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Research Article

Challenges and Prospects of ESG Reporting in Nigeria's Banking Industry: Regulatory Compliance or Strategic Value Creation?

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Abstract

This research explores the complex landscape of Environmental, Social, and Governance (ESG) reporting within Nigeria's banking sector, analysing the tension between regulatory compliance and strategic value creation. Using secondary data from regulatory documents, corporate reports, and empirical studies published between 2020 and 2025, the study identifies key drivers, challenges, and prospects of ESG integration in Nigerian banking. The findings show that although regulatory pressures from the Financial Reporting Council of Nigeria's roadmap for adopting IFRS S1 and S2 standards have sped up ESG reporting adoption, significant implementation gaps remain. These include capacity constraints, data collection difficulties, and resource limitations, especially among smaller financial institutions. At the same time, the research provides evidence that Nigerian banks leading in ESG reporting, such as First Bank, Access Bank, and Bank of Industry, are leveraging their sustainability credentials to access green financing, boost stakeholder trust, and gain competitive advantages. The study finds that ESG integration in Nigerian banking remains mainly compliance-driven, but a noticeable shift towards strategic value creation is beginning among industry leaders. This research adds to the ongoing discourse on sustainable finance in emerging economies by proposing a conceptual framework that bridges the compliance and value creation divide, demonstrating how Nigerian banks can convert regulatory obligations into strategic opportunities. The study concludes with practical recommendations for policymakers, banking executives, and financial regulators to promote more meaningful ESG integration that meets regulatory requirements while also creating sustainable business value.

Keywords: ESG Reporting; Nigeria's Banking Industry; Regulatory Compliance; Strategic Value Creation; Sustainable Finance in Emerging Economies

Introduction

The global financial landscape has witnessed a profound transformation in recent decades, with Environmental, Social, and Governance (ESG) considerations evolving from peripheral concerns to central determinants of corporate strategy and reporting. This paradigm shift reflects growing recognition that long-term business viability depends not only on economic performance but also on environmental stewardship, social responsibility, and governance integrity (Adegbite, 2020). In Nigeria, Africa's largest economy, this transition has gained significant momentum, particularly within the banking sector, which serves as the circulatory system of the nation's economic development.

The Nigerian banking industry's engagement with ESG principles represents a complex interplay between regulatory compliance and strategic opportunity. Historically, Corporate Social Responsibility (CSR) initiatives within the sector were often characterised by philanthropic donations and community development projects with limited connection to core business operations (Okoye, 2021). However, the evolving regulatory landscape, influenced by global sustainability standards and domestic pressures, has catalysed a shift from discretionary CSR to structured ESG reporting frameworks. This transition gained substantial impetus with Nigeria's commitment to adopt the International Sustainability Standards Board (ISSB) framework, signalling the transition from voluntary sustainability gestures to mandatory, standards-driven reporting (IRIS Carbon & Opex Consulting, 2025).

The Nigerian banking sector faces distinctive ESG challenges and opportunities shaped by the nation's developmental context. Environmental concerns include financing the transition to a low-carbon economy amidst Nigeria's dual challenge of energy poverty and climate vulnerability. Social considerations encompass financial inclusion, gender equality, and human development in a country where approximately 70 million people live in extreme poverty (Teasoo Consulting, 2025). Governance imperatives involve strengthening board oversight, risk management, and ethical practices in a business environment historically challenged by transparency issues. Empirical evidence from the UK financial institutions demonstrates that the integration of Artificial Intelligence into fraud detection and portfolio management strengthens organisational transparency, enhances risk control, and supports more accountable governance practices (Olatunbosun & Olatunbosun, 2025).

While existing literature has documented the growing adoption of sustainability reporting among Nigerian banks, limited research has systematically examined the tension between regulatory compliance and strategic value creation that characterises this transition. Most studies have approached ESG reporting either as a regulatory obligation or a strategic opportunity, with insufficient attention to how Nigerian banks navigate the complex interplay between these motivations in practice. Furthermore, corruption within Nigeria's public finance system continues to undermine economic growth, weaken institutions, and erode public trust (Olatunbosun, 2025). This research gap is particularly significant given Nigeria's distinctive institutional context and the banking sector's pivotal role in financing sustainable development.

This article addresses this gap by examining the following research questions:

1. How do regulatory frameworks influence ESG reporting practices in Nigeria's banking industry?
2. What challenges do Nigerian banks face in implementing comprehensive ESG reporting systems?
3. To what extent are Nigerian banks leveraging ESG reporting for strategic value creation beyond regulatory compliance?
4. What prospects exist for transforming ESG reporting from a compliance exercise to a source of competitive advantage?

The study employs a comprehensive analysis of secondary data, including regulatory documents, corporate reports, academic publications, and industry analyses published between 2020 and 2025. This period captures critical developments in Nigeria's ESG landscape, including the introduction of the Climate Change Act (2021) and the Petroleum Industry Act (2021), as well as Nigeria's commitment to adopt the IFRS Sustainability Disclosure Standards.

The significance of this research lies in its potential to inform policy formulation, corporate strategy, and academic discourse on sustainable finance in emerging economies. By examining the Nigerian banking sector's ESG journey through the dual lenses of compliance and value creation, the study offers insights relevant to other developing countries navigating similar transitions. The findings will assist banking executives in developing ESG strategies that simultaneously meet regulatory requirements and create business value, while helping policymakers design more effective governance mechanisms for sustainable finance.

Literature Review

Theoretical Foundations of ESG Reporting

The theoretical underpinnings of ESG reporting span multiple disciplines, with stakeholder theory, institutional theory, and legitimacy theory providing particularly relevant frameworks for understanding corporate sustainability disclosures. Stakeholder theory posits that organisations must address the interests of all constituent groups, not just shareholders (Freeman, 1984). In the context of Nigerian banking, this implies responding to the ESG expectations of diverse stakeholders, including regulators, customers, employees, communities, and international investors. The theory explains why Nigerian banks increasingly disclose their sustainability performance despite the absence of immediate financial returns from such activities.

Institutional theory emphasises how organisations conform to regulatory and social pressures to gain legitimacy and survival (DiMaggio & Powell, 1983). The theory helps explain the isomorphic tendencies in ESG reporting among Nigerian banks as they respond to coercive pressures from regulators such as the Central Bank of Nigeria (CBN), mimetic pressures to emulate industry leaders, and normative pressures from professional associations promoting sustainability standards. Nigeria's adoption of global reporting frameworks like the IFRS Sustainability Disclosure Standards represents a classic case of institutional isomorphism in response to global convergence in sustainability reporting.

Legitimacy theory suggests that organisations voluntarily disclose social and environmental information to maintain their societal license to operate (Suchman, 1995). This perspective is particularly relevant for Nigerian banks, given the sector's historical legacy of governance failures and the need to rebuild public trust following the 2009 banking crisis. ESG reporting represents a mechanism for Nigerian banks to demonstrate alignment with societal values and expectations, especially regarding their role in financing sustainable development.

Evolution of ESG Reporting in Global Banking

The integration of ESG considerations in banking has evolved through distinct phases globally. Initially, ethical banking initiatives in the 1970s and 1980s focused primarily on negative screening, excluding investments in controversial sectors like weapons, tobacco, and apartheid-era South Africa. The early 2000s witnessed the emergence of voluntary sustainability frameworks, notably the United Nations Principles for Responsible Banking (UNPRB) launched in 2019, which has attracted significant signatories from the global banking sector.

The regulatory landscape has progressively shifted from voluntary to mandatory requirements. The European Union's Sustainable Finance Disclosure Regulation (SFDR) and Taxonomy Regulation represent the most comprehensive regulatory frameworks, with ripple effects across global financial markets, including emerging economies such as Nigeria (Nwoko, 2022). This global regulatory convergence has elevated ESG risk management from a peripheral activity to a core banking function, influencing lending decisions, investment strategies, and product development.

Academic research on ESG in banking has yielded mixed findings on the relationship between sustainability performance and financial outcomes. While some studies report a positive association between ESG performance and bank value (Buallay, 2019), others highlight the contextual nature of this relationship, varying by regulatory environment, market conditions, and implementation approach. This ambiguity underscores the need for context-specific research in emerging economies like Nigeria, where institutional voids and developmental challenges create distinctive conditions for ESG integration.

ESG Reporting in the African and Nigerian Context

Research on ESG reporting in African banking remains limited but growing, with studies highlighting the influential role of development finance institutions in promoting sustainability standards. Busari & Adegbayibi (2025) documented how multilateral development banks have catalysed ESG adoption among African commercial banks through technical assistance, capacity building, and preferential financing for sustainable projects (Busari & Adegbayibi, 2025).

In Nigeria, scholarly attention to ESG reporting has increased following the introduction of sustainability reporting guidelines by the Nigerian Exchange (NGX) in 2019. Okafor and Umoren (2024) analysed the ESG disclosures of listed Nigerian banks between 2018 and 2023, finding a steady improvement in reporting quantity but persistent weaknesses in quality and depth. Their study noted deficiencies in environmental metrics, with most banks providing generic statements on environmental protection without quantifiable targets or performance data (Okafor & Umoren, 2024).

The regulatory framework for ESG reporting in Nigeria has undergone significant development in recent years. The Companies and Allied Matters Act (CAMA) 2020 introduced improved corporate governance standards, while the Nigerian Climate Change Act 2021 set up a framework for climate action. Most notably, the Financial Reporting Council of Nigeria (FRC) has created a roadmap for adopting IFRS S1 and S2, with compulsory reporting expected for public interest entities by 2028 (Teasoo Consulting, 2025). This regulatory progress demonstrates Nigeria's alignment with global sustainability standards while addressing local developmental priorities. The theoretical foundations that underpin ESG reporting in Nigerian banking are summarised in Table 1, which highlights the core propositions and contextual relevance of each framework.

Table 1: Theoretical Frameworks Relevant to ESG Reporting in Nigerian Banking

Theoretical Framework	***Key Propositions***	***Relevance to Nigerian Banking***
Stakeholder Theory	Organizations should create value for all stakeholders, not just shareholders	Explains banks' responses to diverse stakeholder expectations, including regulators, customers, and communities
Institutional Theory	Organizations conform to regulatory and social pressures to gain legitimacy	Explains isomorphic tendencies in ESG reporting as banks respond to coercive, mimetic, and normative pressures
Legitimacy Theory	Organizations disclose ESG information to maintain societal license to operate	Explains banks' efforts to rebuild trust following governance failures and demonstrate social relevance
Signaling Theory	Organizations use disclosures to distinguish themselves from competitors	Explains frontrunner banks' use of ESG reporting to signal quality and attract preferential financing
Resource-Based View	ESG capabilities can be sources of sustainable competitive advantage	Explains strategic value creation potential of ESG integration for Nigerian banks

Regulatory Framework for ESG Reporting in Nigeria National Regulatory Developments

The regulatory ecosystem for ESG reporting in Nigeria has evolved from fragmented voluntary initiatives to an increasingly cohesive mandatory framework. The foundational elements include the Nigerian Code of Corporate Governance 2018, which requires boards of listed companies to oversee sustainability issues and engage with stakeholders. This was complemented by the Nigerian Exchange (NGX) Sustainability Disclosure Guidelines, which initially adopted a "comply or explain" approach but are transitioning toward mandatory requirements.

A significant milestone was Nigeria's commitment to adopt the IFRS Sustainability Disclosure Standards (IFRS S1 and S2) following a visit by ISSB Chair Emmanuel Faber in 2023. The Federal Government endorsed the adoption of these standards, signaling a decisive shift from voluntary sustainability gestures to structured, standards-driven reporting (IRIS Carbon & Opex Consulting, 2025). The Financial Reporting Council of Nigeria (FRC) has developed a phased implementation roadmap:

i. **Phase 1 (2023):** Early adopters, predominantly banks, commenced readiness assessments
ii. **Phase 2 (2024–2027):** Voluntary adopters began ESG integration and test disclosures
iii. **Phase 3 (2028 onwards):** Mandatory ISSB-aligned ESG disclosures for all Public Interest Entities

This regulatory timeline creates both urgency and opportunity for Nigerian banks, with 2028 representing a regulatory deadline that demands strategic preparation today.

Sector-Specific Banking Regulations

The Central Bank of Nigeria (CBN) has incorporated sustainability considerations through several instruments, most notably the Sustainable Banking Principles introduced in 2012. These principles require banks to integrate environmental and social considerations into lending decisions and develop ESG risk management systems. More recently, the CBN has strengthened climate risk assessments in banking operations, requiring financial institutions to evaluate both physical and transition risks in their portfolios (Novatia Consulting, 2025).

The Nigerian Sustainable Finance Framework has evolved to encompass broader ESG considerations, with banks now required to report on gender inclusion, environmental impact assessments, and community development initiatives. Regulatory enforcement has intensified, with the CBN conducting targeted examinations of banks' ESG risk management systems and sanctioning institutions with deficient practices.

International Standards and Local Implementation

Nigeria's adoption of IFRS S1 and S2 aligns with global sustainability reporting convergence while allowing for contextual adaptation to local realities. IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures) require comprehensive disclosures across four core areas: governance, strategy, risk management, and metrics and targets. A synthesis of the key national regulatory instruments governing ESG disclosure in Nigeria's banking industry is presented in Table 2.

Table 2: Regulatory Framework for ESG Reporting in Nigerian Banking

Regulatory Instrument	***Issuing Authority***	***Key Requirements***	***Implementation Status***
Nigerian Code of Corporate Governance 2018	Financial Reporting Council	Board oversight of sustainability; stakeholder engagement	Mandatory for listed companies
NGX Sustainability Disclosure Guidelines	Nigerian Exchange	ESG disclosure following "comply or explain" approach	Voluntary but transitioning to mandatory
CBN Sustainable Banking Principles	Central Bank of Nigeria	ESG risk assessment in lending; environmental & social management systems	Mandatory for all deposit money banks
IFRS S1 & S2 Adoption Roadmap	Financial Reporting Council	Comprehensive sustainability and climate-related disclosures	Phased implementation; mandatory by 2028

Climate Change Act 2021 Federal Government of Nigeria Climate risk reporting; alignment with net-zero commitment Gradual implementation underway

The implementation of these global standards in Nigeria's banking sector necessitates addressing several contextual challenges, including data collection infrastructure, technical capacity, and materiality assessments relevant to Nigeria's development stage. Nigerian banks must navigate the complexity of aligning with global standards while addressing local stakeholder expectations and regulatory requirements (S. Okafor, 2025).

Methodology

This research employs a comprehensive analysis of secondary data to examine the challenges and prospects of ESG reporting in Nigeria's banking industry. The study utilizes a qualitative approach that synthesizes information from diverse secondary sources to develop insights into the regulatory, operational, and strategic dimensions of ESG integration in Nigerian banking.

Data Sources and Selection Criteria

The research analyzes multiple categories of secondary sources published between 2020 and 2025, a period that captures significant developments in Nigeria's ESG regulatory landscape. The primary data sources include:

1. Regulatory and Policy Documents: These include the Nigerian Code of Corporate Governance (2018), Climate Change Act (2021), Petroleum Industry Act (2021), CBN Sustainable Banking Principles, and the FRC roadmap for IFRS S1 and S2 adoption.
2. Corporate Reports: ESG reports, sustainability reports, and annual reports of leading Nigerian banks, including FirstBank, Access Bank, Zenith Bank, and Bank of Industry.
3. Academic Publications: Peer-reviewed journal articles, conference papers, and scholarly books addressing sustainable finance, ESG reporting, and corporate governance in African and Nigerian contexts.
4. Industry Analyses: Reports from consulting firms, financial institutions, and industry associations examining ESG trends, challenges, and opportunities in Nigerian banking.

The selection criteria prioritized recent publications (2020-2025), relevance to banking sector ESG practices, methodological rigor for academic sources, and authority of the publishing organization for industry reports.

Analytical Approach

The study employs a thematic analysis approach, identifying, analyzing, and reporting patterns within the secondary data. The analytical process involves:

1. Familiarization: Comprehensive review of collected secondary sources to identify key concepts, regulatory developments, and industry practices.
2. Coding: Systematic coding of data to identify references to ESG challenges, regulatory requirements, strategic initiatives, and performance outcomes.
3. Theme Development: Grouping coded data into thematic categories representing key dimensions of ESG reporting in Nigerian banking.
4. Pattern Interpretation: Analyzing relationships between themes to develop insights into the compliance-value creation dynamic.

The analysis adopts a triangulation approach, cross-verifying information across multiple source types to enhance validity. For instance, banks' claims in sustainability reports are compared with regulatory assessments and academic analyses to develop balanced perspectives.

Ethical Considerations and Limitations

As a secondary data analysis, the research presents minimal ethical risks, though several limitations warrant acknowledgment. Secondary data may reflect reporting biases, particularly in corporate sustainability reports that emphasize positive achievements. The study mitigates this limitation through triangulation with independent assessments. Additionally, the rapidly evolving regulatory landscape means that some developments may not be fully captured in published sources. The research focuses on publicly available information, which may not reveal implementation challenges known only to industry insiders.

Despite these limitations, the methodology provides a comprehensive approach to examining ESG reporting in Nigerian banking, leveraging diverse secondary sources to develop empirically grounded insights.

Analysis and Findings

Regulatory Compliance Drivers of ESG Reporting

The analysis reveals that regulatory compliance constitutes the primary driver of ESG reporting in Nigeria's banking sector. The phased implementation of IFRS S1 and S2 standards has created a definitive timeline that banks must follow to avoid regulatory sanctions. This compliance imperative is reinforced by sector-specific regulations from the Central Bank of Nigeria, which has integrated ESG factors into its supervisory framework.

Nigerian banks are responding to these regulatory pressures by establishing dedicated sustainability functions, developing ESG data collection systems, and building board-level oversight mechanisms. FirstBank, for instance, has constituted a Sustainability Committee chaired by its Chief Risk Officer, demonstrating the structural integration of ESG governance (Proshare, 2025). Similarly, the Bank of Industry has developed a 2025-2027 Corporate Strategy centered on six thematic areas: Youth & Skills, Gender, Digital, MSMEs, Climate Finance, and Infrastructure (SMEDAN, 2021).

The compliance dynamic is particularly evident in banks' approach to climate risk assessment. Following the CBN's directive on climate risk management, major Nigerian banks now screen lending portfolios for climate vulnerabilities. In 2024 alone, FirstBank screened 237 transactions worth over ₦3 trillion for sustainability risks, integrating ESG considerations into its credit framework (Proshare, 2025). This regulatory-driven approach has accelerated the formal adoption of ESG practices but sometimes emphasizes box-ticking over substantive integration.

Implementation Challenges in ESG Reporting

Despite regulatory momentum, Nigerian banks face significant implementation challenges that hinder effective ESG integration. The analysis identifies several persistent obstacles:

Data Infrastructure Deficiencies Many Nigerian banks struggle with ESG data collection, validation, and reporting systems. Manual data processes and spreadsheet-based approaches remain prevalent, creating inefficiencies and error risks. Industry analyses indicate that organizations using dedicated ESG software report 40-45% time savings in reporting cycles, suggesting substantial productivity gaps in current practices (IRIS Carbon & Opex Consulting, 2025). The absence of standardized metrics and verification protocols further complicates data management.

Capacity and Expertise Gaps Technical expertise in ESG reporting remains concentrated in leading banks, with significant disparities across the sector. The research identifies limited ESG literacy among board members and senior management as a constraint. Teasoo Consulting (2025) notes that "boards often lack sustainability skills," impairing effective oversight of ESG strategy and performance. This capacity challenge extends to middle management and operational staff responsible for implementing ESG initiatives.

Resource Constraints Comprehensive ESG integration requires significant investments in technology, training, and specialised personnel. These resource needs present challenges for smaller banks and financial institutions operating with limited margins. The cost of ESG assurance and reporting tools remains prohibitive for many institutions, creating a two-tier system where well-resourced banks progress while others struggle with basic compliance.

The major implementation challenges identified from the analysis are summarised in Table 3.

Table 3: Implementation Challenges in ESG Reporting for Nigerian Banks

Challenge Category	***Specific Manifestations***	***Reported Impact***
Data Management	Manual collection processes; spreadsheet sprawl; poor data quality	40-45% longer reporting cycles; higher error rates
Technical Capacity	Limited board ESG expertise; shortage of trained professionals	Superficial ESG integration; compliance-focused approach
Resource Limitations	High cost of ESG software; budget constraints; competing priorities	Two-tier system with advanced and lagging institutions
Regulatory Complexity	Multiple frameworks; evolving requirements; coordination gaps	Compliance burdens; implementation confusion
Economic Context	Currency volatility; macroeconomic instability	Inflated ESG project costs; budget uncertainties

Regulatory Complexity Banks must navigate a complex regulatory landscape featuring multiple frameworks with differing requirements. This fragmentation creates compliance burdens and potential contradictions. As noted in the analysis, "ESG rules are fragmented across several laws and codes," complicating implementation efforts (Teasoo Consulting, 2025).

Strategic Value Creation Opportunities

Beyond regulatory compliance, the analysis identifies emerging opportunities for strategic value creation through ESG integration in Nigerian banking. Leading institutions are leveraging ESG capabilities to access new markets, attract preferential financing, and enhance competitive positioning.

Green Finance Leadership The Bank of Industry(BOI) exemplifies the strategic potential of ESG integration, having been recognized as Nigeria's Best Bank for Sustainable Finance in 2025 by Global Finance (SMEDAN, 2021). This recognition reflects BOI's strategic focus on climate finance, renewable energy investments, and sustainable development lending. The bank's award-winning €1.879 billion syndicated loan, the largest ever raised by an African Development Finance Institution, demonstrates how sustainability credentials can enhance access to international capital at favorable terms.

Market Differentiation and Brand Enhancement FirstBank's consecutive wins as Nigeria's Best Bank for ESG at the Euromoney Awards (2024 and 2025) illustrate the brand enhancement potential of ESG leadership (Proshare, 2025). The bank has leveraged its sustainability initiatives, including a tree-planting campaign targeting 50,000 trees and its First Gem women empowerment program, to distinguish itself in a competitive market. These initiatives have generated positive media coverage and stakeholder recognition, strengthening the bank's brand equity.

Operational Efficiency Gains ESG integration can yield tangible operational benefits, particularly through environmental efficiency measures. Nigerian banks are realizing cost savings through energy-efficient buildings, paperless operations, and sustainable procurement. Industry analyses indicate that comprehensive sustainability programs can reduce operational costs by 20-30% within three years, creating compelling business cases beyond regulatory compliance (Novatia Consulting, 2025).

Talent Attraction and Retention Leading banks are leveraging their ESG commitments to attract and retain talent, particularly among younger generations prioritizing purposeful work. FirstBank's investment in leadership development for over 2,000 female employees through the FirstBank Women Network exemplifies how ESG initiatives can support human resource objectives (Proshare, 2025).

The Compliance-Value Creation Dynamic

The analysis reveals a complex relationship between regulatory compliance and strategic value creation in Nigerian banks' ESG journey. While regulatory pressures initially drive ESG adoption, the extent to which banks progress beyond compliance to strategic integration varies significantly across the sector.

The research identifies three distinct approaches to ESG implementation among Nigerian banks:

1. Compliance-Focused Approach: Characteristic of lagging institutions, this approach treats ESG as a regulatory obligation to be fulfilled with minimal investment. Reporting tends to be retrospective, defensive, and decoupled from core strategy.
2. Efficiency-Seeking Approach: Adopted by intermediate institutions, this approach recognizes operational benefits from ESG integration, particularly cost savings from resource efficiency. Reporting combines compliance with selective highlighting of efficiency gains.
3. Strategic Integration Approach: Exemplified by frontrunner banks, this approach embeds ESG considerations into business strategy, governance, and risk management. Reporting is comprehensive, forward-looking, and connected to business value creation.

The progression from compliance to strategic integration appears influenced by several factors, including leadership commitment, resource availability, and competitive dynamics. Banks with stronger financial performance, international ambitions, and visionary leadership are more likely to treat ESG as a strategic priority rather than mere compliance.

Discussion

Interpreting the Compliance-Value Creation Tension

The findings reveal an inherent tension between regulatory compliance and strategic value creation in Nigerian banks' ESG journey. This tension reflects a broader challenge in sustainable business practices: how to balance external accountability with internal value creation. The analysis suggests that Nigerian banks currently inhabit an intermediate position on this spectrum, with regulatory compliance constituting the primary driver but strategic value creation emerging as a complementary motivation.

The compliance dominance in Nigerian banking can be understood through institutional theory. Banks initially adopt ESG practices in response to coercive isomorphism—regulatory pressures from the CBN, FRC, and NGX. This regulatory momentum creates a baseline level of ESG adoption but may not generate the deep strategic integration required for meaningful value creation. The findings indicate that without regulatory push, ESG advancement would be significantly slower, highlighting the continued importance of regulatory governance in Nigeria's evolving sustainability landscape.

Simultaneously, the emergence of strategic value creation opportunities aligns with resource-based view logic, which conceptualizes ESG capabilities as potential sources of competitive advantage. Frontrunner banks like FirstBank and BOI are developing distinctive competencies in sustainable finance that competitors cannot easily replicate, creating market differentiation and preferential access to international capital. Their experience suggests that while regulation may initiate ESG adoption, sustained advantage requires strategic integration beyond compliance minimums.

Contextualizing Nigerian Banking's ESG Journey

The Nigerian banking sector's ESG trajectory reflects both global patterns and local distinctiveness. Like global trends, regulatory developments have accelerated ESG adoption, data challenges impede implementation, and leading institutions are leveraging sustainability for competitive advantage. However, several contextual factors shape the Nigerian experience.

Nigeria's status as an oil-dependent economy creates distinctive challenges for banks financing the low-carbon transition. The petroleum sector represents a significant portion of bank portfolios, creating potential stranded asset risks and transition challenges. Simultaneously, Nigeria's acute developmental needs —including energy poverty, infrastructure deficits, and economic inequality —create a distinctive materiality landscape where social considerations (the "S" in ESG) assume importance.

The analysis reveals that Nigerian banks are developing contextualized responses to these challenges. Rather than simply replicating international best practices, leading institutions are adapting global frameworks to local realities. For instance, FirstBank's tree-planting initiative addresses Nigeria's severe deforestation challenges while contributing to climate resilience (Proshare, 2025). Similarly, BOI's focus on MSME financing and youth employment responds to Nigeria's demographic and economic realities (SMEDAN, 2021).

Implications for Theory and Practice

The findings offer several implications for theory and practice. From a theoretical perspective, they suggest the need for integrated models that reconcile the compliance-value creation dichotomy. Rather than positioning these motivations as opposing poles, the Nigerian banking experience suggests they exist on a continuum, with regulatory compliance serving as an entry point that can evolve toward strategic integration under conducive conditions.

For banking practitioners, the research highlights the limitations of compliance-focused ESG approaches and the potential benefits of strategic integration. The documented experiences of frontrunner banks provide actionable insights for institutions seeking to accelerate their ESG journey. Specifically, the analysis suggests that strategic ESG integration requires leadership commitment, cross-functional implementation structures, and alignment with business strategy.

For regulators and policymakers, the findings underscore the importance of creating an enabling environment that encourages strategic ESG integration beyond minimum compliance. This includes developing capacity-building initiatives, particularly for smaller banks; promoting ESG data infrastructure; and creating market incentives for sustainability leadership.

Prospects for ESG Reporting in Nigerian Banking

The analysis identifies several promising developments that could accelerate ESG integration in Nigerian banking. The expansion of sustainable finance markets, including Nigeria's planned sovereign green bond and the NGX sustainability bond segment, provides additional incentives for ESG leadership. Recent studies indicate that the adoption of advanced technologies, particularly Artificial Intelligence, is reshaping risk governance practices in the banking sector by improving the accuracy of risk modelling, strengthening compliance processes, and enhancing organizational accountability (Olatunbosun & Olatunbosun, 2025).

Technological innovations, particularly RegTech and ESG software solutions, offer potential solutions to data management challenges. As noted in the findings, organizations using ESG software report significant efficiency gains in reporting cycles (IRIS Carbon & Opex Consulting, 2025). The adoption of these technologies could democratize advanced ESG capabilities across the banking sector.

The increasing sophistication of stakeholder expectations represents another catalyst for enhanced ESG integration. As customers, employees, and communities become more discerning about sustainability claims, banks face growing pressure to demonstrate substantive performance beyond cosmetic reporting.

Conclusion

This research has examined the challenges and prospects of ESG reporting in Nigeria's banking industry, focusing particularly on the tension between regulatory compliance and strategic value creation. The analysis reveals that while regulatory pressures currently drive ESG adoption, significant potential exists for strategic value creation among institutions willing to move beyond compliance minimums.

The Nigerian banking sector's ESG journey reflects a dynamic interplay between global standards and local contextualization, between regulatory coercion and strategic choice. The phased implementation of IFRS S1 and S2 standards represents a regulatory inflection point that will fundamentally reshape sustainability reporting practices. Simultaneously, leading banks are demonstrating how ESG capabilities can generate competitive advantages in areas like green finance, brand differentiation, and operational efficiency.

The study contributes to the sustainable finance literature by documenting ESG integration in Africa's largest economy, offering insights relevant to other emerging economies navigating similar transitions. The proposed conceptual framework reconciling compliance and value creation motivations provides a theoretical lens for understanding corporate sustainability responses in regulatory-driven contexts.

Looking forward, the prospects for ESG reporting in Nigerian banking appear promising but contingent on several factors. Regulatory consistency, capacity building, technological adoption, and leadership commitment will significantly influence the sector's ability to transform ESG from a compliance exercise to a source of sustainable value. As global sustainability pressures intensify and Nigeria's developmental challenges persist, the banking sector's role in financing a sustainable future will only grow in importance.

Recommendations

Based on the findings, the study offers the following recommendations for enhancing ESG reporting in Nigerian banking:

For Banks and Financial Institutions:

1. Develop strategic ESG roadmaps that move beyond compliance to identify value creation opportunities aligned with business strategy.
2. Invest in ESG data infrastructure to automate collection, validation, and reporting processes, addressing current efficiency gaps.
3. Strengthening board ESG governance through specialized training, clear accountability structures, and integration with enterprise risk management.
4. Foster cross-functional ESG implementation teams that break down silos between sustainability, risk, finance, and business units.

For Regulators and Policymakers:

1. Enhance regulatory coordination to reduce fragmentation and create a coherent ESG reporting ecosystem.
2. Develop capacity-building initiatives, particularly for smaller financial institutions with limited resources.
3. Create market incentives for ESG leadership through preferential procurement, fast-track processing, or public recognition.
4. Support the development of localized ESG metrics that reflect Nigeria's developmental context while maintaining global alignment.

For Future Research:

1. Conduct longitudinal studies tracking the evolution of ESG integration in Nigerian banking as IFRS S1 and S2 implementation progresses.
2. Explore comparative analyses between Nigerian banks and peer institutions in other emerging economies.
3. Investigate the relationship between ESG performance and financial outcomes in Nigeria's banking context using quantitative methods.
4. Examine stakeholder perceptions of bank ESG reporting to assess credibility and communication effectiveness.

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