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 takes effect from September 17, 2012.

Chris Chukwu
Director, Financial Policy and Regulation Department
Nigerian Sustainable Banking Principles

May 2012
Introduction

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 reduced, mitigated and/or compensated for appropriately.

We believe that adoption of and 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. Consequently, banks that are behind should accelerate the pace in order to catch up with those banks that have made significant progress with their compliance. 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 business operations.

We recognise that we may not get everything right the first time and that we may need to review these Principles from time-to-time based on our implementation experience, and in order to reflect ongoing 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

**Principle 1:** We will integrate environmental and social considerations into decision-making processes to avoid, minimise or mitigate negative impacts.

**Principle 2:** We will seek to avoid, minimise or mitigate 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:** We will respect human rights in our business operations and business activities.

**Principle 4:** 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 5:** We will implement robust and transparent governance practices in our respective institutions and assess the governance practices of our clients.

**Principle 6:** We will develop individual institutional and sector knowledge, skills and capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our business activities and business operations.

**Principle 7:** 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 8:** We will regularly review and report on our progress in meeting these Principles at the individual bank and sector level.
Disclaimer

The adopting banks view these Principles as a financial industry benchmark for developing individual, internal environmental and social policies, procedures and practices. As with all internal policies, these Principles do not create any rights in, or liability to, any person, public or private. Banks are adopting and implementing these Principles on a voluntary and independent basis.
MEMORANDUM TO THE COMMITTEE OF GOVERNORS (COG) ON THE IMPLEMENTATION OF SUSTAINABLE BANKING PRINCIPLES BY BANKS, DISCOUNT HOUSES AND DEVELOPMENT FINANCE INSTITUTIONS IN NIGERIA

1.0 INTRODUCTION

Banks play an important role in supporting economic development and growth, and in improving living standards by providing various products and services to the rest of the economy. These include clearing and settlement systems to facilitate trade, channelling financial resources between savers and borrowers and various products to deal with risk and uncertainty.

In this role, banks are uniquely placed to impact society directly through their own activities and through the influence they exercise over their clients.

Relative to the financial system as a whole, the Nigerian banking system is large, currently accounting for about 30% of the shares traded on the Nigerian stock exchange.

In recognition of this unique and dominant role, and in furtherance of the desire to promote sustainable growth for the banking system and the economy at large, the Bankers Committee developed a set of Principles known as the Nigerian Sustainable Banking Principles (hereafter referred to as the “Principles”)

Working closely with its independent Consultants (Sustainable Finance Advisory), the Bankers Committee developed the Nigerian sustainable banking documents comprising the following:

i. The Nigeria Sustainable Banking Principles;
ii. The Nigeria Sustainable Banking Principles Guidance Notes; and the following sector guidelines to start with;
iii. Nigeria Sustainable Banking Principles Power Sector Guidelines;
iv. Nigeria Sustainable Banking Principles Agriculture Sector Guidelines; and

These documents were presented to the Bankers Committee at its retreat of July 14, 2012.
One objective of the Principles is to put in place a process for the Nigerian banking sector to achieve measurable progress in creating and sustaining economic growth that is both environmentally responsible and socially relevant. This includes, but is not limited to, unlocking oft-cited barriers to growth and development through:

- Responsible business decisions that take into account externalities which could otherwise negatively impact the environment and society and hinder long-term growth prospects;
- Increased access to finance for small and medium enterprises (“SMEs”) and traditionally unbanked segments of the population;
- Economic empowerment of women; and
- Enhanced levels of investment in priority growth sectors such as agriculture and power to create employment, provide food security, improve the quality of life and drive economic growth.

The documents are to guide banks in the assessment and management of potential Environmental and Social (E&S) issues associated with their business activities and operations. Such issues may include:

- in the Power sector - increased greenhouse gas emissions, high water extraction, conflict with communities, habitat defragmentation, and people or economic displacement;
- in the Oil and Gas sector - environmental and ecosystem damage, climate change impacts, revenue management, community conflict and social unrest, health and safety issues; and local employment issues; and
- in the Agriculture sector - Deforestation and soil erosion, conflict over use of land, greenhouse gas emission, animal welfare, disposal of animal waste, etc.

Banks would therefore, need to ensure that they have an appropriate E&S risk management approach in place to assess and manage the level of E&S risk associated with their operation and clients. By carefully considering the E&S risks associated with its operation and those of its clients, a bank would be able to manage reputational risk and improve the overall risk profile of its portfolio.
2.0 ENVIRONMENTAL AND SOCIAL ISSUES: THE GLOBAL PERSPECTIVE

In recent times, there has been an increased awareness of environmental and social issues and it has been a major driver of changes in the way organizations conduct businesses and investment decisions are made internationally. The integration of E & S issues is increasingly being recognized as a main way to enhance value and secure long term financial sustainability of business activities and operation of entities. The long term financial sustainability is achieved by ensuring that banks activities and those of their clients have limited negative impact on surrounding environment and people.

Environmental issues such as climate change, hazardous waste, oil spillage and nuclear energy are of global concern and there has been increased focus on countries with increased activities that are impacting negatively on the environment to develop strategies to minimize these impacts. In this regard, countries like China, Brazil and Bangladesh have developed policies, as well as provided incentives for companies operating in their jurisdiction to adopt principles that minimize their footprint on the environment.

The increasing global attention being devoted to environmental and social concerns is reflected in the Environmental, Health, and Safety (EHS) Guidelines issued by the International Finance Corporation (IFC) and the Equator Principles (EPs) issued by the 77 adopting financial institutions (74 Equator Principles Financial Institutions and 3 Associates). There has been increase in the number of financial institutions that have adopted these standards as industry international best practices for environmental and social risk management.

The EHS Guidelines are reference documents with general and industry-specific examples of Good International Industry Practice (GIIP). EPs is a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions. Financial institutions that have adopted the EPs principles commit not to provide loans to project where the borrower will not or is unable to comply with their respective social and environmental policies and procedures.

We believe the time has come for Nigeria to join the league of other countries in protecting the environment by promoting and encouraging companies, especially those that operate in
the Oil and Gas, Agriculture and Power sectors to adopt international best practices that will help in minimizing the negative impact of their footprint on the environment.

The CBN should therefore actively encourage the adoption of Sustainable Banking Principles by the banks. In order to be seen to be leading by example, the CBN will need to adopt the same principles as appropriate to its own operations.

3.0 ARGUMENTS FOR ADOPTION OF THE NIGERIAN SUSTAINABLE BANKING PRINCIPLES IN NIGERIA

The Nigerian Sustainable Banking Principles consists of a set of principles aimed at introducing good practice for banks to consider and mitigate the environmental and social risks associated with their business operation and activities. It is expected that these principles will:

- shape the approach of Nigerian banks to effectively manage the environmental and social (E&S) risks associated with the provision of financial products and services in the Power, oil and gas and power sectors;
- support banks in implementing the Nigerian Sustainable Banking Principles;
- provide clear and practical sector-specific guidance; and
- ensure that the complex E&S risks related to the some sectors are responsibly managed, and in a manner consistent with best practices and international standards.

The adoption of the Principles will not only help banks in mitigating the E & S risks associated with their business operation and those of their clients, but also help them to achieve greater efficiencies and better position them to take advantage of opportunities in the global market place where environmental and social issues are becoming increasingly important. They will also enjoy higher productivity, higher staff morale, lower turnover and absenteeism due to strong employee relations and workplace practices.

The CBN would need to provide the structural mechanism to encourage consistent and widespread implementation of the principles and develop its institutional capacity to support the banks in their implementation of the principles.
4.0 THE ROLE OF THE CBN
The process of developing the Nigerian Sustainable Banking Principles and Guidelines has so far been driven by the banks. Going forward, the CBN would be required to create the enabling environment for banks to succeed in their implementation of the Principles and the Guidelines. In this role, the CBN will need to:

1) Provide the structural mechanisms to encourage consistent and widespread implementation by the banking sector;
2) Develop its institutional capacity to support the banks;
3) Engage and create buy-in of key stakeholders in the financial sector and other priority sectors to encourage consistency in support for the banks; and
4) Develop and implement its own sustainability strategy and institutional capacity at an organizational level so that it can credibly lead the sector by example.

5.0 RECOMMENDATION
Considering the expected benefits that would be derived by the adoption of the Principles and the Guidelines by the Banks, discount houses and development finance institutions in the country, the CBN needs to put a structure in place to encourage a consistent and widespread application of this principle in the country. We therefore recommend that there is need to guides the operators through issuance, implementation and monitoring of implementation of the Principles.

6.0 PRAYERS
The committee of Governors is invited to NOTE

a) The need to adopt the Principles and the Guidance Notes together with international best practices;
b) That institutions would be expected to develop their own sustainability principles using the benchmarks set out in the Principles and Guidance notes;
c) CBN should also adopt the Principles as applicable to its own operation;
d) It is recommended that the adoption of the Principles should be made mandatory.
7.0 AND APPROVE THAT:

7.1 A circular on the implementation of Nigeria Sustainable Banking Principles be issued.
7.2 The circular should be applicable to banks, discount houses and other institutions under the purview of the CBN.
7.3 The capacity of CBN staff be enhanced to equip them to effectively provide support, oversight and monitor the implementation of the Principles.
7.4 The Sustainability Programme capacity be domiciled in the FPRD in the light of the Policy, Regulatory and Supervisory dimensions of the Programme.

FINANCIAL POLICY & REGULATION DEPARTMENT, CENTRAL BANK OF NIGERIA, ABUJA, 16TH JULY, 2012
To all Banks, Discount Houses and Other Financial Institutions

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Successful implementation of these principles and guidelines requires 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.
Adoption of these will serve the purpose of achieving financial success over the longer term while ensuring that the institutions remain environmentally and socially responsible.

The Central Bank of Nigeria directs full adoption of these principles and guidelines and will provide incentives, as necessary, to those institutions that take concrete measures to embed the provisions of these principles and guidelines into their enterprise risk management and other governance frameworks.

These guidelines are effective September 1, 2012.

Chris Chukwu
Director, Financial Policy and Regulation Department
Nigerian Sustainable Banking Principles
Agriculture Sector Guideline

July 2012
1. Introduction

The objectives of this Agricultural Sector Guideline are to:

- Provide guidance to the Nigerian financial sector on sustainable banking activities as they relate to the sector;
- Ensure that the provision of financial products and services to the sector is undertaken in a socially relevant and environmentally responsible manner; and
- Strategically position agriculture as an attractive, rewarding and sustainable business in Nigeria.

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.

Banks that actively lend and invest in this sector may leverage on their relationship with the client to influence the sustainable development of agriculture. It is intended that this guideline will provide the minimum standards for banks in ensuring that financial services to the sector are both socially and environmentally sustainable.

Nigeria’s agricultural sector, which by 2010 contributed about 42 percent of GDP and employed about 60 percent of working population, is severely underfunded and underinvested with only 2% of all formal credit flowing to the sector. Agricultural lending accounts for only 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 and lack of confidence in the sector. In response to this challenge, the Central Bank of Nigeria (CBN), the Bankers’ Committee and the Federal Ministry of Agriculture & Rural Development have recently developed an initiative known as the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (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 and 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.

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.

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1 http://www.ifpri.org/sites/default/files/publications/nsspbp02.pdf
2. Scope and Applicability

This Guideline covers:

- All activities of the agribusiness value chain contained in the approved NIRSAL framework
- The provision of financial services and products for any activity along the value chain.
- This Guideline applies to all lending instruments, including 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. Existing clients may not be required to retroactively implement E&S requirements, but the guideline will apply to any additional facilities or services to existing clients.

This Guideline does not apply to activities related to non-agriculture related insurance and asset management.

3. Agriculture Sector E&S Issues and Sustainable Agriculture

As already mentioned, As of 2010, agriculture accounted for 42% of GDP and 60% of employment in Nigeria. 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 agribusinesses would be 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, 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 addition to unleashing the full potential of the sector, it is increasingly recognised that this has to 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, sustainable agriculture takes into account numerous social issues such as health and safety of labour, in particular women and children, as well as community and land use issues.

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 impact 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 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 utilization 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 has been developed under formal irrigation out of which only 85,000 ha are actually being irrigated.

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 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;

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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

<table>
<thead>
<tr>
<th>Value Chain Category</th>
<th>Category Name</th>
<th>Examples</th>
<th>Potential E&amp;S Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category 1</td>
<td>Preparation &amp; Infrastructure</td>
<td>Land preparation, Developing Water bodies / Irrigation, Cluster Enabling Infrastructure</td>
<td>Land grabbing/conflict, Involuntary physical and/or economic displacement, Higher land values and rents for local communities, Biodiversity loss, Impact on water resources – conflict over water resources, Climate change adaptation/mitigation considerations, Conflict over use of land e.g. biofuel versus food security</td>
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<tr>
<td>Category 2</td>
<td>Inputs</td>
<td>Inputs (vaccines, veterinary products, animal feed, embedded power equipment, agricultural machinery, seeds, fertilizer, crop protection, micronutrients, and related material)</td>
<td>Genetically modified seeds/crops, Pesticides/chemical pollution, Disposal of agricultural waste, Water supply issues (source)</td>
</tr>
<tr>
<td>Category 3</td>
<td>Planting, Nurturing &amp; Harvesting</td>
<td>Livestock raising / husbandry lifecycle, Fisheries, Planting, Crop management including weeding / replanting</td>
<td>Deforestation and soil erosion, Impact on soil structure and fertility, Disposal of animal waste, Greenhouse gas emissions, Local labour (health &amp; safety issues; employment practices), Animal welfare</td>
</tr>
<tr>
<td>Category</td>
<td>Description</td>
<td>Activities</td>
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<td>Category 4</td>
<td>Storage and Post-Harvest Handling</td>
<td>- Harvesting</td>
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<td></td>
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<td>- Storage</td>
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<td>- Post-Harvest Handling</td>
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<td>- Access to Markets</td>
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<td>- Transportation</td>
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<td>- Logistics</td>
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<td></td>
<td></td>
<td>- Waste prevention and Energy requirements for storage (renewable)</td>
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<td></td>
<td></td>
<td>- Consultation with local communities regarding transport links (roads etc.)</td>
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<tr>
<td>Category 5</td>
<td>Processing</td>
<td>- Processing across all stages</td>
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<tr>
<td></td>
<td></td>
<td>- Packaging companies</td>
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<td></td>
<td></td>
<td>- Energy requirements for processing</td>
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<tr>
<td></td>
<td></td>
<td>- Prevention and Disposal of waste</td>
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<td></td>
<td>- Health &amp; safety of labour</td>
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<td></td>
<td></td>
<td>- Employment practices</td>
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<td></td>
<td></td>
<td>- Food safety/consumer health</td>
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<tr>
<td>Category 6</td>
<td>Distribution</td>
<td>- Wholesale downstream distributors (export and domestic)</td>
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<td></td>
<td></td>
<td>- Specialised services providers</td>
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<td></td>
<td></td>
<td>- Energy requirements for transportation</td>
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</tbody>
</table>

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. **Commitment of Banks to Agriculture Sector Financing**

Consistent with the Principles and Guidance Note and to promote the sustainable development of agriculture in Nigeria, banks 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 international best practices (see Appendix 3).

In addition, and consistent with NIRSAL, banks 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 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 (technical assistance, risk sharing, insurance and incentive pillars), and

14. Lend to promote the use of appropriate and sustainable farm mechanisation and irrigation technology in agriculture.

5. E&S Risk Implementation

To meet these commitments and successfully manage E&S issues associated with the provision of financial products and services to the agriculture sector, banks should refer to the Principles Guidance Note. Banks should seek to implement the recommended guidance as detailed in the Guidance Note appropriately. The following sections provide sector-specific guidance to be used in conjunction with the Guidance Note.

6. E&S Risk Categorisation of Agribusiness

The following information serves to illustrate and support the categorisation of E&S risk for different agribusiness. Typically a transaction will be categorised as high, medium or low based on the nature of the E&S impacts associated with the client’s agriculture activities and the client’s ability to manage such impacts. The purpose of categorising the risk of a transaction or engagement is to guide banks on the degree of E&S due diligence required to determine credit risk approval decision-making and the appropriate level of E&S risk management that should be applied to the transaction.

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

A medium-risk investment 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

Banks should engage with their Agriculture sector clients to encourage good E&S risk management practices as well as promote sustainable agriculture practices. Where some clients have not met certain standards due to a number of factors, they would be expected to develop a credible, documented, time-bound “action plan” to
achieve the 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**

In addition to general E&S risk reporting guidance provided, banks should consider adopting international best practice for reporting. The Global Reporting Initiative guideline provides detailed reporting guidance on certain activities and E&S risk issues.

**Include:**

- Agro-chemical manufacturers
- Waste management firms
### Appendix 1: E&S Risks Associated with Agricultural Production Sectors

#### Examples of Select Environmental Risk Factors

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>ENVIRONMENTAL RISK</th>
<th>IMPACT</th>
<th>MITIGANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Crop Production</strong></td>
<td>Risk of drought or inadequate rainfall.</td>
<td>Crop failure or low crop yield/ quality, relative to expected performance.</td>
<td>Fund only projects with reliable water supply or provision of irrigation systems and/or dams.</td>
</tr>
<tr>
<td></td>
<td>Risk of soil and water pollution from nearby industries/mines/other farms.</td>
<td>Low crop yield or outright crop failure.</td>
<td>Avoid projects co-located or in close proximity to identified pollutants. Fund only projects with adequate bio-security and pollution control systems.</td>
</tr>
<tr>
<td></td>
<td>Risk of climate change (long-time, non-immediate).</td>
<td>Low crop yield or outright crop failure.</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Environmental sustainability issues with respect to agronomic practices such as use of toxic pesticides and fertilizers that alter soil structures.</td>
<td>Pollutes the soil and water cycle and affects the health of farmers, farm animals and entire food chain. Penalties from regulatory standard agencies.</td>
<td>Ensure that customer uses only environmentally friendly fertilizers and agrochemicals certified and compliant with relevant regulatory bodies.</td>
</tr>
<tr>
<td><strong>Poultry &amp; Livestock Production</strong></td>
<td>Risk of hot and dry weather conditions.</td>
<td>Heat stress leads to low productivity, low quality products and sudden death syndrome in poultry and livestock.</td>
<td>Provision of water cooling systems and rearing of animals under controlled systems especially in hot and arid regions, as opposed to free range.</td>
</tr>
<tr>
<td></td>
<td>Risk of sewage effluents pollution (ammonia poisoning) from residential and other nearby farms.</td>
<td>Low productivity. Disease outbreak. Death of livestock.</td>
<td>Provision of proper sewage waste drainage and special housing to avoid contamination.</td>
</tr>
<tr>
<td></td>
<td>Environmental sustainability issues as regards disposal of waste from poultry and livestock operations.</td>
<td>Pollutes the environment and affects both the health of humans and animals alike. Penalties from regulatory bodies.</td>
<td>Requirements for proper drainage and recycling of waste that can be safely ploughed back into the agro-industrial value chain. Compliance with relevant HSE standards of operations.</td>
</tr>
<tr>
<td><strong>Fisheries and Aquaculture</strong></td>
<td>Risk of water pollution from nearby industries/mines/other farms.</td>
<td>Death of fish population.</td>
<td>Avoid projects co-located or in close proximity to identified pollutants. Fund only projects with adequate bio-security and pollution control systems.</td>
</tr>
<tr>
<td></td>
<td>Risk of sewage pollution.</td>
<td>Low productivity. Death of fishes.</td>
<td>Fund only projects with effective bio-security and pollution control systems such as re-circulatory water system.</td>
</tr>
<tr>
<td>SECTOR</td>
<td>SOCIAL RISK</td>
<td>IMPACT</td>
<td>MITIGANTS</td>
</tr>
<tr>
<td>--------</td>
<td>-------------</td>
<td>--------</td>
<td>-----------</td>
</tr>
<tr>
<td>All areas of agricultural production</td>
<td>Land Tenure/Host communities Issues</td>
<td>Impacts sustainability of production and concerns around the continuity of business. Could result in social conflict.</td>
<td>Ensure that land title issues have been clarified and the project effectively engages host communities.</td>
</tr>
<tr>
<td></td>
<td>Health and safety of labour/abuse of labour (e.g. child labour)</td>
<td>Litigation and criminal prosecution/legal and regulatory compliance problems. Penalties and outright shut down of business entity.</td>
<td>Do due diligence in profiling customer’s workforce and ensure compliance with international and national labour laws and regulations.</td>
</tr>
<tr>
<td></td>
<td>International Food Safety and Quality issues – Organic Farming; phytosanitary requirements, genetic modification compliance etc.</td>
<td>Impacts on exportability, profitability and ability to earn premiums from global produce/commodity trade.</td>
<td>Ensure that necessary certifications and regulatory compliance are in place with regard to standards.</td>
</tr>
<tr>
<td></td>
<td>Social equity/livelihoods/fair trade issues</td>
<td>Same as above</td>
<td>Ensure that customer has all necessary certifications and corporate social responsibility initiatives to address social equity/livelihoods and fair-trade issues.</td>
</tr>
</tbody>
</table>
Appendix 2: E&S Related Laws and Regulations for the Agriculture Sector

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.

- National Environmental Standards and Regulations Enforcement Agency Act 2007
- Environmental Impact Assessment Act of 1992
- Harmful Wastes (Special Criminal Provisions etc.) Act of 1988
- Land Use Act 1978
Appendix 3: Relevant E&S Standards Applicable to the Agriculture Sector

The following information references the relevant IFC Performance Standards and Environmental, Health and Safety (EHS) Guidelines and other recommended good international sector practice for managing E&S risks.

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 EHS Guidelines, 2006

The EHS Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practice. 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 the Agriculture Sector Guideline include:

- Mammalian Livestock Production
- Poultry Production
- Annual Crop Production (for Biofuels)
- Plantation Crop Production (for Biofuels)
- Aquaculture
- Sugar Manufacturing
- Vegetable Oil Processing
- Dairy Processing
- Fish Processing
- Meat Processing
- Poultry Processing
- Food and Beverage Processing

For more information, access the latest versions by following this link.

Other relevant codes of conduct and standards for developments in the agriculture sector include:

<table>
<thead>
<tr>
<th>Relevant International Best Practice Standards / Sector Sustainability Initiatives</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food and Agricultural Organisation (FAO)</strong></td>
<td><a href="http://www.fao.org">www.fao.org</a></td>
</tr>
<tr>
<td>As part of the United Nation, the FAO aims to provide leading international best practice and guidelines on the sustainability of the Food and Agriculture sector globally.</td>
<td></td>
</tr>
<tr>
<td><strong>Sustainable Agriculture Best Practice</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Responsible Agriculture Initiative</strong></td>
<td><a href="http://www.respondableagroinvestment.org/rai/node/232As">http://www.respondableagroinvestment.org/rai/node/232As</a></td>
</tr>
<tr>
<td>The World Bank has worked with FAO, IFAD and UNCTAD, and more recently an expanding set of governmental, non-governmental, and private partners, to formulate a set of principles to help governments, investors, communities, and other interested stakeholders to facilitate “responsible agro-investment that respects rights, livelihoods, and resources.”</td>
<td></td>
</tr>
</tbody>
</table>
**Rainforest Alliance (RA) standards set by the Sustainable Agriculture Network (SAN):** formally known as the Conservation Agriculture Network) have been designed to promote tropical conservation and steer commercial agriculture practices in the tropics. Rainforest Alliance Certified growers follow the criteria and standards designed by SAN.

**The IFC-WWF Better Management Practices program:** IFC is working with WWF and other partners to develop and test Better Management Practice (BMPs) for agricultural commodities that are having significant impacts on biodiversity and where there is a critical mass of interest from producers, buyers and investors to effect change.

**WWF Agriculture and Environment Guide to Commodities:** A comprehensive guide to biodiversity-related issues for 21 major agricultural commodities.

**The IFC's Biodiversity and Agricultural Commodities Program (BACP)** seeks to reduce the impact of agribusiness on biodiversity by leveraging market forces at all levels of the value chain. The program focuses on palm oil, cocoa, sugarcane and soybeans.

**The Sustainable Food Lab:** than 60 private companies, banks, NGOs and government agencies from three continents have joined together to accelerate the movement of sustainably produced food from niche markets to the mainstream platform.

**The Sustainable Agriculture Initiative (SAI):** The SAI platform was founded by food companies Danone, Nestlé and Unilever to support the development and promotion of sustainable agricultural practices throughout the food products supply chain.

**The Centre for Environmental Leadership in Business Agriculture and Fisheries Program.**

**Hydropower and Dams Standards (where dams are associated with irrigation, or impact agricultural operations)**

- International Hydropower Association
- World Commission on Dams
- UNEP Dams and Development Program
- European Small Hydropower Association

**Agriculture Sector Initiatives and Certification Schemes**

- **4C Association:** It is an open and inclusive membership association involving coffee producers, trade and industry and civil society. The association has developed a code of conduct and verification system.
- **The Better Cotton Initiative:** Principles and criteria for the production and harvesting of cotton.
- **Bon Sucro: Better Sugar Cane Initiative:** A product standard for the production and harvesting of sugar cane and certification scheme.
- **Roundtable on Responsible Soy Association:** A set of principles and criteria for producing responsible soy, which also includes a certification scheme.
- **Cocoa Roundtable for Sustainable Cocoa Economy:** A platform that provides links to a variety of standards and certification initiatives for the sustainable management of cocoa production.
- **Roundtable on Sustainable Bio-fuels:** A set of principles, criteria and guidance for sustainable biofuel production.
- **Roundtable on Sustainable Palm Oil:** Principles and criteria for sustainable palm oil production, which also includes a supply chain certification scheme.
**Forest Stewardship Council**: A set of standards for the sustainable management of forestry.

**The Marine Stewardship Council (MSC)**: First established by Unilever, the world’s largest buyer of seafood, and WWF, the MSC uses a product labelling system to promote sustainable and well-managed fisheries.

**Sustainable Livestock Initiative**: Standards and guidance on the production of livestock.

**ISEAL Alliance**, a global association of environmental and social standards.

**Fairtrade Certification Marks**: which are awarded to products when producers and traders have met Fairtrade Standards - they include social, environmental and economic criteria, as well progress requirements and terms of trade. The Standards are designed to support the sustainable development of small-scale producers and agricultural workers in the poorest countries in the world.

<table>
<thead>
<tr>
<th>Information Topic</th>
<th>Relevant E&amp;S Standards / Initiatives</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental management system</td>
<td>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.</td>
<td><a href="http://www.iso.org">www.iso.org</a></td>
</tr>
</tbody>
</table>
| Labour                                | **ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998**

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.                                                                                                           | www.ilo.org |
| Occupational Health and Safety        | **OHSAS 18001**

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.                                                                                                                                 | http://www.ohsas.org/ |
<p>| Community Health and Safety           | <strong>Guidelines for Community Noise, World Health Organisation (WHO), 1999</strong> - 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.                                                                                                        | <a href="http://www.who.int/docstore/peh/noise/guidelines2.html">http://www.who.int/docstore/peh/noise/guidelines2.html</a> |</p>
<table>
<thead>
<tr>
<th>Information Topic</th>
<th>Relevant E&amp;S Standards / Initiatives</th>
<th>Link</th>
</tr>
</thead>
</table>
| Sustainability         | **The UN Global Reporting Initiative (GRI)**  
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.  
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. | GRI: [www.globalreporting.org](http://www.globalreporting.org)  
| Reporting              |                                                                                                                                                                                                                                  |                                                                      |
1. Introduction

The objective of this Guideline is to:

- shape the approach of Nigerian banks to effectively manage the environmental and social (E&S) risks associated with the provision of financial products and services to the Oil and Gas sector;
- support banks in implementing the Nigerian Sustainable Banking Principles;
- provide clear and practical sector-specific guidance not covered in the Nigerian Sustainable Banking Principles Guidance Not; and
- ensure that the complex E&S risks related to the sector are responsibly managed, and in a manner consistent with best practices and international standards.

This Guideline is intended for banks that are actively providing financial products and services to the Oil and Gas sector.

2. Scope & Applicability

This Guideline covers the provision of financial products and services for upstream, downstream and servicing activities as follows:

- 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 corporate lending, project and structured finance, equity and debt capital market activities, and advisory services provided to new and existing clients in the oil and gas sector. However, existing clients may not be required to retroactively implement E&S requirements but the guideline will apply to any additional facilities or services to existing clients.

This guideline does not apply to activities involving non-oil and gas related insurance, asset management or retail banking.
3. Oil and Gas Sector E&S Issues

The environmental and social (E&S) issues related to the Oil and Gas are particularly salient and complex. There are a number of E&S risks associated with the sector that deserve consideration. E&S risks vary greatly depending on the scale and type of Oil and Gas activity being financed. Appendix 1 provides a detailed overview of the main potential environmental, health and safety issues related to specific Oil and Gas activities. Some of the main E&S risks that may be encountered however 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 is a top emitter of Green House Gas (GHG), and is also 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**: A priority issue in the Oil and Gas sector is the need ensure that revenues are appropriately managed for development and poverty reduction. The 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.

- **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.
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, financial institutions 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 financial institutions, 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, banks 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. For additional E&S considerations see Appendix 1.
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.

Banks should refer to key sustainability initiatives and good practices relevant for Oil and Gas projects during E&S due diligence 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 (VPSHR).
- **Biodiversity** - the recommendations of The Energy and Biodiversity Initiative (EBI) and the Joint Nature Conservation Committee (JNCC) Guidelines for the offshore industry (for protecting marine animals).
- **Transparency** - the Extractive Industries Transparency Initiative (EITI) through the Nigerian Extractive Industries Transparency Initiative (NEITI).
- **Emergency Response** – For maritime operations, the IMO Convention on Oil Pollution Preparedness, Response and Co-operation (OPRC, 1990).
- **Marine Pollution** – International Maritime Organisations Conventions (IMO) to which Nigeria is a signatory.
- The guidelines defined by the International Petroleum Industry Environmental Conservation Association (IPIECA) and by the International Association of Oil and Gas Producers (OGP).

See Appendix 3 for links and more 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 Investments

To meet these commitments and successfully manage E&S issues associated with the provision of financial products and services to the sector, banks should refer to the Principles’ Guidance Note for implementing a robust E&S risk management system. Banks should seek to implement the recommended guidance as detailed in the Guidance Note appropriately. The Guidance Note includes information for developing policies, 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 serve to illustrate and support the categorisation of E&S risks for different oil and gas projects. Typically a project will be categorised as high, medium or low risk but in the oil and gas sector, all projects carry either a high or medium level of risk. The purpose of categorising the risk of a transaction or engagement 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 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 change the categorisation of Oil and Gas transactions would be 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 greenhouse gas (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 there has been plant damage, closure or public campaigns).

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

Banks should engage with their Oil and Gas sector clients to encourage good E&S risk management practices as well as promote environmental and social best practice. Where some existing clients have not met certain standards due to a number of factors, they would be expected to develop a credible, documented, time-bound “action plan” to achieve the 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 ongoing compliance is addressed with the client.

8. **Oil & Gas Sector Reporting**

Banks active in the Oil and Gas sector will need to monitor and report on their activities consistent with this guideline and the Nigerian Sustainable Banking Principles to demonstrate commitment to and progress against their objectives. Banks shall seek to externally report on their progress in a meaningful way. Details of reporting requirements are provided in the Guidance Note to the Nigerian Sustainable Banking Principles. 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

---

1 Environmental, health and safety issues related Oil and Gas activities (Adapted from EGASPIN, 2001)
<table>
<thead>
<tr>
<th>Oil &amp; Gas Lifecycle Stage</th>
<th>Lifecycle activities</th>
<th>Sources and Characteristics of Environmental, Health and Safety Issues</th>
</tr>
</thead>
</table>
| Exploration and development operations | • Exploration  
- 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.  
- 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.  
- 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.  
- In Nigeria, there are two types of drilling muds; water based and oil based muds are used.  
- 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.  
- 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. | • Seismic Activities  
- Environmental pollution and safety problems associated with the use of explosives |
| • Exploration | • Exploration and Development |
| * Seismic Activities |
| • Explorations |

- Air pollution
- Drilling fluids
- Drill cuttings
- Deck drainage
- Sanitary waste
- Oil spillage
- Well treatment wastes
- Development drilling is usually performed from a fixed platform to produce the field by drilling a large number of wells.
- 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 exploratory well.

<table>
<thead>
<tr>
<th>Production Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Well drilling.</td>
</tr>
<tr>
<td>• Movement of hydrocarbon fluids to the surface.</td>
</tr>
<tr>
<td>• Separation of oil, gas, and water (gas from any liquids, oil from water).</td>
</tr>
<tr>
<td>• Gas dissolved in oil, is released as the pressure above the liquid phase is reduced.</td>
</tr>
<tr>
<td>• Effluents (solids, liquids and gases) and accidental oil spills</td>
</tr>
<tr>
<td>• Atmospheric emissions from fuel combustion</td>
</tr>
<tr>
<td>• Probable continuous emissions from gas flaring (if any). Such emissions consist primarily of Carbon Monoxide (CO), Oxides of Nitrogen (NO\textsubscript{X}), and Sulphur (SO\textsubscript{X}) and particulate.</td>
</tr>
<tr>
<td>• Liquid wastes (may occur) from oil leaks.</td>
</tr>
<tr>
<td>• Produced water, derived in extracting oil from fluids (emanating from wells).</td>
</tr>
<tr>
<td>• Stored chemicals used in production that are hazardous to health, unstable corrosive, and may end up being discharged as waste.</td>
</tr>
<tr>
<td>• Radioactive elements and their daughter products.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Terminal/Depot Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Storage /Pumping</td>
</tr>
<tr>
<td>• Storage of crude oil/petroleum products in cylindrical steel tanks.</td>
</tr>
<tr>
<td>• Loading pumps are driven by diesel/gas turbines and gas combustion engines (buster pumps) with connecting pipeline networks on land, swamp and offshore.</td>
</tr>
<tr>
<td>• Dehydration</td>
</tr>
<tr>
<td>• Oily Substances / Liquid Waste</td>
</tr>
<tr>
<td>• Oil spills</td>
</tr>
<tr>
<td>• Discharges from treatment facilities of oily brine formation water</td>
</tr>
<tr>
<td>• Storm water runoff</td>
</tr>
<tr>
<td>• Discharges from transporting vessels of ballast, bilge and cleaning waters</td>
</tr>
<tr>
<td>• Sanitary wastes</td>
</tr>
<tr>
<td>• Gaseous Emissions</td>
</tr>
<tr>
<td>• Solid Waste</td>
</tr>
<tr>
<td>• Chemical/ Hazardous Wastes such as tank</td>
</tr>
</tbody>
</table>
- 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.

<table>
<thead>
<tr>
<th>Hydrocarbon Processing Operations</th>
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<tbody>
<tr>
<td>- Gasoline Refinery Operations</td>
</tr>
<tr>
<td>- Lube Oil Refinery Operations</td>
</tr>
<tr>
<td>- Petrochemical Refinery Operations</td>
</tr>
</tbody>
</table>

| Bottoms/sludge, etc. |

<table>
<thead>
<tr>
<th>Oil and Gas Transportation</th>
</tr>
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<tbody>
<tr>
<td>- Pipelines</td>
</tr>
<tr>
<td>- Barges, Ships, Tankers and FPSOs</td>
</tr>
<tr>
<td>- Road Tankers and Rail Wagons</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Fuel Oil / Gasoline Refinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Air emissions</td>
</tr>
<tr>
<td>- Water effluents</td>
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<tr>
<td>- Solid waste</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Lube Oil Refinery</th>
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<tbody>
<tr>
<td>- Air emissions</td>
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<tr>
<td>- Water effluents</td>
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<td>- Solid waste</td>
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<table>
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<tr>
<th>Petrochemical refinery</th>
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<tbody>
<tr>
<td>- Air emissions</td>
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<tr>
<td>- Water effluents</td>
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<tr>
<td>- Solids waste</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Pipelines</th>
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<tbody>
<tr>
<td>The trenching, excavating and/or dredging of land, river and see floor for the laying of pipeline produce sediment and dredge spoils</td>
</tr>
<tr>
<td>Leakage from pipelines</td>
</tr>
<tr>
<td>Air emissions (hydrocarbons from spills and flue gases, smoke from pump station operation)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Barges, Ships, Tankers and FPSOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Accidental discharges (spillages, leakages and operational malfunction)</td>
</tr>
<tr>
<td>- Air emission (hydrocarbons from loading racks and spills)</td>
</tr>
<tr>
<td>- Sanitary and general refuse wastes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Road Tankers and Rail Wagons</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Accidental discharges (spillages, leakages and operational malfunction)</td>
</tr>
</tbody>
</table>
| Marketing Operations | • Stock Taking  
• Fiscalization  
• Laboratory Analysis  
• Custody Transfer | • Air emission (hydrocarbons from loading racks and spills)  
• Tank failure, leakages, malfunctioning oil separators spills from overfilled tanks, etc.  
• Domestic sanitary waste from toilets, sinks, showers and laundry |
Appendix 2: E&S Related Laws and Regulations for the Oil and Gas Sector

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 curse of their employment.
Appendix 3: Relevant Standards Applicable to the Oil and Gas 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 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 power 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

<table>
<thead>
<tr>
<th>Relevant Initiative</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary Principles on Security and Human Rights (VPSHR)</td>
<td><a href="http://www.voluntaryprinciples.org">www.voluntaryprinciples.org</a></td>
</tr>
<tr>
<td>Energy and Biodiversity Initiative (EBI)</td>
<td><a href="http://www.theebi.org">www.theebi.org</a></td>
</tr>
<tr>
<td>Joint Nature Conservation Committee (JNCC) Guidelines</td>
<td><a href="http://www.jncc.defra.gov.uk">www.jncc.defra.gov.uk</a></td>
</tr>
</tbody>
</table>
### Other issues that may be raised during Oil and Gas activities

<table>
<thead>
<tr>
<th>Relevant E&amp;S Standards / Initiatives</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environmental management system</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Labour</strong></td>
<td>ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Occupational Health and Safety</strong></td>
<td>OHSAS 18001</td>
</tr>
<tr>
<td></td>
<td>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</td>
</tr>
<tr>
<td>Other issues that may be raised during Oil and Gas activities</td>
<td>Relevant E&amp;S Standards / Initiatives</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>certifiable management system for health and safety.</td>
<td></td>
</tr>
<tr>
<td>Community Health and Safety</td>
<td><strong>Guidelines for Community Noise, World Health Organisation (WHO), 1999</strong> - 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.</td>
</tr>
<tr>
<td>Sustainability Reporting</td>
<td><strong>The UN Global Reporting Initiative (GRI)</strong>&lt;br&gt;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.&lt;br&gt;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.</td>
</tr>
</tbody>
</table>
Nigerian Sustainable Banking Principles

Power Sector Guideline

July 2012
Nigerian Sustainable Banking Principles: Power Sector Guideline

1. Introduction
This Guideline has been designed to support banks in implementing the Nigerian Sustainable Banking Principles appropriately for the Power sector.

The objectives of the Guideline include to:

i. assist Nigerian banks to identify and manage environmental and social (E&S) risks associated with the provision of financial products and services to the Power sector.

ii. provide additional sector-specific guidance not covered in the Nigerian Sustainable Banking Principles Guidance Note.

iii. ensure that banks adopt relevant international standards and best practices in the management of their E & S risk exposures.

In addition to this Guideline, there are wider recommendations on developing and financing alternative sources of power generation, which 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:

- 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 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. However, existing clients may not be required to retroactively implement E&S requirements but the guideline will apply to any additional facilities or services to 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.

Also, the guideline does not apply to activities relating to non-power related insurance, asset management or retail banking.
3. Power Sector E&S Issues

Nigeria’s total installed energy generation capacity is currently derived from Oil and Gas (77%) and Hydropower (23%)1. 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 National Planning Commission (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 landscape2. 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 greenhouse gas, GHG, emissions), operations are likely to face more scrutiny (particularly in relation to fuel and technology choices). There are a number of E&S risks associated with the Power sector that deserve consideration. E&S risks vary greatly depending on the scale and type of Power activity being financed. The table below highlights some of the main E&S risks that may be encountered.

Additionally, a summary of E&S investment considerations for different power generation sources is provided in Appendix 1.

Table 1: Potential E&S risks associated with the Power Sector

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Potential Risk Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental</td>
<td>• Increased greenhouse gas emissions; air pollutant emissions (e.g. sulphur oxides, nitrogen oxides, gases with particulate matter-10), or locations where existing air quality is already poor due to cumulative impacts from combined pollution sources;</td>
</tr>
<tr>
<td></td>
<td>• Not deploying best available control technologies for emissions and waste (e.g. hazardous pollutant deposits in water bodies and land).</td>
</tr>
<tr>
<td></td>
<td>• High water extraction for cooling operations and which will affect water flow and quality to other ecosystem services that require water.</td>
</tr>
</tbody>
</table>

1 The World Bank Development Indicator Database, Country: Nigeria (Link)
2 Nigerian National Planning Commission, Vision 2020 (Link)
Habitat defragmentation with the construction of roads, transmission pylons and distribution lines, increasing access to previously remote areas and natural habitats.

Social

- **People and economic displacement** (e.g. loss of assets such as land, crops, fisheries, agricultural land etc.).
- **Conflict with local communities** 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.
- **Damaged cultural heritage** including UNESCO sites, objects of religious, archaeological, natural significance.
- Operations in areas subject to **natural hazard** (e.g. earthquake, extreme weather), which could affect the structural integrity of the plant (e.g. hydropower station/dam).
- **Infringement of labour and human rights**.

To support the achievement of the Vision 2020 for Nigeria, a more diverse and sustainable energy mix, incorporating alternative solutions such as clean gas and coal technologies and renewable energy sources is required, in addition to 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 the 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, banks 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 (EHS) 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, the 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 Investments

To meet these commitments and successfully manage E&S issues associated with the provision of financial products and services to power generation, banks should refer to the Principles’ Guidance Note for implementing a robust E&S management system. Banks should seek to implement the recommended guidance as detailed in the Guidance Note.
appropriately. The Guidance Note includes information for developing policies, 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 serve to illustrate and support the categorisation of E&S risks for different power projects. Typically a project will be categorised as high, medium or low risk but in the power sector, all projects carry either a high or medium level of risk. The purpose of categorising the risk of a transaction or engagement 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 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 be:

- 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 transactions that would fall into this category of risk would be:

- 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

Banks should engage with clients that they provide financial products and services 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 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 ongoing compliance is addressed with the client.
8. Power Sector E&S Reporting

Banks active in the power sector will need to monitor and report on their activities consistent with this guideline and the Nigerian Sustainable Banking Principles to demonstrate commitment to and progress against their objectives. Banks shall seek to externally report on their progress in a meaningful way. Details of reporting requirements are provided in the Guidance Note to the Nigerian Sustainable Banking Principles. 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 Different Power Generation Activities

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 need to justify the choice of fuel to the bank.

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 (sulphur oxides and nitrogen oxides emissions are about 60% of those from plants using coal) and have lower CO₂ 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 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

The type of coal technology should be considered when lending or investing to coal power generation.

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\(^3\) 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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\(^3\) 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

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 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

<table>
<thead>
<tr>
<th>Power Generation Type</th>
<th>Relevant International Best Practice Standards / Sector Sustainability Initiatives</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind</td>
<td>The wind energy sector has published a large amount of material on both costs and benefits to biodiversity</td>
<td><a href="http://www.nationalwind.org">http://www.nationalwind.org</a>&lt;br&gt;<a href="http://www.ewea.org">http://www.ewea.org</a></td>
</tr>
<tr>
<td>Solar</td>
<td>TBD</td>
<td></td>
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<td>------------</td>
<td>---------------------------------</td>
<td>---</td>
</tr>
<tr>
<td>Geothermal</td>
<td>TBD</td>
<td></td>
</tr>
<tr>
<td>Biofuels</td>
<td><strong>Roundtable on Sustainable Biofuels</strong> - 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</td>
<td><a href="http://rsb.epfl.ch/">http://rsb.epfl.ch/</a></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other issues that may be raised during power generation</th>
<th>Relevant E&amp;S Standards / Initiatives</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental management system</td>
<td><strong>ISO 14001</strong> 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.</td>
<td><a href="http://www.iso.org">www.iso.org</a></td>
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<tr>
<td>Labour</td>
<td><strong>ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998</strong> 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.</td>
<td><a href="http://www.iolo.org">www.iolo.org</a></td>
</tr>
<tr>
<td>Occupational Health and Safety</td>
<td><strong>OHSAS 18001</strong> 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.</td>
<td><a href="http://www.ohsas.org/">http://www.ohsas.org/</a></td>
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<tr>
<td>Community Health and Safety</td>
<td><strong>Guidelines for Community Noise, World Health Organisation (WHO), 1999</strong> - 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</td>
<td><a href="http://www.who.int/docstore/peh/noise/guidelines2.html">http://www.who.int/docstore/peh/noise/guidelines2.html</a></td>
</tr>
<tr>
<td>Other issues that may be raised during power generation</td>
<td>Relevant E&amp;S Standards / Initiatives</td>
<td>Link</td>
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<td>people from the harmful effects of noise in non-industrial environments.</td>
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<tr>
<td>Governance</td>
<td>The Electricity Governance Initiative (EGI) was co-founded by World Resources Institute (WRI) and Prayas Energy Group in 2003 to promote better governance in the electricity sector.</td>
<td><a href="http://electricitygovernance.wri.org/">http://electricitygovernance.wri.org/</a></td>
</tr>
</tbody>
</table>
| Sustainability Reporting                                | The UN Global Reporting Initiative (GRI)  
  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.  
  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. | GRI www.globalreporting.org  
  GRI’s Electrical Utilities Sector Supplement https://www.globalreporting.org/reporting/sector-guidance/electric-utilities/Pages/default.aspx |