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# SUSTAINABILITY INITIATIVES IN THE NIGERIAN PENSION INDUSTRY: ESG PRACTICES AND 'GREEN' INVESTMENTS IN FOCUS

## Introduction

The Pension Industry like other sectors driving the Nigerian economy, have over time, inculcated environmental, social, and governance (ESG) practices in their operations. These practices and investments aim at bringing in long term investments in sustainable economic growth, activities and projects for the betterment of the Country. In recent times, investors; including those within the Nigerian pension space have expressed their willingness to incorporate 'green' investments into their business objectives.<sup>1</sup> This briefing note explores the current state of sustainability initiatives in the Nigerian pension industry, with a specific focus on how ESG practices and green investments can lead to a more sustainable future for stakeholders in the ecosystem.

## ESG Practices within the Pension Industry

One of the key drivers of the Nigerian pension industry towards sustainability is the Pension Reform Act, 2014 ("PRA or the "Act"). The Act birthed regulations and guidelines aimed at promoting responsible investment practices. The Act further encourages Pension Fund Administrators ("PFAs") to take ESG practices into consideration in their investment decision-making processes, with a view to engendering sustainable and socially responsible investments.<sup>2</sup> The table below depicts efforts made by the National Pension Commission ("PenCom") towards aligning ESG practices within the industry.

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[https://www.researchgate.net/publication/sustainable\\_investment\\_strategies\\_in\\_pension\\_fund\\_management\\_a\\_comparative\\_review\\_of\\_esg\\_principles\\_adoption\\_in\\_the\\_us\\_and\\_nigeria](https://www.researchgate.net/publication/sustainable_investment_strategies_in_pension_fund_management_a_comparative_review_of_esg_principles_adoption_in_the_us_and_nigeria)

<sup>2</sup> Section 85 and 86 of the Pension Reform Act, 2014

ESG Aspect	Sub-Aspects <sup>3</sup>	Regulations, guidelines or codes that cover these aspects <sup>4</sup>
Environmental	<ul style="list-style-type: none"> <li>• Climate change risks</li> <li>• Carbon emissions</li> <li>• Air and water pollution</li> <li>• Biodiversity</li> <li>• Deforestation</li> <li>• Energy efficiency</li> <li>• Waste management</li> <li>• Water scarcity,</li> </ul>	N/A
Social	<ul style="list-style-type: none"> <li>• Customer satisfaction</li> <li>• Data protection and privacy</li> <li>• Gender and diversity,</li> <li>• Employee engagement,</li> <li>• Community relations,</li> <li>• Human rights and labour standards,</li> <li>• Cybersecurity</li> </ul>	<ul style="list-style-type: none"> <li>• PenCom Data Privacy and Policy regulations</li> <li>• PenCom ICT Guidelines</li> <li>• PenCom Guidelines on Corporate Governance for Pension Fund Operators</li> <li>• PenCom Code of Ethics and Business Practices for Licensed Pension Fund Operators</li> <li>• PenCom Guidelines for the Operations of Pension Fund Administrators</li> <li>• PenCom Guidelines for the Operations of P F Cs</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Board composition</li> <li>• Audit committee structure,</li> <li>• Bribery and corruption,</li> <li>• Executive compensation,</li> <li>• Lobbying,</li> <li>• Political contributions</li> <li>• Whistleblowing</li> </ul>	<ul style="list-style-type: none"> <li>• Pension Reform Act, 2014</li> <li>• PenCom Regulation for Compliance Officers</li> <li>• PenCom Regulation for Auditing Pension Funds</li> <li>• PenCom Guidelines for the Appointment to Board and Top Management Positions of PFAs and PFCs</li> <li>• PenCom Guidelines on Corporate Governance for Pension Fund Operators</li> <li>• PenCom Code of Corporate Governance</li> <li>• PenCom Whistle Blowing Guidelines for Pensions</li> <li>• PenCom Regulations on Investment of Pension Fund Asset</li> <li>• PenCom Regulations on Valuation of Pension Fund Assets</li> </ul>

<sup>3</sup> [What is ESG Investing? | CFA Institute](#)

<sup>4</sup> ESG integration by pension regulators in Nigeria - Diagnostic Study <https://www.genesis-analytics.com/projects/helping-pension-fund-regulators-navigate-esg>

As is evident from the table above, while the pension industry in Nigeria has made significant strides in the regulation and management of social and governance practices, there is still a lacuna with regard to the administration of the environmental aspects of the pension ecosystem in Nigeria. To address this, it would be useful for PenCom as the industry's primary regulator, to, in conjunction with other key stakeholders like the PFAs and PFCs, come up with robust regulations and guidelines to address the contemporary environmental concerns that the various industries (inclusive of the Nigerian pension industry) are confronted with.



## **Green Investments**

Green investments refer to investing activities aligned with environmentally friendly business practices and the conservation of natural resources.<sup>5</sup> These investments aim to generate a positive impact on the environment while also providing financial returns to investors. Green investments are investments made in renewable energy projects, sustainable agriculture, clean technology companies, and environmentally conscious real estate developments. The goal of green investments is to contribute to a more sustainable future by directing capital towards initiatives that promote environmental conservation and reduce carbon footprints.

Nigeria's commitment to sustainable development is evident in its adoption of the United Nations Sustainable Development Goals ("SDGs").<sup>6</sup> Nigeria has also taken steps to establish a legal framework to support green investments. Some of these initiatives include: the Nigerian Sustainable Banking Principles (the "Principles") which was introduced in 2012. The Principles encourage financial institutions in the country to integrate environmental and social considerations into their lending and investment decisions.<sup>7</sup> Additionally, the Nigerian

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<sup>5</sup> <https://www.investopedia.com/terms/g/green-investing.asp>

<sup>6</sup> <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

<sup>7</sup> <https://www.cbn.gov.ng/out/2012/ccd/circular-nsbp.pdf>

Investment Promotion Commission Act provides incentives for investments in renewable energy and other environmentally friendly projects.<sup>8</sup>

In Nigeria, the investment of pension assets in green investments is gaining momentum as the country seeks to address environmental challenges and promote sustainable development. PFAs in Nigeria are increasingly looking into allocating pension funds towards green investments.

Investing pension assets in green projects or green investment portfolios not only allows PFAs contribute to the country's environmental goals but also potentially benefit from the long-term growth and stability of green sectors. This strategic approach aligns pension fund investments with sustainable development objectives, creating a win-win situation for both the environment and investors.

Despite these initiatives, the full potential of green investments in Nigeria remains largely untapped. The primal challenge remains the lack of a comprehensive legal and regulatory framework specifically tailored to the promotion of green investments. While existing laws and policies undoubtedly provide a decent foundation, a more robust approach is necessary to attract and facilitate green investments.

To address this gap, the Federal Government of Nigeria, could consider enacting dedicated legislation on green investments. This could include provisions for tax incentives, credits, subsidies, and other financial incentives to encourage private sector participation in green projects. Also, the integration of environmental impact assessments and sustainability criteria into the investment approval process could help ensure that investments align with the country's sustainable development goals. This would not only promote green investments but also mitigate the potential negative environmental and social impacts of investments.

## **Future Outlook**

The implementation of sustainability initiatives and exploring green investment opportunities in the Nigerian pension industry comes with certain challenges. These challenges span from regulatory and policy uncertainties, limited availability of sustainable investment options, to a lack of standardized reporting framework. The need for increased financial literacy and awareness among contributors is crucial to ensure that they understand the importance of ESG considerations and 'green' investments.

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<sup>8</sup> See sections 17 & 21 of the Nigerian Investment Promotion Commission Act



To address these challenges, policymakers and stakeholders must work together to create an enabling environment for sustainability initiatives in the Nigerian pension industry. These initiatives include the development of a clear and consistent regulation on ESG for industry players, provision of incentives for 'green' investments, and the establishment of robust reporting and disclosure mechanisms.

In addition to the foregoing, it would be useful to adopt the following strategies:

1. The inclusion of impact investing criteria in investment guidelines for pension funds
2. An increment in asset allocation to impact investing products such as the Wholesale Impact Investment Fund (WIIF), Sukuk Bond, Green Bond, Ocean Bond, Social Impact Bond, Outcomes-based contracting, Private Equity etc.
3. Upgrade of Fund I and Fund VI of the Nigerian pension industry for impact investing.
4. Approval of direct investments in companies, especially listed local companies and MSMEs.<sup>9</sup>

## **Conclusion**

The Nigerian pension industry has made significant strides in embracing sustainability initiatives, with a focus on ESG practices and 'green' investments. However, there is still room for further progress, and a collaborative effort between the regulator, investors and industry players is necessary to ensure the long-term success of these initiatives. By prioritizing sustainability, the Nigerian pension industry can contribute to a more sustainable and equitable future for the country.

For further information on the foregoing or related matters, please generally contact us at [info@ao2law.com](mailto:info@ao2law.com), or specifically contact the key contacts.

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<sup>9</sup> Unlocking Nigeria's pension funds for impact investing available at: <https://www.bing.com/>