

Authors



Omotayo Akinrinwa
Managing Partner



Adetayo Ademiluyi
Associate

ESG Due Diligence in Nigeria: From Emerging Obligation to Strategic Imperative

Introduction

In 2026, Environmental Social and Governance (“ESG”) litigation continues to grow, ranging from shareholder suits alleging misleading ESG claims (“greenwashing”) to human rights and environmental harm claims brought by communities and civil society. Effective due diligence helps pre-empt such risks by documenting decision-making, data sources, and risk management responses.

ESG due diligence has become a defining feature of how modern institutions operate, compete, and build trust and an imperative for safeguarding the environment and securing a sustainable future.

ESG due diligence is the process of identifying, assessing, managing, and monitoring environmental, social, and governance

risks and impacts within an organization and across its value chain.

It answers critical questions such as:

- How does a company's activity affect the environment?
- Are human rights and labour standards respected across supply chains?
- Are governance systems transparent, ethical, and accountable?
- Are climate and social risks properly managed and disclosed?

Nigeria is entering a defining era of Environmental, Social and Governance (ESG) accountability. While the country does not yet have a single codified "ESG Act," the combined force of environmental regulation, climate legislation, corporate governance reforms, capital market evolution, and judicial activism is rapidly transforming ESG from a voluntary corporate initiative into a structural legal and commercial expectation.

In 2026, ESG due diligence is not merely about avoiding harm, it is about building resilient, future-proof institutions. For businesses operating in Nigeria, and for investors deploying capital into the market, ESG due diligence is no longer optional. It is a strategic necessity. It is both inward-looking (risk management) and outward-looking (impact accountability).

Unlike the European Union's consolidated sustainability directives, Nigeria's ESG framework is dispersed across multiple statutes and regulatory instruments. Yet collectively, they create substantive compliance and risk exposure.



REGULATORY FRAMEWORK AND PILLARS OF ESG IN NIGERIA



1. Environmental Impact Assessment (EIA) Act 1992

Projects likely to significantly affect the environment must undergo prior environmental impact assessment and regulatory approval. Non-compliance can invalidate project approvals and attract sanctions. For instance, in 2024, Shell faced a host of environmental controversies, particularly through its Nigerian subsidiary, Shell Petroleum Development Company of Nigeria (SPDC), which was linked to serious water pollution due to oil spills. The company dealt with several other notable controversies, including a €15 million compensation related to the spills, a New York City Lawsuit over climate change, and a landmark emission ruling from a Dutch court in Hague. Additionally, the company along with other major oil companies faced condemnation from U.S. lawmakers for alleged greenwashing practices, a carbon credit scandal, and a water contamination lawsuit resolved with a \$230 million settlement.¹ For infrastructure, extractives, manufacturing, and real estate, EIA compliance is foundational to environmental due diligence.

¹ SESAMm, 'Corporate Accountability in 2024: A Deep Dive into the Year's Top ESG Controversies' (SESAMm, 30 January 2025) <https://www.sesamm.com/blog/top-esg-controversies-of-2024> accessed 1 March 2026.

2. The National Environmental Standards and Regulations Enforcement Agency (NESREA) 2007

The National Environmental Standards and Regulations Enforcement Agency (NESREA) enforce environmental laws and can impose fines, shutdown orders, and ongoing penalties for non-compliance.

Regulatory enforcement capacity has strengthened in recent years, increasing exposure for environmentally sensitive sectors. For instance NESREA has developed and gazetted multiple national environmental regulations to cover diverse environmental media and activities, including new ones such as the National Environmental (Battery Control) Regulations, 2024, targeting hazardous waste streams previously unregulated.

The National Environmental Standards and Regulations Enforcement Agency (NESREA) in collaboration with Ogun State Ministry of Environment, sealed off recycling facilities in Ogijo community in Ogun State. The sealing follows the failure of the operators to comply with the provisions of the National Environmental (Battery Control) Regulations 2024 and the Protocol developed by NESREA to ensure environmentally sound management of used lead acid batteries and safeguard the health of residents and the environment.²

3. Companies and Allied Matters Act (CAMA) 2020

Section 305(3) of the Companies and Allied Matters Act (CAMA) introduced an important shift, directors are required to consider the environmental impact of company operations in the communities where they operate.

This provision moves ESG considerations directly into corporate governance and fiduciary oversight.

4. Climate Change Act 2021

² Ladi Patrick-Okwoli, 'NESREA, Ogun govt shut six recycling plants for environmental breaches' (BusinessDay Nigeria, 28 November 2025) <https://businessday.ng/news/article/nesrea-ogun-govt-shut-six-recycling-plants-for-environmental-breaches/> accessed 1 March 2026.

Nigeria's Climate Change Act establishes a legal framework for carbon budgeting, national climate planning, and long-term emission reduction commitments.³

Although corporate carbon pricing mechanisms are still evolving, climate risk is now embedded within national law. Companies that fail to anticipate transition risk may face regulatory, financial, and reputational consequences.

5. Petroleum Industry Act (PIA) 2021

For the energy sector, the PIA introduces strengthened environmental compliance obligations and mandates Host Community Development Trust structures to enhance community engagement and accountability in the energy sector.

This creates a legally enforceable social license framework, particularly relevant in upstream oil and gas operations.

6. Capital Market & Reporting Evolution

The Financial Reporting Council of Nigeria has unveiled the Roadmap Report for the Adoption of international Financial Reporting Standards (IFRS) Sustainability Disclosure Standards in Nigeria (Amendment 2026) and Sustainability Reporting Guideline 1 (SRG 1) 2026 to provide enhanced clarity and implementation guidance for entities adopting IFRS Sustainability Disclosure Standards, including IFRS Sustainability No. 1 and IFRS Sustainability No. 2, in Nigeria. The roadmap aims to provide clarity and implementation guidance for entities adopting this standard transparency in sustainability reporting, aligning local practices with global benchmark.⁴ Presently, the Nigerian government has announced plans to mandate ESG disclosures in financial reporting starting in

³ Climate Change Act 2021 (Nigeria) ss 9 and 20.

⁴ Isaac Anyaogu, 'Nigeria Gives Businesses Four Years to Adopt Eco-Friendly Reporting Standards' (Reuters, 22 March 2024) <https://www.reuters.com/world/africa/nigeria-gives-businesses-four-years-adopt-eco-friendly-reporting-standards-2024-03-22/> accessed 27 May 2025.

2028, with penalties for non-compliance⁵

The Courts Are Expanding Accountability

A pivotal moment in Nigerian ESG jurisprudence was the Supreme Court decision in *Centre for Oil Pollution Watch v. NNPC (2018) LLJR-SC*.

The Court liberalised locus standi, allowing public interest organisations to bring environmental claims even where they are not directly injured.

The implication is profound, which is that environmental harm is no longer shielded by procedural barriers. Corporate environmental exposure now carries heightened litigation risk. In parallel, transnational litigation involving Nigerian operations, particularly in oil and gas demonstrates that ESG failures can trigger liability beyond Nigeria's borders.

SECTOR-SPECIFIC ESG RISK EXPOSURE



- 1. Energy:** The highest ESG exposure remains within extractives and power. Key risk areas include Oil spill liability, Gas flaring compliance, Host community disputes, Remediation obligations, Climate transition risk, etc. Energy investors now routinely conduct deep environmental and social diligence before capital deployment.

⁵ ESG News, 'Nigeria gives companies until 2028 to adopt eco-friendly reporting standards' (26 March 2024) <https://esgnews.com/nigeria-gives-companies-until-2028-adopt-eco-friendly-reporting-standards/> accessed 1 March 2026.

2. Banking & Financial Services: Financial institutions are increasingly exposed through financed emissions and sustainable lending obligations. The Central Bank of Nigeria's Sustainable Banking Principles, combined with global investor pressure, mean banks must now assess the ESG footprint of their loan portfolios.

3. Manufacturing & Industrial Operations: Manufactures in Nigeria face a complex landscape of enforcement, waste management, and compliance with hazardous materials. NESREA's stringent regulations require adherence to environmental laws, guidelines, and standards, which can lead to significant fines and operational disruptions. Waste disposal errors, such as improper segregation and disposal can result in substantial financial loss and compliance issues. Labour and occupational safety exposure are also critical concerns, with regulations aimed at ensuring safe workers' right. Supply chain human right scrutiny is increasingly important as companies navigate international markets and face scrutiny from various stakeholders. In addition, with global buyers demanding ESG-compliant sourcing, export-oriented manufacturers must align with international standards.

THE SHIFT FROM COMPLIANCE TO STRATEGY

The ESG Nigerian compliant corporates are no longer asking, "Are we compliant?" Rather they are now asking the following questions:

- How resilient is our business model in a carbon-constrained economy?
- Are we prepared for mandatory sustainability reporting?
- Does our board have structured ESG oversight?
- Can we defend our ESG disclosures under regulatory scrutiny?
- Are our supply chains litigation-proof?

This is the difference between reactive compliance and strategic ESG integration.

Without a doubt, Nigeria is not isolated from global ESG momentum. Investors are more data-driven in allocating capital and communities are more as-

sertive demanding accountability, inclusion, and measurable social impact. In addition, regulators are more aware and proactive, strengthening disclosure requirements, governance standards, and sustainability expectations across industries. The trend now is that organizations that entrench ESG into governance, risk management, and strategy will attract capital and withstand scrutiny. Whilst those that treat ESG as public relations may face reputational and legal consequences.

CONCLUSION

To strengthen their capital base and protect stakeholders, future-ready organizations are now ensuring that ESG is no longer a policy conversation, rather they are acknowledging ESG as an enforceable expectation. Proactive organizations have commenced the implementation and integration of the following into their policies:

- **Institutionalize board-level ESG oversight:** Some organizations have proceeded to constitute an ESG Committee that will supervise and scrutinize ESG compliance within the organization.
- **Conduct sector-specific ESG risk mapping:** A number of organizations have created another tier of control and auditing of ESG risk analysis before commencing and post commencement of projects.
- **Prepare for mandatory sustainability reporting:** These organizations have credible data backed systems to communicate ESG related concerns to stakeholders. In most cases, these sustainability reporting is supported by verifiable data.
- **Anticipate climate transition risk:** Organizations that are proactive and future ready are able to anticipate climate related risks based on empirical data and prepared accordingly for these risks.

At our Firm, we welcome conversations with business leaders, policymakers, investors, and fellow professionals on building resilient, responsible institutions in Nigeria's next decade of growth. For further conversations on this subject, you can reach out to us.