

# Navigating ESG Compliance in Nigeria:

## How Nigerian Entities can Leverage ESG Compliance for Competitive Advantage

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# Introduction

Environmental, Social, and Governance (ESG) compliance is becoming increasingly important in Nigeria, driven by local regulations, international expectations, and investor demands. Nigerian businesses that align with ESG standards not only mitigate risks but also unlock competitive advantages in a globalising economy.

Nigerian businesses are being called to go beyond profit-making and demonstrate responsible corporate citizenship. While ESG compliance may initially appear complex or costly, it offers a clear path to competitive advantage, long-term value creation and enhanced reputation.

This article provides an insight into various ESG compliance requirements which Nigerian businesses are expected to comply with, and how they can leverage ESG compliance to gain a competitive advantage.

## ESG Compliance Requirements in Nigeria

While Nigeria does not have a single comprehensive ESG law, Nigeria has introduced several ESG aligned framework to encourage sustainable business conduct.

### Environmental Compliance

*i) Environmental Considerations in Decision Making:* Businesses are mandated to make certain considerations when making business decisions that may affect the environment. Under the Companies and Allied Matters Act 2020 (CAMA), directors of a company, while acting in furtherance of the company's business and interests, are required to have regard to the impact of the company's operations/activities on the environment in the locality where it operates.

Businesses are further required by virtue of the Water Resources Act, 1993, to obtain authorisation from the Minister of Water Resources before carrying on any activity that may affect the quality or quantity of water resources. In like manner, the Environment Impact Assessment Act, 1992 requires that Businesses should conduct an environment impact assessment ("EIA") before commencing any project that is capable of impacting the environment. The report of such EIA must be submitted to the National Environmental Standards & Regulations Enforcement Agency ("NESREA") for review and issuance of certificate before commencement of such project. Under the Petroleum Industry Act, 2021, companies operating within the upstream and midstream sectors must also submit an environmental management plan for projects that will require an EIA to the Nigerian Upstream Regulatory Commission for assessment and approval.

*ii) Cleaner Energy and Regulation of Carbon Footprint:* Environmental compliance now goes beyond pollution control to encompass a company's energy choices, especially the transition towards cleaner and renewable energy sources. Nigerian law imposes specific obligations on businesses to align with national climate goals and sustainable energy standards.

As stated above, under CAMA directors are expected to act not just in the interest of the company's financial performance but also with regard to the environmental consequences of their decisions, and this includes the energy sources employed in company operations. Choosing to power business activities with renewable energy such as solar, wind, or natural gas rather than carbon-intensive fuels is increasingly seen as part of a director's fiduciary duty to act responsibly and sustainably.

In line with its commitment to a low-carbon economy and global climate goals, Nigeria has introduced various laws, policies, and regulations to support sustainable development and reduce greenhouse gas emissions. The Climate Change Act, 2021 establishes Nigeria's legal framework for transitioning to a low-carbon economy. Under the Climate Change Act, businesses particularly those in carbon-intensive sectors are required to align their operations with Nigeria's nationally determined contributions (NDCs) under the Paris Agreement. The Act establishes a framework for carbon budgeting, through which the federal government sets limits on permissible emissions per sector or industry over specified periods. Companies are therefore obligated to monitor and report their greenhouse gas emissions in accordance with standards issued by the National Council on Climate Change (NCCC).

To encourage compliance by businesses, the NCCC released the Regulatory Guidance on Nigeria's Carbon Market Approach (the Guidance) and established the carbon credit market in the Nigeria. In the carbon credit market, businesses can trade carbon units (which are carbon dioxide emissions which were either avoided or isolated from a project). Where a business does not fully utilise the permissible emission level as set by the government, such business can trade such credit with another entity. The goal is to create financial incentives for businesses to reduce their carbon footprints and invest in clean, eco-friendly, and sustainable practices.

*iii) Waste Management:* The National Environmental (Sanitation and Waste Control) Regulations, 2009, enacted pursuant to the NESREA Act, lays out specific requirements for waste segregation at source, prohibition of indiscriminate dumping, and compulsory use of licensed waste handlers.



Businesses generating large volumes of waste must ensure that waste is collected and disposed of only by NESREA-accredited service providers, and that disposal is done at approved landfill or treatment sites. Non-compliance may attract fines, closure orders, or criminal prosecution.

In cases involving hazardous waste such as chemical byproducts, biomedical waste, or oil sludge, businesses must comply with the Harmful Wastes (Special Criminal Provisions) Act, 1988, which strictly prohibits the unauthorised storage, transport, or disposal of toxic substances. The Act criminalises the importation and mismanagement of hazardous waste, prescribing stringent penalties including imprisonment and substantial fines. Companies dealing in such materials are required to obtain appropriate clearances and maintain detailed records of the waste stream from source to final disposal.

Furthermore, companies operating within the oil and gas, mining, and manufacturing sectors are often subject to additional sector-specific regulations, such as those under the Petroleum Industry Act, 2021, which mandates the implementation of waste containment and recovery systems for drill cuttings, sludge, and produced water. These must form part of an approved environmental management plan submitted and reviewed by the relevant regulatory authority, such as the Nigerian Upstream Regulatory Commission.

### **Social Compliance**

*i) Consumer Protection:* Consumer protection is a core element of social compliance, requiring businesses to prioritise product safety, quality, and truthful communication in their dealings with the public. In Nigeria, the Federal Competition and Consumer Protection Act, 2018 governs the rights of consumers and the responsibilities of businesses towards them. The law obliges companies to ensure that the goods and services they offer are not only fit for use but also safe, durable, and accurately represented.

Under this framework, companies are required to operate with transparency in their pricing, contracts, and advertisements. The Federal Competition and Consumer Protection Commission (FCCPC) actively enforces these standards, with powers to investigate complaints, sanction non-compliant businesses, and demand remedial action. Failing to uphold these responsibilities can result in legal consequences and reputational damage, undermining consumer trust and market competitiveness.

*ii) Occupational Health & Safety and Employment Conditions:* Protecting the health and safety of workers is a critical dimension of social compliance and is governed by the Factories Act, 2004 and the Employees' Compensation Act, 2010.



These laws require businesses to maintain a work environment that is free from avoidable hazards and to adopt preventive measures such as safety training, provision of protective equipment, and emergency preparedness systems. Employers are required to adopt health and safety policies tailored to the nature of their operations, conduct regular safety inspections, and provide adequate training and equipment for workers.

Where injuries or health issues arise in the course of employment, the Nigeria Social Insurance Trust Fund (NSITF) oversees the process for employee compensation and rehabilitation, in line with statutory entitlements.

Beyond physical safety, Nigerian Labour Law imposes obligations on employers to treat workers fairly throughout the employment relationship. The Labour Act, Cap L1, LFN 2004 requires employers to issue written contracts, pay fair wages, observe lawful termination procedures, and respect workers' rights to unionise and negotiate collectively. Companies that employ expatriates must also comply with immigration and expatriate quota requirements under Nigeria's employment and immigration framework.

*iii) Community Engagement:* The Petroleum Industry Act, 2021, mandates companies in the oil and gas sector to work collaboratively with host communities through the creation of Host Community Development Trusts. These trusts are designed to fund infrastructure, education, health, and social welfare projects as part of the companies' statutory social obligations.

Beyond the oil and gas industry, businesses are expected through various policies and codes such as the Nigerian Code of Corporate Governance, 2018 to consult with communities before commencing projects, mitigate any negative social impacts, and contribute meaningfully to local development. This includes addressing grievances transparently, respecting local customs and rights, and ensuring that development projects align with community needs.

Community engagement has moved from being a voluntary CSR activity to a regulatory and reputational necessity. When done meaningfully and in compliance with the law, it builds social license to operate and strengthens a company's relationship with its stakeholders, ultimately supporting operational stability and long-term success.

## **Governance Compliance**

*i) Board Composition and Diversity:* Corporate governance in Nigeria places significant emphasis on the structure and composition of company boards.

The Nigerian Code of Corporate Governance, 2018 (the Code), issued by the Financial Reporting Council of Nigeria (FRCN), sets out principles aimed at promoting effective oversight and strategic guidance. Companies are expected to maintain a balanced board composition that reflects a mix of skills, experience, and perspectives, including gender diversity, without compromising on competence, independence, or integrity.

Under the Code, public and large private companies are encouraged to ensure adequate female representation and inclusion of independent non-executive directors who can bring objective judgment to board deliberations.

While the law does not yet impose quotas, regulators, investors, and civil society are increasingly expecting demonstrable efforts toward board diversity, which is now viewed as both a governance and ESG imperative.

*i) Transparency and Accountability:* Transparency in corporate governance is reinforced through strict financial disclosure and reporting obligations. CAMA, mandates that directors present true and fair views of their company's financial position, disclose related-party transactions, and prepare audited financial statements in accordance with approved accounting standards.

Furthermore, under the Securities and Exchange Commission (SEC) Corporate Governance Guidelines applicable to listed companies, there is a legal obligation to disclose material information in a timely and accessible manner. This includes disclosures related to financial performance, risk management, executive compensation, and governance practices. Companies must also establish internal controls to ensure the accuracy of financial reporting and to prevent manipulation of financial results, thereby enhancing investor confidence and accountability.

*iii) Anti-Corruption Measures:* Preventing corruption and fostering ethical conduct is a central tenet of governance compliance in Nigeria. Under the Corrupt Practices and Other Related Offences Act, 2000 and the Economic and Financial Crimes Commission (EFCC) Act, 2004, businesses are expected to establish internal mechanisms that detect, report, and prevent bribery, fraud, and other corrupt practices.

Corporate organisations are required to implement anti-corruption policies, codes of conduct, whistleblowing frameworks, and employee training on ethical practices.



The Code of Corporate Governance also recommends the establishment of ethics and compliance committees or assigning responsibility for ethics oversight to the audit committee. Increasingly, compliance with anti-corruption standards is not only a legal requirement but a precondition for doing business with government bodies, multinationals, and international development agencies.

**iv) Stakeholder Engagement:** Effective stakeholder engagement is recognised as a fundamental component of good governance. The Code of Corporate Governance, and the SEC Guidelines require companies to maintain regular communication with shareholders and other key stakeholders, ensuring they are well-informed about the company's business strategy, governance structure, and operational performance.

Companies are also expected to conduct annual general meetings (AGMs), publish sustainability and ESG reports, and engage with regulators, communities, and employees on relevant matters. Such engagement not only satisfies regulatory expectations but also promotes trust, reduces reputational risk, and supports long-term value creation. In industries with significant social and environmental impact, such as oil and gas or infrastructure, stakeholder dialogue also helps identify and mitigate risks before they escalate.

## Strategies for Ensuring ESG Compliance

**Develop ESG Policies and Reporting Frameworks:** Establish clear internal policies aligned with local and international ESG standards. Adopt global reporting frameworks such as Global Reporting Initiative (GRI) or Sustainability Accounting Standards Board (SASB)

**Stakeholder Engagement and Training:** Educate employees and stakeholders on ESG goals and practices. Regular training ensures alignment across the organisation.

**ESG Governance Structures:** Create dedicated ESG committees or assign responsibilities to senior executives to drive accountability and implementation.

**Regular Audits and Monitoring:** Conduct periodic ESG audits and risk assessments to identify gaps and track progress.

**Leverage Technology:** Use data analytics tools to monitor ESG metrics and generate real-time reports for decision-making and regulatory compliance.



## Competitive Advantage Of ESG Compliance

**Access to Capital:** Investors are increasingly prioritising companies with strong ESG practices, viewing them as more sustainable and lower-risk investments. This shift has led to a growing pool of capital directed towards businesses that demonstrate a commitment to environmental stewardship, social responsibility, and sound governance. Consequently, companies with robust ESG profiles often experience enhanced investor confidence, potentially leading to improved access to capital and more favorable financing terms.

**Brand Reputation:** In today's market, consumers and stakeholders are more informed and discerning, often aligning their choices with companies that reflect their values. By adhering to ESG principles, businesses can cultivate a positive brand image, fostering trust and loyalty among customers, employees, and partners. A strong reputation for sustainability and ethical practices can differentiate a company in competitive markets, attracting and retaining a dedicated customer base.

**Operational Efficiency:** Implementing ESG initiatives often leads to more efficient use of resources, reducing waste and lowering operational costs. Sustainable practices, such as energy conservation, waste reduction, and responsible sourcing, not only contribute to environmental preservation but also enhance a company's bottom line. By streamlining operations and adopting innovative solutions, businesses can achieve long-term cost savings and improved profitability.

**Regulatory Risk Mitigation:** As global regulations surrounding environmental and social issues become more stringent, companies with proactive ESG strategies are better positioned to comply with evolving laws and standards. By staying ahead of regulatory requirements, businesses can avoid potential penalties, legal challenges, and reputational damage. Moreover, a commitment to ESG principles demonstrates corporate responsibility, which can strengthen relationships with regulators and other stakeholders. Embracing ESG compliance offers multifaceted benefits that extend beyond ethical considerations. It enhances financial performance, strengthens brand reputation, improves operational efficiency, and mitigates regulatory risks, positioning companies for sustainable long-term success.



## Conclusion

In Nigeria's evolving business landscape, ESG compliance is not just about avoiding regulatory penalties, it's a strategic tool for resilience and growth. Companies that embed ESG in their operations are better positioned to compete globally, attract investment, and contribute to sustainable development.



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