

# Chapter 4

## SDG 13 and Environmental Governance in the Nigerian Financial Sector

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### ABSTRACT

*This chapter examines how the board of directors of financial organisations and the regulatory bodies have responded to climate change as it has occurred over time, with particular reference to the banking sector in Nigeria. It reflects on the Sustainable Development Goal (SDG) 13, which is about taking urgent action to combat climate change and its impacts by both banks and government regulatory organisations. The chapter is hinged on the triple-bottom line theory and considered various existing international environmental initiatives, and how Nigerian banks have responded to them. The chapter concludes that though a lot has been done by the Nigerian banks to act on initiatives towards climate change, there is more to be done on the part of the board of directors and the regulatory authorities of the listed banks considered.*

### INTRODUCTION AND BACKGROUND

As the world moves gradually to adapting to the recent disruption, it is imperative to state that climate change did not stop its impact as other economic activities recessed during the global disruption. This is to emphasise the importance of climate action on the well-being of people and economic activities, as it does not cease its actions till there is an intentionality to reverse it (Oteh & Sanni, 2021). Some scholars (Gössling & Scott, 2018; Park & Kim, 2020; Zhang et al., 2020) affirmed that climatic change issues are caused by human factors and activities. This means that man is also capable of taking remedial actions aimed at preventing the looming adverse effects of climate change on the planet earth. This chapter,

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therefore, explores how the leadership of corporate Nigeria in the financial sector is responding to the Sustainable Development Goal (SDG) 13 on climate action. The financial sector for the purpose of this chapter is narrowed down to banking subsector specifically, as against the insurance, asset management, pension fund, corporate financing subsectors.

The increase in climate change has not gone unnoticed throughout the globe, as different countries have experienced hurricanes, wildfire, great floods, mountain melting, heat waves, drought, and many other adverse environment activities as a result of extreme rise and fall in temperature, glacier melting, erratic rainfall, rising sea level and so on (Foundation myclimate, 2020). Over the years, various communities have experienced the adverse impact of climate change on their people and economy. Australia experiences wildfire, Texas was affected by Hurricane Harvey in 2017, forest fires in California, drought in Europe, and also in Morocco, Southern Africa was hit by Cyclone Eloise in 2021, Makurdi floods in Nigeria, and so on (OCHA, 2021; Banque de France, 2019; Cho, 2019; Isma'il & Kersha, 2018; Zhang et al., 2017).

Although agriculture, tourism, wildlife, infrastructure (the railway systems built near the sea level, and so on), health care are major sectors of the economy that climate change affects directly, the banking sector around the world is also impacted by it because of the exposure to credit risks, among other risks, through these sectors (Banque de France, 2019; Cho, 2019). According to Maama (2020), the financial sector does not have a direct relationship with climatic change as they carry out their day-to-day business of funds deposit, loan administration, risk management, wealth management, financial advisory, and so on. However, their activities in financing companies/businesses, whose activities impact climate change have a direct effect on the economy in general, which is in turn affected by climate change (Dlugolecki & Loster, 2003).

More importantly, there is increased awareness of the banks' financial, reputational and litigation risks concerning climate action financing. For instance, in 2016, the failure of a prominent bank in Australia to disclose risks of climate action in its annual reports led to litigation actions on the basis that investors were misled (Bradlow, 2019). Another climate-related risk faced by the banks is transitional risk, which is the risk of the economy moving from the traditional economic model to a climate-conscious one. This transition will pose various challenges to the economic model especially in terms of stranded assets and the adaptability of the banks themselves (Oguntuase & Ajibare, 2018). Banks began to take note of and address sustainability issues, by concentrating on their internal operations in the early 1990s. They aimed to reduce operating costs by energy conservation, non-wastage of water and materials like paper. They also decided to influence their clients and make them more environmentally responsible by decreasing related induced costs, thereby reducing their investment and lending risks (Weber & Feltmate, 2016).

The banks being a highly regulated sector, could not take steps wholly by themselves to mitigate these risks, however, central banks in various countries have taken steps in combating climate action through diverse reforms they introduced. For instance, the Bank of England pioneered educating other apex banks on the impact of climate change in the banking sector (Dikau & Volz, 2018). Also the *Banco Central do Brasil*, the apex bank of Brazil, issued amendments to its macro-prudential regulatory framework to incorporate green financing. In China, the People's Bank of China (PBC) launched thorough regulatory green policies for banks and other financial segments; *Banque du Liban*. The central bank of Lebanon, introduced the differential reserve requirements for the favourable allocation of credits for green financing. Bank Bangladesh and the Reserve Bank of India (RBI) are well known for aggressive green financing (Dikau & Volz, 2018). Maama (2020) showed that banks in countries in the Western part of Africa are making efforts to disclose on the environment as it affects them in their annual reports, as investors

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