwriting decision-making and the appropriate level of E&S risk management and monitoring oversight that should be applied to the transaction.

A **high-risk** transaction involves activities that carry potential significant adverse E&S risks and/or impacts that are diverse, irreversible, or unprecedented. Examples of the types of power transactions that would fall into this category of risk would include:

- Large thermal power stations and other combustion installations;
- Hydropower schemes involving large/medium scale dams;
- Hydropower schemes on international waterways, or small hydropower schemes on rivers or water bodies already significantly altered by other abstraction/power generation activities;
- Associated facilities such as pipelines, terminals, and associated facilities for large-scale transport of gas and oil, activities involving surface or underground storage of combustible gases and fuels;
- Transmission lines in populated/urban areas;
- Biofuel projects involving large-scale plantations of biofuel crops; and
- Biomass projects involving hazardous wastes.

A **medium-risk** transaction involves activities which carry potential limited adverse E&S risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures. Examples of the types of power investments that would fall into this category of risk would include:

- Small combustion facilities (3 – 50MWth);
- 10MW or 50MW run of the river hydropower plants without additional up or downstream power projects;
- Medium or small scale wind and solar power projects; and
- Some types of biomass (not involving hazardous materials).

## **7. Power Sector Client Engagement and Monitoring**

A Bank should engage with power sector clients to encourage good E&S risk management practices and promote energy efficiency, clean technology and renewable resources. Where some existing clients have not met certain standards due to a number of factors, including legacy assets, they would be expected to develop credible, documented time-bound “action plan” to achieve the required standards over time. E&S conditions or covenants will be included in the transaction documentation where appropriate to ensure E&S risks are monitored and on-going compliance is addressed with the client.

## **8. Power Sector E&S Reporting**

A Bank that is active in the power sector will need to monitor and report on its activities consistent with this Guideline and the Nigerian Sustainable Banking Principles to demonstrate on-going commitment and progress. A Bank shall seek to externally report on its progress in a meaningful way. Details of reporting requirements are provided in the Nigerian Sustainable Banking Principles Guidance Note. In addition to general E&S risk reporting guidance provided, banks should consider international best practices for reporting in the power sector. The Global Reporting Initiative Electric Utilities Guideline provides detailed reporting guidance on certain activities and E&S risk issues in the power sector.

## Appendix 1: E&S Risks Associated with Power Generation Activities

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The nature and type of E&S risks that could be associated with financing power generation will depend greatly on the scale and type of activity being considered. The information below highlights the main E&S considerations associated with investing in different types of power generation.

### Oil

Oil-fired power units emit comparable levels of pollutants (e.g. air emissions) as coal-fired power. However, most technologies that burn oil are also capable of using natural gas, with the exception of diesel-fired generators. Therefore, natural gas and oil-fired capacity are roughly interchangeable. High oil prices, climate change concerns and demands from stakeholders for a cleaner fuel have encouraged the switch from oil to natural gas. Operators of thermal power generation plants, which are oil-fired, may attract additional reputational risk for its investors.

### Natural Gas

Natural gas has become an increasingly popular fuel as a result of its thermal efficiency, relative cost efficiency in transport and environmental performance. Natural gas fired plants emit lower particulate gases ( $SO_x$  and  $NO_x$  emissions are about 60% of those from plants using coal) and have lower  $CO_2$  emissions per unit of energy produced. Though natural gas is accurately viewed as a relatively cleaner fuel than other fossil-based sources such as coal, it nonetheless can generate E&S concerns. For example, there is growing reluctance among local communities to allow siting of gas-related infrastructure in close proximity to populations due to health and safety reasons. Transportation of gas in pipelines or in liquefied form also pose safety (risk of explosion, pipeline vandalism etc.) and security challenges (e.g. attacks at LNG tanker or re-gasification plants).

### Coal

Coal is abundantly available but has significant environmental impacts arising from its combustion. The reputational risks potentially associated with coal, combined with its material environmental impacts make it a particularly sensitive source of power generation. This is material to banks as there is increasing risk associated with coal's greenhouse gas footprint over its life cycle from extraction and transport to combustion.

There are a number of different types of coal plant technologies in development that include the use of cleaner coal technology. Each technology carries with it a different environmental profile and therefore a different degree of receptivity from local communities, and public health and environmental stakeholders. The type of coal technology should be considered when lending or investing to coal power generation. The following is a list of coal power generation types in decreasing order of efficiency and increasing order of potential E&S risk:

1. **Integrated Gasification Combined Cycle with Carbon Capture Storage**
2. **Integrated Gasification Combined Cycle**
3. **Supercritical & Ultra SC Pulverised Coal**
4. **Circulating Fluidised Bed Combustion**
5. **Sub-critical Pulverised Coal**

### Hydropower

As increasing scrutiny is brought to the greenhouse gas emissions profile of power generation technologies, hydropower projects appear comparatively attractive. Hydropower is not, however, without significant E&S risks.

Consideration needs to be given to risks such as the inundation of critical natural habitats and protected areas; people and economic displacement (e.g. loss of assets such as land, crops, fisheries, including those upstream or downstream from the reservoir, agricultural land etc.); how water flow or quality will be affected (especially with projects that affect international waterways) and where dams will significantly affect the water supply and/or quality of downstream ecosystems or communities.

### **Biofuels**

The rapid rise in biofuels<sup>3</sup> investment (particularly ethanol) as a “sustainable” fuel source is a defining feature of the sustainable energy debate. Biofuels have a number of significant E&S impacts associated with the scale-up of biofuel production. These include conversion of natural habitats, and a range of social impacts as a result of large-scale production of biofuel. In addition, certain biofuels are also subject to criticism in some cases where biofuel crops are competing with the production of food crops.

### **Solar & Wind**

Solar and Wind technology, with its increased use as a source of power generation (e.g. large-scale concentrated photovoltaic operations, onshore and offshore wind farms) are relatively low risk in terms of E&S impacts. However, consideration does need to be given to the significant land use required for large-scale wind and solar power generation activities. This can have measurable impacts if there are sensitivities around land ownership, habitat destruction and defragmentation etc. In addition, other E&S impacts may be identified (e.g. natural resource use, impacts caused by associated facilities (i.e. for electricity transmission), as well as, potential social issues with land use and/or economic displacement or resettlement.

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<sup>3</sup> Biofuels include ethanol (largely from sugar cane, sugar beet and corn) and other fluids variously described as biofuels or biodiesels (from plants such as soya, canola, oil palm and jatropha).

## **Appendix 2: E&S Related Laws and Regulations for the Power Sector**

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The following list of E&S related laws and regulations have been provided to draw attention to relevant issues. This list is not exhaustive and may be subject to change.

- Electric Power Sector Reform Act 2005
- Energy Commission Act 1979
- Environmental Guidelines and Standards for the Petroleum Industry in Nigeria 2002
- Environmental Impact Assessment Act of 1992
- National Environmental Standards and Regulations Enforcement Agency Act 2007
- Harmful Wastes (Special Criminal Provisions etc.) Act of 1988
- Land Use Act 1978
- National Energy Policy 2003

### Appendix 3: Relevant E&S Standards Applicable to the Power Sector

As described in this Guideline’s Section 4 “Banking Sector Commitment”, the following information references the relevant IFC Performance Standards and Environmental, Health and Safety (EHS) Guidelines, which are considered to be the minimum standard for Power sector clients to manage E&S risks. In addition, a list of recommended international sector best practice according to power generation type has been provided.

#### IFC Performance Standards, 2012

The IFC Performance Standards on Social and Environmental Sustainability are the global benchmark for social and environmental performance for investments in non-OECD and low-income OECD countries. It also sets a framework for determining, assessing and managing of E&S risks of a business’ activities. For more information access the latest version via this [link](#).

#### IFC Environmental, Health and Safety (EHS) Guidelines, 2006

The EHS Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practice. The general EHS Guidelines contain the performance levels and measures that are generally considered to be achievable in new facilities by existing technology at reasonable costs. They are to be used with the relevant industry sector EHS Guidelines. Where host country regulations differ from the levels and measures presented in the EHS Guidelines, operations are expected to achieve whichever is more stringent. The EHS Guidelines relevant to power sector guidelines include:

- Thermal Power
- Wind Energy
- Geothermal power generation
- Waste management facilities (for energy production from waste management facilities)
- Annual Crop Production (for Biofuels)
- Plantation Crop Production (for Biofuels)
- Electric Power Transmission and Distribution
- Gas distribution system

For more information access the latest versions by following this [link](#).

#### Recommended International Best Practice Standards Relevant for the Power Sector

Power Generation Type	Relevant International Best Practice Standards / Sector Sustainability Initiatives	Link
Thermal Power	Carbon Principles Climate Principles	<a href="http://carbonprinciples.com/">http://carbonprinciples.com/</a> <a href="http://www.theclimategroup.org/programs/the-climate-principles">http://www.theclimategroup.org/programs/the-climate-principles</a>
Hydropower	International Hydropower Association World Commission on Dams UNEP Dams and Development Program European Small Hydropower Association	<a href="http://www.ihp.org">www.ihp.org</a> <a href="http://www.dams.org">www.dams.org</a> <a href="http://www.unep.org/dams">www.unep.org/dams</a> <a href="http://www.eshp.be/">http://www.eshp.be/</a>
Wind	The wind energy sector has published a large amount of material on both costs and benefits to biodiversity	<a href="http://www.nationalwind.org">http://www.nationalwind.org</a> <a href="http://www.ewea.org">http://www.ewea.org</a>



Solar	TBD	
Geothermal	TBD	
Biofuels	<b>Roundtable on Sustainable Biofuels</b> - is an international initiative coordinated by the Energy Center at EPFL in Lausanne that brings together farmers, companies, non-governmental organisations, experts, governments, and inter-governmental agencies concerned with ensuring the sustainability of biofuels production and processing. Participation in the RSB is open to any organisation working in a field relevant to biofuels sustainability. The RSB has developed a third-party certification system for biofuels sustainability standards, encompassing environmental, social and economic principles and criteria through an open, transparent, and multi-stakeholder process	<a href="http://rsb.epfl.ch/">http://rsb.epfl.ch/</a> .

<b>Other issues that may be raised during power generation</b>	<b>Relevant E&amp;S Standards / Initiatives</b>	<b>Link</b>
Environmental management system	<b>ISO 14001</b> ISO 14001 standard specifies the requirements for an environmental management system. Fulfilling these requirements demands objective evidence that can be audited to demonstrate that the environmental management system is operating effectively in conformity to the standard. An independent accredited certification body can certify the conformity. However, the standard does not specify specific levels of environmental performance.	<a href="http://www.iso.org">www.iso.org</a>
Labour	<b>ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998</b> The most basic labour rights have been codified by the International Labour Organization (ILO) under this Declaration, which identifies eight ILO conventions as fundamental to the rights of persons at work, irrespective of the level of development of a country. It declares that all ILO member states, whether they have ratified the relevant conventions or not, have an obligation due to their membership in the ILO to respect, promote and realise the fundamental rights which are the subject of those conventions.	<a href="http://www.ilo.org">www.ilo.org</a>
Occupational Health and Safety	<b>OHSAS 18001</b> The OHSAS 18000 series is the most widely used standard for occupational health and safety management. It was first developed in 1999 as a result of consultations between 42 different organisations from 28 countries. OHSAS 18001 has been developed by the British Standards Institution in response to consumer demand for a recognised, assessable and certifiable management system for health and safety.	<a href="http://www.ohsas.org/">http://www.ohsas.org/</a>
Community Health and Safety	<b>Guidelines for Community Noise, World Health Organisation (WHO), 1999</b> - The scope of WHO's effort to derive guidelines for community noise is to consolidate actual scientific knowledge on the health impacts of community noise and to provide guidance to environmental health authorities and professional trying to protect	<a href="http://www.who.int/docstore/peh/noise/guidelines2.html">http://www.who.int/docstore/peh/noise/guidelines2.html</a>

Other issues that may be raised during power generation	Relevant E&S Standards / Initiatives	Link
	people from the harmful effects of noise in non-industrial environments.	
Governance	<b>The Electricity Governance Initiative (EGI)</b> was co-founded by World Resources Institute (WRI) and Prayas Energy Group in 2003 to promote better governance in the electricity sector.	<a href="http://electricitygovernance.wri.org/">http://electricitygovernance.wri.org/</a>
Sustainability Reporting	<p><b>The UN Global Reporting Initiative (GRI)</b></p> <p>The UN Global Reporting Initiative (GRI) vision is to make disclosure on sustainability performance as comparable and commonplace as financial reporting and of comparable importance to an organisation's measure of success. The GRI reporting framework provides sustainability reporting guidelines and sets out principles and indicators that organisations and companies can use as relevant to measure and report on their performance from a sustainability perspective.</p> <p>Sustainability reports based on the GRI framework can be used to benchmark organisational performance with respect to laws, norms, codes, performance standards and voluntary initiatives; demonstrate organisational commitment to sustainable development; and compare organisational performance over time.</p>	<p>GRI <a href="http://www.globalreporting.org">www.globalreporting.org</a></p> <p>Global Reporting Initiative's Sustainability Reporting Guideline <a href="http://www.globalreporting.org/ReportingFramework/G31Guidelines/">http://www.globalreporting.org/ReportingFramework/G31Guidelines/</a></p> <p>GRI's Electrical Utilities Sector Supplement <a href="https://www.globalreporting.org/reporting/sector-guidance/electric-utilities/Pages/default.aspx">https://www.globalreporting.org/reporting/sector-guidance/electric-utilities/Pages/default.aspx</a></p>

# **Nigerian Sustainable Banking Principles**

## **Agriculture Sector Guideline**

**FINAL VERSION**

**July 2012**

## Glossary of Terms and Abbreviations

Term or Abbreviation	Definition or Explanation
<b>Bank</b>	A Nigerian: (a) money deposit Bank; (b) discount house; or (c) development Bank signatory to the Nigerian Sustainable Banking Principles Joint Commitment Statement.
<b>Business Activities</b>	The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, retail banking, trade and leasing, and other forms of direct lending.
<b>CBN</b>	Central Bank of Nigeria
<b>E&amp;S</b>	Environmental and Social
<b>E&amp;S risks</b>	The potential E&S issues associated with a client or engagement that may imply exposure to risk and accordingly may need to be taken into account when making business and risk management decisions.
<b>E&amp;S impacts</b>	Any change, potential or actual, to (a) the physical, natural, or cultural environment, and (b) impacts on surrounding community and workers, resulting from a business or business activity to be financed. E&S impacts may be temporary or permanent, involving reversible or irreversible changes on the environment or society. Environmental risks can include changes to the atmosphere, water and land due to human activities (e.g. greenhouse gases, pollution, changes to habitats, etc.). Social risks can include impacts to a client's workforce as well as the surrounding community (e.g. occupational health and safety, human rights and labour standards, land disputes or resettlement, corruption, etc.).
<b>E&amp;S opportunities</b>	New business opportunities arising from meeting E&S challenges such as development of clean or renewable technology, job creation and community development. Taking account of E&S issues in making a business decision, could also lead to potential benefits to the client or the Bank providing financial services to the client.
<b>GHG</b>	Greenhouse Gas (e.g. sulphur oxides (SO <sub>x</sub> ), nitrogen oxides (NO <sub>x</sub> ), gases with Particulate Matter-10 (PM10))
<b>IFC</b>	International Finance Corporation
<b>NIRSAL</b>	Nigerian Incentive-Based Risk Sharing System for Agricultural Lending
<b>Principles</b>	Nigerian Sustainable Banking Principles
<b>Sustainable Banking</b>	We define sustainable banking as an approach that recognises the role of Banks in driving long-term economic development in Nigeria that is not only economically viable, but also environmentally responsible and socially relevant.

# The Nigerian Sustainable Banking Principles: Agricultural Sector Guideline

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## 1. Introduction

This Guideline has been designed to complement the **Nigerian Sustainable Banking Principles** whilst focusing on the agriculture sector.

The objectives of this Guideline are to:

- Assist Banks in the identification and management of complex E&S risks associated with the provision of financial products and services to the Nigerian agriculture sector;
- Provide additional sector-specific guidance to supplement the Nigerian Sustainable Banking Principles Guidance Note;
- Ensure that Banks adopt relevant international standards and best practices in the management of E&S risk; and
- Strategically position agriculture as an attractive, rewarding and sustainable business opportunity..

Given the large proportion of the population that depends on agriculture as a source of livelihood, it is clear that agriculture is a practical means of reducing poverty, unemployment, food insecurity, whilst providing raw materials for industries and export in the medium to long term. Research suggests that if the agricultural growth targets set by the Federal Government are met, the country will have 9.5% annual growth in the sector and 8% GDP growth in the next 10 years<sup>1</sup>.

A Bank that actively lends and invests in this sector can use its financial intermediation and client relationships to influence the sustainable development of agriculture. It is intended that this guideline will establish the minimum standards for Banks to ensure that financial products and services provided to the sector are both socially and environmentally sustainable.

Nigeria's agricultural sector, which by 2010 contributed about 42% of GDP and employed about 60% of working population, is severely underfunded and underinvested with only 2% of all formal credit flowing to the sector. Agricultural lending accounts for approximately 1.4% of formal lending, and has been on the decline since 2006. This situation is partly explained by the fact that banks typically perceive agriculture as a high-risk investment due to their limited understanding of and lack of confidence in the sector<sup>2</sup>. In response to this challenge, the CBN, the Bankers' Committee, and the Federal Ministry of Agriculture & Rural Development have recently developed NIRSAL, which ultimately seeks to create incentives and encourage the growth of formal credit to the entire agricultural value chain.

NIRSAL is expected to be a catalyst for innovative risk management strategies, long-term financing for agribusiness, job creation for new entrepreneurs, and established market participants in the agribusiness sector. An increase in formal credit flows into agriculture will be achieved by improving the capacity of financial intermediaries to provide credit, refocus credit provisioning on integrated value chains, and establishment of a differentiated guarantee mechanism to share credit-related risks in the value chain.

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<sup>1</sup> <http://www.ifpri.org/sites/default/files/publications/nssp02.pdf>

<sup>2</sup> Nigerian Incentive-based Risk Sharing System for Agriculture Lending (NIRSAL): Transforming value chains for expanded agricultural lending in Nigeria, Monitor Group, July 2011.

Sustainable agriculture requires increased funding for land acquisition, good quality seeds and fertiliser, research and development, extension services, irrigation systems, storage facilities, processing machinery and infrastructure (roads and power). Channelling resources and funding for such activities and other transformational avenues are the means through which financial institutions can drive and sustain changes in the agricultural sector, whilst gradually reducing funding for activities that impact negatively on the environment and society.

## **2. Scope and Applicability**

This Guideline covers the provision of financial products and services for the agriculture sector including, but not limited to, Business Activities relating to the agribusiness value chain contained in the approved NIRSAL framework.

This Guideline **applies** to all lending instruments, project and structured commodity finance, equity and debt capital market activities, retail banking and advisory services provided to new and existing clients in the agricultural sector. The extent to which the Principles apply will depend on the level and nature of agriculture sector Business Activities financed by a Bank. Retroactive application of E&S requirements under this Guideline is not required for existing clients. The Guideline and its E&S requirements will, however, apply to any additional new facilities or services for existing clients.

This guideline may not be appropriate for application to some agriculture sector financial services such as asset management or non-agriculture related insurance or in the cases where there may be limited opportunity for a Bank to influence a client's E&S performance. A Bank must clearly indicate which financial products or services have been excluded from the application of the Guideline in a sector-specific approach as part of its Sustainable Banking policy.

## **3. Agriculture Sector E&S Issues and Sustainable Agriculture**

As stated previously, agriculture accounted for 42% of GDP and 60% of employment in Nigeria in 2010. With an average growth rate of 5% per annum, the sector has been a major source of employment growth. However, there is still enormous potential in the sector that needs to be unlocked. Beyond increased food security and higher incomes for the rural population, a better performing agricultural sector that supports the growth of productive agribusiness is imperative to drive economic growth and stability in the country. It would aid the creation of small and medium enterprises, whilst being able to produce a broad spectrum for increased production of food and cash crops.

Along the agricultural value chain in Nigeria, there are a number of recurring challenges that continue to hinder the growth of the sector. Among these are the high cost of farm inputs especially seeds and fertiliser, inefficient procurement and distribution systems for critical inputs, poor access to credit for farmers, weak extension services, huge post-harvest losses due to poor storage. Some other challenges are limited value addition to raw products and low investment in research and development, poorly structured markets, weak infrastructure and a discriminatory land tenure system. The above issues continue to keep agricultural productivity low, with high wastage and below optimal contributions to export earnings.

In order to realise the full potential of the sector, it is increasingly recognised that agribusiness should be conducted in a sustainable manner. Sustainable agriculture entails taking into consideration the environment and natural resource base, making use of natural resources in an efficient manner, whilst at the same time providing a sustainable source of income for the farmer and addressing food needs. Furthermore, it takes into account numerous social issues such as economic use of water resources, health and safety of labour, in particular women

and children, as well as community and land use issues. For a more comprehensive list of E&S issues, please refer to **Appendix 1**.

Agricultural activities such as land preparation, planting, nurturing and harvesting, affect the environment in several ways. For example, one of the main causes of deforestation today is the clearing of land for crops, which increases the rate of soil erosion. Often, land is cleared through burning, which emits harmful gases into the atmosphere; the land can also suffer from nutrient depletion thereby reducing the yield that can be realised from planting.

Agriculture affects the climate through the production of greenhouse gases (carbon dioxide, methane, nitrous oxide). The types of chemicals and pesticides used can lead to soil contamination, ground water and air pollution if poorly managed. As the crops are harvested and prepared for further processing, issues such as the disposal of agro-processing waste (effluents, solid waste) and sources of energy used in agro-processing become key sustainability issues.

Sustainable agriculture is not only limited to environmental considerations but also to socioeconomic issues. Agriculture is typically associated with positive impacts such as increased employment opportunities for the rural population, higher incomes, improved food security and strengthened local economic linkages. However, there are also potential negative social impacts that need to be considered if agriculture is to be practiced in a sustainable manner. Examples include social conflict with agricultural settlers and/or agro-processing companies, land ownership conflicts, increased land values and rents, community health risks, increased burden on women and children, labour issues (child labour) and loss of farm income to production of cash crops

### **Water Resource Related Issues**

Irrigation is the application of water to crops through artificial means. All crops require water to grow and thrive: however, knowing how, when and how much water to use is imperative for maximising yields whilst minimising the impact on the environment. The irrigation system should provide supplemental water when rainfall is not sufficient to maintain plant health, while protecting water resources and the environment. An effective irrigation system involves a planned system of crop irrigation that concentrates on efficient water use and distribution, minimizing runoff or deep percolation and soil erosion.

According to the National Water Resources Master Plan, it is estimated that Nigeria has about 3.14 million hectares of irrigable land. Approximately 1.8 million hectares of this land lie within the Niger-Benue valleys, which contain sufficient water to effectively develop irrigated agriculture without the need to construct large dams.

In spite of this endowment, agricultural activity in most areas of the country is limited to the rainy season, which lasts between 4 and 8 months, primarily due to the wide variation of rainfall. This contributes significantly to the underperformance of farming and the low productivity. However, what is of even greater concern is the grossly sub-optimal utilisation of irrigation potential. Specifically, there exists currently a reservoir capacity in excess of 34 billion cubic metres capable of irrigating more than 500,000ha but only 150,000ha have been developed under formal irrigation out of which only 85,000 ha are actually being irrigated<sup>3</sup>.

The strategic development and management of irrigation and drainage systems, as well as effective and sustainable irrigation practices are therefore imperative to increase the productivity of agriculture, thereby contributing to national food security and poverty alleviation. Potential solutions could focus on public-private partnerships for the provision of irrigation systems, whereby banks partner with the public and private sector to

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<sup>3</sup>*Irrigation Practice in Nigeria*, (2011), Federal Ministry of Water Resources.

deliver efficient systems to local communities. However, this would also require the creation of an enabling legal and institutional framework, as well as developing capacity for the implementation of such projects.

**Key Issues in the Irrigation Sub-Sector**

Some of the major issues in the irrigation sub-sector include:

- Substantial investment gap;
- Severely degraded environment in poverty-stricken communities, which places constraints on water retention in root zone where it is needed for healthy crop growth;
- Unutilised and underutilised development potential: too few irrigation schemes have been developed in comparison to the available potential as a result of declining real investment in the sub-sector;
- Insufficient water infrastructure & inadequate operation and maintenance of existing water infrastructure;
- Poor performance of public investment that was in the past “input driven” as opposed to “output led”;
- Low private sector involvement; and
- Poor community mobilisation: the early irrigation projects were developed without the participation of the intended beneficiaries and consequently were too sophisticated for beneficiaries to operate and maintain.

It is envisaged that by unlocking finance for the entire agricultural value chain, some of the key challenges related to irrigation and water issues mentioned above will be adequately addressed, that is, with increased confidence in the overall sector, this could provide incentives for increased investment in the irrigation sub-sector from both public and private sector parties.

**Table 1: Agribusiness Value Chain Categories and Potential E&S Risks**

Value Chain Category	Category Name	Examples	Potential E&S Risks
Category 1	Preparation & Infrastructure	<ul style="list-style-type: none"> <li>• Land preparation</li> <li>• Developing water bodies/ irrigation</li> <li>• Cluster enabling infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Land grabbing/conflict</li> <li>• Involuntary physical and/or economic displacement</li> <li>• Higher land values and rents for local communities</li> <li>• Biodiversity loss</li> <li>• Impact on water resources; conflict over water resources</li> <li>• Climate change adaptation/mitigation considerations</li> <li>• Conflict over use of land (e.g. biofuel versus food security)</li> </ul>
Category 2	Inputs	<ul style="list-style-type: none"> <li>• Inputs (vaccines, veterinary products, animal feed, embedded power equipment, agricultural machinery, seeds, fertilizer, crop protection, micronutrients, and related</li> </ul>	<ul style="list-style-type: none"> <li>• Genetically modified seeds/crops</li> <li>• Pesticides/chemical pollution</li> <li>• Disposal of agricultural waste</li> <li>• Water supply issues (source)</li> </ul>



		material)	
<b>Category 3</b>	Planting, Nurturing & Harvesting	<ul style="list-style-type: none"> <li>• Livestock raising / husbandry lifecycle</li> <li>• Fisheries</li> <li>• Planting</li> <li>• Crop management including weeding / replanting</li> <li>• Harvesting</li> </ul>	<ul style="list-style-type: none"> <li>• Deforestation and soil erosion</li> <li>• Impact on soil structure and fertility</li> <li>• Disposal of animal waste</li> <li>• Greenhouse gas emissions</li> <li>• Local labour (health &amp; safety issues; employment practices)</li> <li>• Animal welfare</li> </ul>
<b>Category 4</b>	Storage and Post-Harvest Handling	<ul style="list-style-type: none"> <li>• Storage</li> <li>• Post-harvest handling</li> <li>• Access to markets</li> <li>• Transportation</li> <li>• Logistics</li> </ul>	<ul style="list-style-type: none"> <li>• Waste prevention and energy requirements for storage (renewable)</li> <li>• Consultation with local communities regarding transport links (roads etc.)</li> </ul>
<b>Category 5</b>	Processing	<ul style="list-style-type: none"> <li>• Processing across all stages</li> <li>• Packaging companies</li> </ul>	<ul style="list-style-type: none"> <li>• Energy requirements for processing</li> <li>• Prevention and disposal of waste</li> <li>• Health &amp; safety of labour</li> <li>• Employment practices</li> <li>• Food safety/consumer health</li> </ul>
<b>Category 6</b>	Distribution	<ul style="list-style-type: none"> <li>• Wholesale downstream distributors (export and domestic)</li> <li>• Specialised services providers</li> </ul>	<ul style="list-style-type: none"> <li>• Energy requirements for transportation</li> </ul>

In addition to planned increased lending to the sector, the NIRSAL approach will include on-going stakeholder engagement aimed at modernising agriculture and transforming it into an attractive, rewarding and sustainable business opportunity.

#### 4. Banking Requirements for Agriculture Sector Financing

For all activities that fall within the scope of this Guideline a Bank shall:

1. Conduct E&S risk analysis and assessment of agricultural clients and activities, and ensure that identified risks are adequately monitored and managed.
2. Adhere to local E&S laws, and where possible encourage other internationally agreed standards. See **Appendix 2** and **Appendix 3**.

In addition, and consistent with NIRSAL, a Bank shall:

3. Lend towards the establishment and efficient distribution of fertiliser by supporting fertiliser manufacturing companies in Nigeria that produce/procure and distribute fertiliser, as well as a transparent market-driven fertiliser distribution model.
4. Finance the manufacture and distribution of improved and high quality seeds, by lending to indigenous seed companies and importers of seed varieties.
5. Strive to ensure that farmers are able to procure seeds directly from seed manufacturers, by availing them with adequate finance.

6. With support from industry stakeholders, strive for the establishment of an Agricultural Value Chain Research Development Fund that produces high quality research on the needs of the value chain.
7. Encourage and finance providers of storage facilities for seeds, produce and other value-added products provided that they take into consideration energy efficiency issues.
8. Encourage and finance processors that add value to local products, whilst taking into consideration the E&S impacts of processing operations.
9. Endeavour to lend to farmers whose products have off takers and whose farming practices protect the environment e.g. minimise the use of harmful chemicals/pesticides, efficient use of water resources, adoption of conservation farming technologies etc.
10. While waiting for the reform of the Land Use Act, lend based on short and long leases that do not displace and/or negatively impact on the livelihoods of local communities.
11. Encourage the creation of public-private marketing corporations that provide adequate support to local products.
12. Support the decentralisation of agricultural insurance and encourage the development of a vibrant and competitive market for agricultural insurance by a range of companies.
13. Lend with assistance from NIRSAL (i.e. technical assistance, risk sharing, insurance and incentive pillars).
14. Lend to promote the use of appropriate and sustainable farm mechanisation and irrigation technology in agriculture.
15. Lend to agro-processors and agro-chemical manufacturers that utilise effective methods to reduce, manage and treat the harmful wastes and do not pollute the environment (i.e. nearby water sources, soil, air etc.).
16. Lend to promote the use of waste management techniques that promotes the re-use of waste as inputs into other production processes and not into the environment (e.g. rice husk turned into gas can generate rural electricity).

## **5. E&S Risk Implementation for Agriculture Business Activities**

To meet these commitments and successfully manage E&S issues associated with the provision of financial products and services to the Agriculture Sector, a Bank should refer to the Principles Guidance Note for implementing a robust E&S management system. A Bank should develop a sector specific E&S approach for its Agriculture sector Business Activities as part of its Sustainable Banking policy and E&S management system. A Bank should seek to implement the recommended guidance as detailed in the Guidance Note appropriately. The Guidance Note includes information for developing E&S policies and procedures, as well as, monitoring and reporting E&S risks. The following sections provide sector-specific guidance to be used in conjunction with the Guidance Note.

## **6. E&S Risk Categorisation of Agriculture Sector Investments**

The following information serves to illustrate and support the categorisation of E&S risks for different Agriculture Business Activities. Typically a transaction will be categorised as high, medium or low risk based on the nature of E&S impacts associated with the client's Agriculture Business Activities and the client's ability to manage such impacts. The purpose of categorising the risk of a potential transaction is to guide banks on the degree of E&S due diligence required to inform credit risk approval or underwriting decision-making and the appropriate level of E&S risk management and monitoring oversight that should be applied to the loan.

A **high-risk** transaction is one where activities carry potential significant adverse E&S risks and/or impacts that are diverse, irreversible, or unprecedented.

A **medium-risk** transaction is one where activities carry potential limited adverse E&S risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

## **7. Agriculture Sector Client Engagement and Monitoring**

A Bank should engage with its agriculture sector clients to encourage good E&S risk management practices and promote sustainable agriculture best practice. Where some existing clients have not met certain standards due to a number of factors, including legacy assets, they would be expected to develop credible, documented time-bound “action plan” to achieve the required standards over time. E&S conditions or covenants will be included in the transaction documentation, where appropriate, to ensure E&S risks are monitored and on-going compliance is addressed with the client.

## **8. Agriculture Sector E&S Reporting**

A Bank that is active in the agriculture sector will need to monitor and report on its activities consistent with this guideline and the Nigerian Sustainable Banking Principles to demonstrate on-going commitment and progress. . A Bank shall seek to externally report on its progress in a meaningful way. Details of reporting requirements are provided in the Nigerian Sustainable Banking Principles Guidance Note. In addition to general E&S risk reporting guidance provided, Banks should consider international best practices for reporting in the agriculture sector. The Global Reporting Initiative provides detailed reporting guidance on certain activities and E&S risk issues in the agriculture sector.

# **Nigerian Sustainable Banking Principles**

## **Oil and Gas Sector Guideline**

**FINAL VERSION**

**July 2012**

## Glossary of Terms and Abbreviations

Term or Abbreviation	Definition or Explanation
<b>Bank</b>	A Nigerian: (a) money deposit Bank; (b) discount house; or (c) development Bank signatory to the Nigerian Sustainable Banking Principles Joint Commitment Statement.
<b>Business Activities</b>	The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, retail banking, trade and leasing, and other forms of direct lending.
<b>E&amp;S</b>	Environmental and social
<b>E&amp;S risks</b>	The potential E&S issues associated with a client or engagement that may imply exposure to risk and accordingly may need to be taken into account when making business and risk management decisions.
<b>E&amp;S impacts</b>	Any change, potential or actual, to (a) the physical, natural, or cultural environment, and (b) impacts on surrounding community and workers, resulting from a business or business activity to be financed. E&S impacts may be temporary or permanent, involving reversible or irreversible changes on the environment or society. Environmental risks can include changes to the atmosphere, water and land due to human activities (e.g. greenhouse gases, pollution, changes to habitats, etc.). Social risks can include impacts to a client's workforce as well as the surrounding community (e.g. occupational health and safety, human rights and labour standards, land disputes or resettlement, corruption, etc.).
<b>E&amp;S opportunities</b>	New business opportunities arising from meeting E&S challenges such as development of clean or renewable technology, job creation and community development. Taking account of E&S issues in making a business decision, could also lead to potential benefits to the client or the Bank providing financial services to the client.
<b>GHG</b>	Greenhouse Gas (e.g. sulphur oxides (SO <sub>x</sub> ), nitrogen oxides (NO <sub>x</sub> ), gases with Particulate Matter-10 (PM10))
<b>IFC</b>	International Finance Corporation
<b>Principles</b>	Nigerian Sustainable Banking Principles
<b>Sustainable Banking</b>	We define sustainable banking as an approach that recognises the role of Banks in driving long-term economic development in Nigeria that is not only economically viable, but also environmentally responsible and socially relevant.

# Nigerian Sustainable Banking Principles: Oil and Gas Sector Guideline

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## 1. Introduction

This Guideline has been designed to complement the **Nigerian Sustainable Banking Principles** whilst focusing on the oil and gas sector.

The objectives of this Guideline are to:

- Assist Banks in the identification and management of complex E&S risks associated with the provision of financial products and services to the oil and gas sector;
- Provide additional sector-specific guidance to supplement the Nigerian Sustainable Banking Principles Guidance Note; and
- Ensure that Banks adopt relevant international standards and best practices in the management of their E&S risk exposures.

## 2. Scope & Applicability

This Guideline covers the provision of financial products and services for the oil and gas sector which include, but is not limited to, the exploration, extraction, production, processing and transport of Nigerian oil and gas. It covers upstream, downstream and servicing activities of the sector including:

- Upstream
  - Exploration activities – aerial and seismic operations
  - Appraisal drilling
  - Development and production (including processing and initial storage)
  - Transportation
  - Decommissioning and rehabilitation
- Downstream
  - Product refining
  - Transportation and distribution activities - via pipelines, roads (trucks) and sea vessels
  - Marketing – including product importation and storage
- Servicing
  - Provision of technical support services for the upstream and downstream segments in the areas of drilling, well completion, well simulation, logistics, equipment supplies, etc.

The Guideline **applies to** all corporate lending, project and structured finance (including structured commodity finance), equity and debt capital market activities, and advisory services provided to new and existing clients in the oil and gas sector. The extent to which the Principles apply will depend on the level and nature of oil and gas sector Business Activities financed by a Bank. Retroactive application of E&S requirements under this Guideline is not required for existing clients, however the Guideline and its E&S requirements will apply to any additional new facilities or services for existing clients.

This Guideline may not be appropriate for application to some oil and gas sector financial services such as asset management, or insurance or in the cases where there may be limited opportunity for a Bank to influence a client's E&S performance. A Bank must clearly indicate which financial products or services have been excluded from the application of the Guideline in a sector-specific approach as part of its Sustainable Banking policy.

### 3. Oil and Gas Sector E&S Issues

The E&S issues related to the oil and gas sector are particularly salient and complex. E&S risks vary greatly depending on the scale and type of oil and gas activity being financed. Some of the main E&S risks that may be encountered include:

- **Environmental and ecosystem damage:** Air, soil and water pollution from industry operations – especially from oil spills and gas flaring - has devastated the Niger Delta for more than half a century. An important wetland area of diverse and sensitive ecology that supports lives and livelihoods, the Niger Delta has sustained significant short and long-term impacts. They include declining fish stocks, loss of soil fertility and agricultural productivity, health damage from toxic substances released through gas flaring, and polluted water wells.
- **Climate change impacts:** Nigeria's oil and gas industry significantly contributes to the country's GHG emissions; coastal areas of Nigeria are particularly vulnerable to climate change impacts. The combination of climate change, deforestation, pollution and the failures associated with Nigeria's dependency on the oil industry have deepened its exposure to the devastating risks of water shortages, drought, and floods, especially in the Niger Delta region. Progress towards greener energy development, such as the anticipated growth in the natural gas industry and its use for domestic electrification can help mitigate these risks.
- **Revenue management:** The oil and gas sector has fuelled Nigeria's economic growth, accounting for 15.8% of Nigeria's GDP, 65% of government revenues and 95% of the country's export earnings. Despite this, a large proportion of the Nigerian people are without access to electricity, burning waste and biomass for home heating and energy use; poverty has increased; and the most recent UN Development Index (2011) ranked Nigeria 156 out of 187 countries. A priority issue for the oil and gas sector should be ensuring that sufficient revenues are appropriately utilised for domestic economic development and poverty reduction.
- **Community conflict and social unrest:** The extractive industry is particularly prone to problems with local communities. Contributing causes include lack of development benefits, damaging impacts from industry operations, and lack of opportunity for meaningful engagement with sector operators to resolve issues that are important to the community. The agitation and unrest in community relations in the Niger Delta have been costly to the sector and to Nigeria's progress; and security considerations continue to be a factor in financing problems that have delayed infrastructure projects.
- **Health and Safety issues:** Oil and gas exploration and production operations are known to be risky, and workplace accidents have resulted in injuries and fatalities in the sector. According to the IFC, occupational health and safety issues should be considered as part of a comprehensive hazard or risk assessment. The results should be used for health and safety management planning, in the design of the facility and safe working systems, and in the preparation and communication of safe working procedures.
- **Local employment issues:** Given the need to create employment opportunities especially among young people and eliminate poverty, the oil and gas sector is expected to play a major role in creating jobs and

engaging local businesses. It is hoped that with effective implementation of the Nigerian Local Content Act (2010), the sector will be in a position to employ more Nigerians and stimulate a robust supply chain among local businesses and entrepreneurs thus reducing conflict and discontent with sector stakeholders.

For a detailed overview of the main potential environmental, health and safety issues related to specific oil and gas activities, please see **Appendix 1**.

International initiatives and best practices, including industry guidelines, provide benchmarks and approaches for the sector to make greater progress on sustainability. As important stakeholders in the sector, the Banks can significantly influence industry performance. In recent years, they have become a major force in promoting sustainable growth. For example, they have used their influence to drive responsible corporate practices, and targeted funds to promote sustainable products and services. For Nigeria's Banks, the sustainability challenges in the oil and gas sector offer significant scope for action.

#### **4. Banking Requirements for Oil and Gas Sector Financing**

For all activities that fall within the scope of this Guideline a Bank shall:

1. Undertake appropriate E&S due diligence on oil and gas sector clients and activities to identify and assess potential E&S risks, as well as, determine a client's ability to effectively manage identified risks.
  2. Require oil and gas sector clients to comply with Nigerian laws governing E&S issues (see **Appendix 2**).
  3. Encourage oil and gas sector clients to meet the requirements of the IFC's Performance Standards and relevant Environmental, Health and Safety (EHS) guidelines that represent the minimum internationally accepted good practice (see **Appendix 3**). A Bank should refer to key sustainability initiatives and good practices relevant for Oil and Gas projects during E&S due diligence (see **Appendix 3**) and request their clients to work towards enhanced performance consistent with such initiatives, standards and good practice including (but not limited to):
    - **Human Rights** - the Voluntary Principles on Security and Human Rights;
    - **Biodiversity** - the recommendations of The Energy and Biodiversity Initiative and the Joint Nature Conservation Committee Guidelines for the offshore industry (for protecting marine animals);
    - **Transparency** - the Extractive Industries Transparency Initiative through the Nigerian Extractive Industries Transparency Initiative;
    - **Gas Flaring** - the Global Gas Flaring and Venting Reduction Voluntary Standards;
    - **Emergency Response** – For maritime operations, the IMO Convention on Oil Pollution Preparedness, Response and Co-operation (OPRC, 1990);
    - **Marine Pollution** – International Maritime Organisations Conventions to which Nigeria is a signatory; and
    - The guidelines defined by the International Petroleum Industry Environmental Conservation Association and by the International Association of Oil and Gas Producers.
- See **Appendix 3** for links and further information on relevant international best practice.
4. Explore opportunities in the sector reform initiatives (e.g. the Nigerian Oil & Gas Industry Content Development Act of 2010, The Nigerian Gas Master Plan, the Petroleum Industry Bill, 'green funds', etc.) for innovative sustainability-promoting products and services.



## 5. E&S Risk Implementation for Oil and Gas Sector Business Activities

To meet these commitments and successfully manage E&S issues associated with the provision of financial products and services to the oil and gas Sector, a Bank should refer to the Nigerian Sustainable Banking Principles Guidance Note for implementing a robust E&S management system. A Bank should develop a sector-specific E&S approach for its oil and gas sector Business Activities as part of its Sustainable Banking policy and E&S management system. A Bank should seek to implement the recommended guidance as detailed in the Guidance Note appropriately. The Guidance Note includes information for developing E&S policies and procedures as well as monitoring and reporting E&S risks. The following sections provide sector-specific guidance to be used in conjunction with the Guidance Note.

## 6. E&S Risk Categorisation of Oil & Gas Sector Investments

The following information serves to illustrate and support the categorisation of E&S risks for different oil and gas transactions. Typically a transaction will be categorised as high, medium or low risk. In the oil and gas sector, given the nature of the activities, most transactions carry either a high or medium level of risk. The purpose of categorising the risk of a potential transaction is to guide banks on the degree of E&S due diligence required to inform credit risk approval or underwriting decision-making and the appropriate level of E&S risk management and monitoring oversight that should be applied to the transaction.

A **high-risk** transaction involves activities which carry potential significant adverse E&S risks and/or impacts that are diverse, irreversible, or unprecedented.

A **medium-risk** transaction involves activities which carry potential limited adverse E&S risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

Examples of major issues that may affect the categorisation of oil and gas transactions would include operations:

- Located in or near **natural habitats** and **protected areas** (including offshore/**sub-sea habitats** of significance);
- In **remote areas** (and whose development will increase access to these areas by third parties);
- That rely on **gas flaring** as a management strategy for associated gases (a significant source of **GHG emissions**;
- Whose development will result in the **displacement of people** (including relocation and loss of assets such as land, crops, water, houses);
- That will affect **indigenous or traditional communities** or lands used by such communities;
- In areas of **social conflict** or where armed government forces are deployed to control security; and/or
- That is located in areas where there is a **history of tension** and **activism over oil & gas development** (including locations where plant damage, closure or public campaigns have occurred).

## 7. Oil and Gas Sector Client Engagement and Monitoring

A Bank should engage with oil and gas sector clients to encourage good E&S risk management practices and promote E&S management best practice. Where some existing clients have not met certain standards due to a number of factors, including legacy assets, they would be expected to develop credible, documented time-bound “action plan” to achieve the required standards over time. E&S conditions or covenants will be included in the transaction documentation where appropriate to ensure E&S risks are monitored and on-going compliance is addressed with the client.

## **8. Oil & Gas Sector Reporting**

A Bank that is active in the oil and gas sector will need to monitor and report on its activities consistent with this Guideline and the Nigerian Sustainable Banking Principles to demonstrate on-going commitment and progress. A Bank shall seek to externally report on its progress in a meaningful way. Details of reporting requirements are provided in the Nigerian Sustainable Banking Principles Guidance Note. In addition to general E&S risk reporting guidance provided, Banks should consider international best practices for reporting in the oil and gas sector. The Global Reporting Initiative Oil and Gas Sector Supplement provides detailed reporting guidance on certain activities and E&S risk issues in the Oil and Gas Sector.

## Appendix 1: E&S Risks Associated with Different Oil and Gas Activities<sup>1</sup>

Oil & Gas Lifecycle Stage	Lifecycle activities	Sources and Characteristics of Environmental, Health and Safety Issues
<p><b>Exploration and development operations</b></p>	<p>▪ <b>Exploration</b></p> <ul style="list-style-type: none"> <li>• Consists of special surveys such as seismic, gravimetric and magnetic to determine the subsurface structure and estimate the potential for the oil and/or gas accumulation</li> <li>• Drilling is performed with a rotary drill outfitted to a mobile rig for drilling wells and determining the nature and extent of potential hydrocarbon reservoirs</li> <li>• Purpose of rig is to house rotary drilling equipment whose only function is to make a hole. Four main subsystems to perform this function are power, hoisting, rotating, and circulating</li> <li>• In Nigeria, there are two types of drilling muds; water based and oil based muds are used</li> <li>• Physic-chemically, mud is a mixture of clays, chemicals and either water or oil, all carefully formulated for optimum performance in a given well. Basic mud component include bentonite, barium sulphate and lime or caustic soda</li> </ul> <p>Oil based mud represents a high potential source of pollution. A special approval for the use of oil-based muds must be obtained from the Department Of Petroleum Resources before its use</p> <p>▪ <b>Development</b></p> <ul style="list-style-type: none"> <li>• Development drilling is usually performed from a fixed platform to produce the field by drilling a large number of wells</li> <li>• Development drilling produces quantitatively the same kinds of discharges as exploration drilling. However, developmental drilling involves a great number of wells. Volume of discharge may be much greater than the</li> </ul>	<p>▪ <b>Seismic Activities</b></p> <ul style="list-style-type: none"> <li>• Environmental pollution and safety problems associated with the use of explosives</li> </ul> <p>▪ <b>Exploration and Development</b></p> <ul style="list-style-type: none"> <li>• Air pollution</li> <li>• Drilling fluids</li> <li>• Drill cuttings</li> <li>• Deck drainage</li> <li>• Sanitary waste</li> <li>• Oil spillage</li> <li>• Well treatment wastes</li> </ul>

<sup>1</sup> Environmental, health and safety issues related Oil and Gas activities (Adapted from EGASPIN, 2001)

	exploratory well	
<b>Production Operations</b>	<ul style="list-style-type: none"> <li>• Well drilling</li> <li>• Movement of hydrocarbon fluids to the surface</li> <li>• Separation of oil, gas, and water (gas from any liquids, oil from water)</li> <li>• Gas dissolved in oil, is released as the pressure above the liquid phase is reduced</li> </ul>	<ul style="list-style-type: none"> <li>• Effluents (solids, liquids and gases) and accidental oil spills</li> <li>• Atmospheric emissions from fuel combustion</li> <li>• Probable continuous emissions from gas flaring (if any). Such emissions consist primarily of Carbon Monoxide (CO), Oxides of Nitrogen (NO<sub>x</sub>), and Sulphur (SO<sub>x</sub>) and particulate</li> <li>• Liquid wastes (may occur) from oil leaks</li> <li>• Produced water, derived in extracting oil from fluids (emanating from wells)</li> <li>• Stored chemicals used in production that are hazardous to health, unstable corrosive, and may end up being discharged as waste</li> <li>• Radioactive elements and their daughter products</li> </ul>
<b>Terminal/Depot Operations</b>	<ul style="list-style-type: none"> <li>▪ <b>Storage /Pumping</b> <ul style="list-style-type: none"> <li>• Storage of crude oil/petroleum products in cylindrical steel tanks</li> <li>• Loading pumps are driven by diesel/gas turbines and gas combustion engines (buster pumps) with connecting pipeline networks on land, swamp and offshore</li> </ul> </li> <li>▪ <b>Dehydration</b> <ul style="list-style-type: none"> <li>• For well-refined oil, crude oil must undergo dehydration process. Total water drainage capacity per tank farm/terminal can be as high as 150,000 barrels/day</li> </ul> </li> <li>▪ <b>Accommodation</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Oily Substances / Liquid Waste</b> <ul style="list-style-type: none"> <li>• Oil spills</li> <li>• Discharges from treatment facilities of oily brine formation water</li> <li>• Storm water runoff</li> <li>• Discharges from transporting vessels of ballast, bilge and cleaning waters</li> <li>• Sanitary wastes</li> </ul> </li> <li>▪ <b>Gaseous Emissions</b></li> <li>▪ <b>Solid Waste</b></li> <li>▪ <b>Chemical/ Hazardous Wastes such as tank bottoms/sludge, etc.</b></li> </ul>

<p><b>Hydrocarbon Processing Operations</b></p>	<ul style="list-style-type: none"> <li>▪ Gasoline Refinery Operations</li> <li>▪ Lube Oil Refinery Operations</li> <li>▪ Petrochemical Refinery Operations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fuel Oil / Gasoline Refinery <ul style="list-style-type: none"> <li>• Air emissions</li> <li>• Water effluents</li> <li>• Solid waste</li> </ul> </li> <li>▪ Lube Oil Refinery <ul style="list-style-type: none"> <li>• Air emissions</li> <li>• Water effluents</li> <li>• Solid waste</li> </ul> </li> <li>▪ Petrochemical refinery <ul style="list-style-type: none"> <li>• Air emissions</li> <li>• Water effluents</li> <li>• Solids waste</li> </ul> </li> </ul>
<p><b>Oil and Gas Transportation</b></p>	<ul style="list-style-type: none"> <li>▪ Pipelines</li> <li>▪ Barges, Ships, Tankers and FPSOs</li> <li>▪ Road Tankers and Rail Wagons</li> </ul>	<ul style="list-style-type: none"> <li>▪ Pipelines <ul style="list-style-type: none"> <li>• The trenching, excavating and/or dredging of land, river and sea floor for the laying of pipeline produce sediment and dredge spoils</li> <li>• Leakage from pipelines</li> <li>• Air emissions (hydrocarbons from spills and flue gases, smoke from pump station operation)</li> </ul> </li> <li>▪ Barges, Ships, Tankers and FPSOs <ul style="list-style-type: none"> <li>• Accidental discharges (spillages, leakages and operational malfunction)</li> <li>• Air emission (hydrocarbons from loading racks and spills)</li> <li>• Sanitary and general refuse wastes</li> </ul> </li> <li>▪ Road Tankers and Rail Wagons <ul style="list-style-type: none"> <li>• Accidental discharges (spillages, leakages and operational malfunction)</li> <li>• Air emission (hydrocarbons from loading racks and spills)</li> </ul> </li> </ul>

<b>Marketing Operations</b>	<ul style="list-style-type: none"><li>▪ <b>Stock Taking</b></li><li>▪ <b>Fiscaliation</b></li><li>▪ <b>Laboratory Analysis</b></li><li>▪ <b>Custody Transfer</b></li></ul>	<ul style="list-style-type: none"><li>• Tank failure, leakages, malfunctioning oil separators spills from overfilled tanks, etc.</li><li>• Domestic sanitary waste from toilets, sinks, showers and laundry</li></ul>
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## Appendix 2: E&S Related Laws and Regulations for the Oil and Gas Sector

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The following list of E&S laws and regulations have been provided to draw attention to relevant issues. This list is not exhaustive and may be subject to change.

- **Department of Petroleum Resources (DPR) Environmental Guidelines and Standards for the Petroleum Industry in Nigeria (EGASPIN), 2002: Summary of Requirements:** Provides a detailed summary of relevant E&S laws and regulations for the Oil and Gas Industry.
- **Petroleum Act (1969) and Related Regulations:** Provides encompassing framework for the regulation of upstream and downstream petroleum activities so as to protect the environment.
- **Environmental Impact Assessment (EIA) Act, 1992:** Among other things, it sets out the procedures and methods that enable the prior consideration of EIA for certain public or private projects.
- **National Environmental Protection (Effluent Limitations) Regulations 1991-** The Act makes it mandatory for industries such as waste generating facilities to install anti-pollution and pollution abatement equipment on site.
- **National Environmental Protection (Pollution Abatement in Industries Generating Wastes) Regulations 1991:** imposes restrictions on the release of toxic substances and stipulate requirements for pollution monitoring units, machinery for combating pollution and contingency plan by industries.
- **National Environment Protection (Management of Hazardous and Solid Wastes) Regulations 1991:** define the requirements for groundwater protection, surface impoundment, land treatment, waste piles, landfills, and incinerators.
- **The Federal Environmental Protection Agency (FEPA) Act 1988:** The Act sets out the functions of the agency, particularly the protection and development of the environment in general.
- **The National Policy on the Environment (1989) revised 1999:** This Policy aims to achieve sustainable development in Nigeria.
- **Harmful and Toxic Wastes (Special Criminal Provisions) Act No. 42 (1988):** This Act prohibits and declares unlawful all activities relating to the purchase, sale, importation, transit, transportation, deposit, storage of harmful wastes.
- **Oil Pipelines Act 1956 (Cap 338 (LFN), amended 1965:** Regulates all aspect of the construction, maintenance and operations of oil and gas pipelines.
- **Mineral Oils (Safety) Regulations. 1963:** The regulations provide framework for health, safety and environmental – friendly exploration and production activities.
- **Oil in Navigable Waters Act 1968:** This regulates the transportation of crude oil in Nigerian waters and prohibits the release or spillage of oil from any facility into the navigable waters of Nigeria.
- **The Associated Gas Re-injection Act 1979:** The Act deals with the gas flaring activities of oil and gas companies in Nigeria.
- **The Crude Oil (Transportation and Shipping) Regulations 1984:** These Regulations prescribe precautions to be taken in the loading, transfer and storage of petroleum products to prevent environmental pollution.
- **The Oil Terminal Dues Act (CAP 08 LFN 2004):** This Act regulates the payment of terminal dues on any ship evacuating oil from terminals in Nigeria.
- **The Labor Act (1990):** The Act protecting the employment rights of individual workers.
- **Workmen’s Compensation Act (Cap 470) LFN, 1990:** This Act makes provision for the payment of compensation to workmen for injuries suffered in the course of their employment.

## Appendix 3: Relevant Standards Applicable to the Oil and Gas Sector

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As described in this Guideline’s Section 4 “Banking Sector Commitment”, the following information references the relevant IFC Performance Standards and Environmental, Health and Safety (EHS) Guidelines, which are considered to be the minimum standard for Oil and Gas sector clients to manage E&S risks. In addition, a list of recommended international sector best practice has been provided.

### IFC Performance Standards, 2012

The IFC Performance Standards on Social and Environmental Sustainability are the global benchmark for social and environmental performance for investments in non-OECD and low-income OECD countries. It also sets a framework for determining, assessing and managing of E&S risks of a business’ activities. For more information access the latest version via this [link](#).

### IFC Environmental, Health and Safety (EHS) Guidelines, 2006

The EHS Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practice. The general EHS Guidelines contain the performance levels and measures that are generally considered to be achievable in new facilities by existing technology at reasonable costs. They are to be used with the relevant industry sector EHS Guidelines. Where host country regulations differ from the levels and measures presented in the EHS Guidelines, operations are expected to achieve whichever is more stringent. The EHS Guidelines relevant to Oil and Gas sector guidelines include (click on hyperlinks to access):

- [Offshore Oil and Gas Development](#)
- [Onshore Oil and Gas Development](#)
- [Liquefied Natural Gas \(LNG\) Facilities](#)
- [Natural Gas Processing](#)
- [Petroleum-based Polymers Manufacturing](#)
- [Petroleum Refining](#)
- [Gas Distribution Systems \(Infrastructure\)](#)
- [Crude Oil and Petroleum Product Terminals \(Infrastructure\)](#)
- [Retail Petroleum Networks \(Infrastructure\)](#)

For more information, access the latest versions by following this [link](#).

### Recommended International Best Practice Standards Relevant for the Oil and Gas Sector

Relevant Initiative	Link
Voluntary Principles on Security and Human Rights (VPSHR)	<a href="http://www.voluntaryprinciples.org">www.voluntaryprinciples.org</a>
Energy and Biodiversity Initiative (EBI)	<a href="http://www.theebi.org">www.theebi.org</a>
Joint Nature Conservation Committee (JNCC) Guidelines	<a href="http://www.jncc.defra.gov.uk">www.jncc.defra.gov.uk</a>



<b>Extractive Industries Transparency Initiative (EITI)</b>	<a href="http://www.eiti.org">www.eiti.org</a>
<b>Nigerian Extractive Industries Transparency Initiative (NEITI)</b>	<a href="http://www.neiti.org.ng">www.neiti.org.ng</a>
<b>Global Gas Flaring and Venting Reduction Voluntary Standard (GGFR)</b>	<a href="http://go.worldbank.org/NEBP6PEHS0">http://go.worldbank.org/NEBP6PEHS0</a>
<b>International Maritime Organization (IMO)</b>	<a href="http://www.imo.org">www.imo.org</a>
<b>Petroleum Industry Environmental Conservation Association (IPIECA)</b>	<a href="http://www.ipieca.org">www.ipieca.org</a>
<b>International Association of Oil and Gas Producers (OGP)</b>	<a href="http://www.ogp.org.uk">www.ogp.org.uk</a>
<b>International Finance Corporation (IFC)</b>	<a href="http://www.ifc.org">www.ifc.org</a>

<b>Other issues that may be raised during Oil and Gas activities</b>	<b>Relevant E&amp;S Standards / Initiatives</b>	<b>Link</b>
Environmental management system	<b>ISO 14001</b> ISO 14001 standard specifies the requirements for an environmental management system. Fulfilling these requirements demands objective evidence that can be audited to demonstrate that the environmental management system is operating effectively in conformity to the standard. An independent accredited certification body can certify the conformity. However, the standard does not specify specific levels of environmental performance.	<a href="http://www.iso.org">www.iso.org</a>
Labour	<b>ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998</b>  The most basic labour rights have been codified by the International Labour Organization (ILO) under this Declaration, which identifies eight ILO conventions as fundamental to the rights of persons at work, irrespective of the level of development of a country. It declares that all ILO member states, whether they have ratified the relevant conventions or not, have an obligation due to their membership in the ILO to respect, promote and realise the fundamental rights which are the subject of those conventions.	<a href="http://www.ilo.org">www.ilo.org</a>
Occupational Health and Safety	<b>OHSAS 18001</b>  The OHSAS 18000 series is the most widely used standard for occupational health and safety management. It was first developed in 1999 as a result of consultations between 42 different organisations from 28 countries. OHSAS 18001 has been developed by the British Standards Institution in response to consumer demand for a recognised, assessable and	<a href="http://www.ohsas.org/">http://www.ohsas.org/</a>

Other issues that may be raised during Oil and Gas activities	Relevant E&S Standards / Initiatives	Link
	certifiable management system for health and safety.	
Community Health and Safety	<p><b>Guidelines for Community Noise, World Health Organisation (WHO), 1999</b> - The scope of WHO's effort to derive guidelines for community noise is to consolidate actual scientific knowledge on the health impacts of community noise and to provide guidance to environmental health authorities and professional trying to protect people from the harmful effects of noise in non-industrial environments.</p>	<p><a href="http://www.who.int/docstore/peh/noise/guidelines2.html">http://www.who.int/docstore/peh/noise/guidelines2.html</a></p>
Sustainability Reporting	<p><b>The UN Global Reporting Initiative (GRI)</b></p> <p>The UN Global Reporting Initiative (GRI) vision is to make disclosure on sustainability performance as comparable and commonplace as financial reporting and of comparable importance to an organisation's measure of success. The GRI reporting framework provides sustainability reporting guidelines and sets out principles and indicators that organisations and companies can use as relevant to measure and report on their performance from a sustainability perspective.</p> <p>Sustainability reports based on the GRI framework can be used to benchmark organisational performance with respect to laws, norms, codes, performance standards and voluntary initiatives; demonstrate organisational commitment to sustainable development; and compare organisational performance over time.</p>	<p>GRI <a href="http://www.globalreporting.org">www.globalreporting.org</a></p> <p>Global Reporting Initiative's Sustainability Reporting Guideline <a href="http://www.globalreporting.org/ReportingFramework/G31Guidelines/">http://www.globalreporting.org/ReportingFramework/G31Guidelines/</a></p> <p>GRI's Oil and Gas Sector Supplement <a href="https://www.globalreporting.org/reporting/sector-guidance/oil-and-gas/Pages/default.aspx">https://www.globalreporting.org/reporting/sector-guidance/oil-and-gas/Pages/default.aspx</a></p>