Climate Change Act 2021: Sectoral Imperative

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KPMG in Nigeria

Background to the Climate Change Act

The Climate Change Act 2021 was signed into law by President Muhammadu Buhari on the 18th of November 2021. The Act is a great step in the right direction, especially in making Nigeria live up to expectation in actualizing its commitment to Paris Agreement, Nationally Determined Contributions (NDCs), Kyoto Protocol, the United Nations Framework Convention on Climate Change (UNFCCC), UN SDGs and other standards and guidelines relevant to climate change adaptation and mitigation.

The passage of the Bill by the National Assembly and sign off by the president further shows Nigeria commitment to reducing carbon emission and building resilience to the negative consequences of climate change. This was part of the pledge made by the President at the just concluded Conference on Climate Change (COP26) that was held in Scotland from October 31 to November 13, 2021. The president stated that Nigeria would achieve net-zero emission by 2060.

The Act is expected to change the way individuals and organizations relate with the environment. Thus, it will re-orient them to doing the right things in the protection and preservation of the environment. The Act is asking both the private and public entities to take climate change concerns into serious considerations. It demands of everyone to commit time, money, and all the resources available to them in reducing carbon emission and promoting sustainable economic growth and development.

The Objectives of the Act

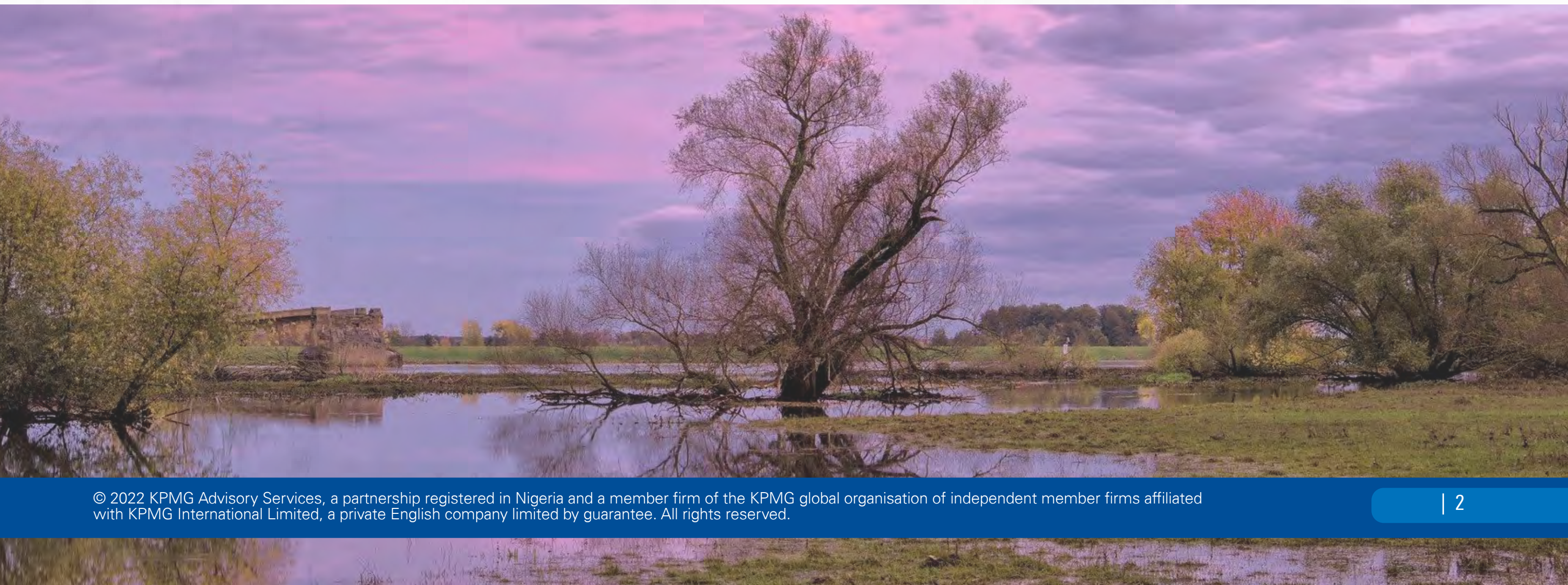
The Climate Change Act aims at providing a framework for the attainment of low carbon emissions, promotion of inclusive green growth and sustainable economic development by ensuring that Nigeria develops climate change mitigation and adaptation strategies; ensure the close out of climate change action and incorporates it into national development priorities. The Act also aims at the mobilization of finance, and other resources necessary to ensure that climate change policies and actions are integrated with other related policies and set a target for the year 2050 – 2070 for the attainment of net-zero emission. The Act is also aimed at identifying risks and vulnerabilities, especially ensuring that private and public entities abide by stated climate change strategies, targets, and National Action Plan.

Which sector(s) is the Act applicable to?

The Act is applicable to both private and public entities and covers every sector. It is applicable to every organization regardless of the type of business. It speaks to the fact that we are all affected by the impact of climate change and the responsibility to preserve nature and ecosystem lies with all of us. While the Act encourages every organization to implement climate change action, but the enforcement of implementation will be focused more on private entities with 50 employees and above.

The Act encourages every organization including MDAs to have a designated climate change officer or environmental sustainability officer. The officer is expected to send the report of their implementation of climate change action to the National Council on Climate Change (NCCC).

The NCCC is the secretariat for the implementation of climate change action plans. The President is the overall head of the council with day-to-day operations in the hands of the Director-General who serves as the secretary of the council. He is the overall head of administration and will be supported by zonal coordinators and state directors who are appointed by the council. The Director-General may appoint staff based on approval and as deem fit by the council.



Public Entities:- The organisations providing services to the public on behalf of the Nigerian government are required to comply with the periodic regulations issued by the NCCC.

Private Entities:- Entities that employ fifty (50) or more employees are required to develop a process to achieve the annual carbon emission reduction target as stated in the Action Plan. Furthermore, they are required to appoint a Climate change Officer or an Environmental Sustainability Officer with the responsibility to prepare and submit annual reports detailing the company's effort at climate change obligations for the review period.

Ministries, Departments and Agencies:- The Act requires MDAs to establish a climate change desk which should be under the supervision of a Director. This Desk would carry out all compliance and planning activities relating to the climate change obligations. Furthermore, the Act states that sanctions and fines determined by the NCCC could be levied on the Principal of MDAs if a compliance failure is noted during evaluation.

Climate Change Reporting and Compliance

A major source of funding for the NCCC is from fines and charges issued to private and public entities due to flouting climate change mitigation and adaptation obligations. The fines may arise as a result of public and private entities not creating measures to achieve targets in line with the action plan as well as failing to report on its climate emission reduction and adaptation plan. This would imply that public and private entities would have to devote resources in developing in-house mechanisms suited to their environment to enable them to achieve these objectives. The challenge then arises from the availability of the knowledgeable experts within the public and private space to help drive the reporting and compliance requirements within these organisations.

Private entities should take advantage of the early days before the action plan is rolled out to identify and source for a trusted advisor that would help to create bespoke mechanism to achieve reporting and compliance requirements.

Financial Reporting and Audit Implications

The requirements of the Act have both direct and indirect impact in the financial statements. Some of the financial reporting matters entities should consider include:

- Useful lives and residual values of the Property, Plant and Equipment: entities should evaluate how the requirements of the Act will impact the residual value and useful lives assessment of the carrying amounts of PPE in the financial statements.
- Going Concern assessment: entities will need to perform a going concern assessment of their operations, business models and ability to settle its obligations in the normal course of business due to the requirements of the Act. Material uncertainties related to events or conditions arising from the implementation of the Act and that may cast significant doubt on the ability of the entity to continue as a going concern should be disclosed in the financial statements.
- Provision and contingent liabilities: entities under the Act are exposed to possible fines and penalties for flouting their Climate change mitigation and adaptation obligations. It is therefore important that an assessment of the provisions that may crystalize due to non-compliance with the Act should be made. Additionally, entities may have to accelerate their asset retirement obligation provision due to the requirements of the Act. There is also high risk of provisions for onerous contracts due to increased cost of meeting the climate related obligations under the Act when compared to the revenue expected to be earned from the contract
- Impairment assessment of non-current asset and Goodwill: in performing impairment assessment of non-current assets and goodwill, entities should incorporate the impact of the Act in their cashflow projections and other aspects of the impairment model where applicable. The fair value of certain assets could also be impacted due to the fact they have become stranded or left idle due to compliance with the climate change obligations under the Act.
- Emission Trading Scheme (ETS) and Carbon Tax: The Act empowers the National Council on Climate Change (NCCC) and the Federal Inland Revenue Service (FIRS) to set up an ETS and Carbon Tax framework. The ETS and Carbon tax will affect the statement of financial position, cashflows and financial performance of entities when they become operational.

The above is not an exhaustive list and should be considered together with other financial reporting implications of the Climate Change Act.

From an audit perspective, it is imperative that the Board and Audit Committee perform an assessment of how the Act impacts their business and the financial statements. Some important questions for the Audit Committee include:

01 **Has your company made a net zero commitment?**

02 **Does your company have polluting assets?**

03 **Is your company exposed to carbon-related regulation?**

04 **What about your inventory and production costs?**

05 **Does your company take part in an emissions scheme?**

06 **Does your company borrow funds?**

07 **Is your company a provider of finance?**

08 **What about your staff benefits?**

09 **What about your cash flow forecasts?**

10 **What about your disclosures?**

The auditor is expected to consider if the Act has a material impact on the entity and if the financial statements reflect the impact appropriately. The International Standards of Auditing continue to remain relevant, and the auditor will need to (amongst other procedures):

- identify and assess risk of material misstatement
- design and perform procedures to respond to those risks
- obtain sufficient, appropriate evidence to provide basis of opinion

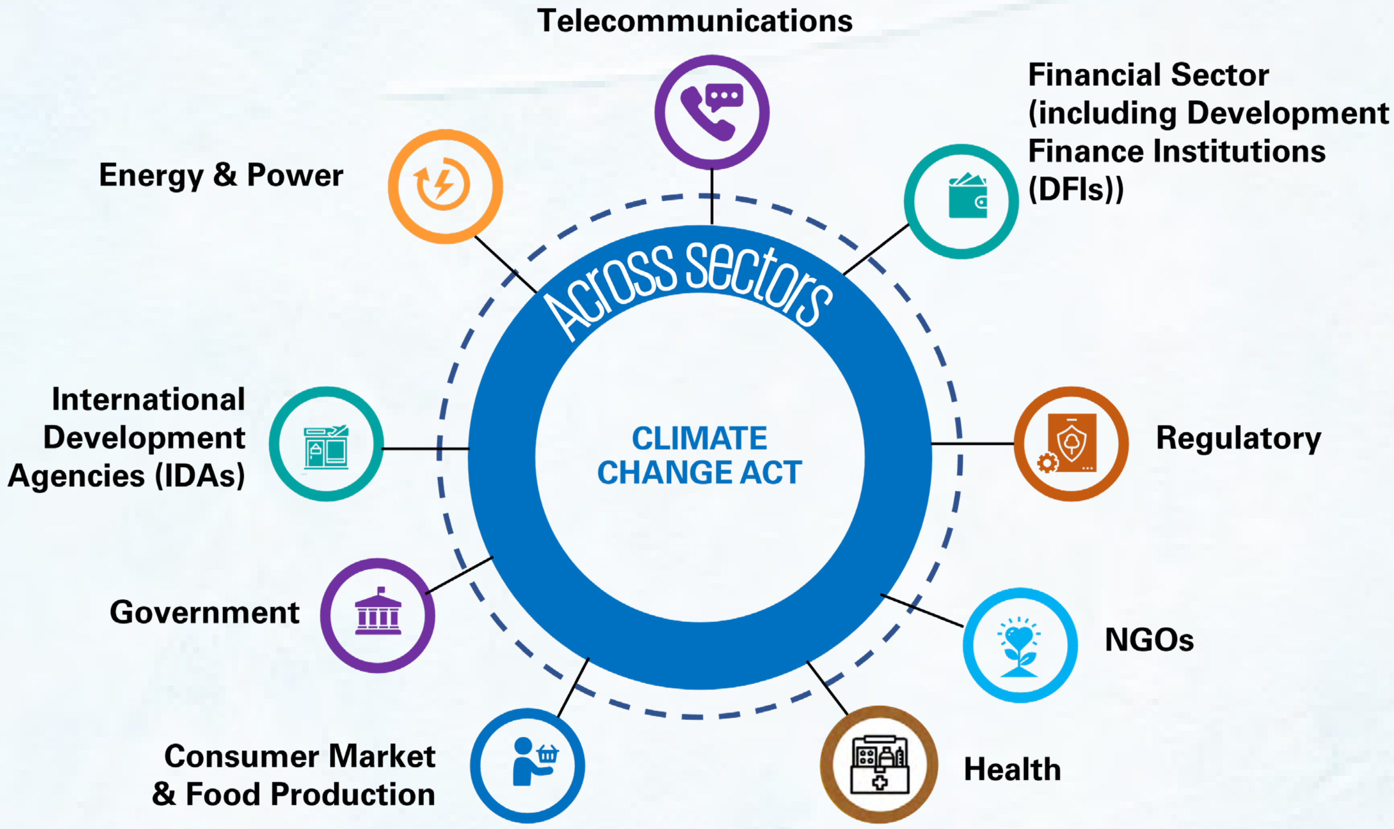
In terms of other climate change related reports required to be submitted by entities an additional level of comfort can be provided to the regulator, other stakeholders and users of the report if an independent assessment is provided by the auditor or practitioner.

Strategy and Budgeting

The implementation of the Act would also require organisations in the private sector to have a rethink of their strategy, specifically for organisations operating in industries with a high carbon emission output. There would be a need to develop organisation strategies in tandem with the Action plan. This could have a significant impact on the budgetary obligations of the companies, implying that major funding sources of companies may be reduced, and alternative funding may have to be sourced. Organisations would need to embrace and develop forward looking strategies that would help achieve their climate change obligations.

Supporting you across sectors in the implementation of the Act

In today's clime, organizations need to be focused and address the regulatory, market and physical impacts of climate change. Organizations globally are seeking to proactively respond to the various risks and opportunities related to climate change, including the increasing expectation of transparency and reporting. KPMG is available to help organizations to implement sector-specific target relevant to climate change Act. The diagram below shows our coverage sector with regards to the implementation of the Act and brief explanation of expectations in some of the sectors.



Financial Sector

The Federal Ministry of Environment estimates that the implementation of the country's Nationally Determined Contributions (NDC) will require about $142bn in the next decade. The Government recognizes that strengthening the frameworks for attracting domestic and international financing for low carbon and climate resilient development is critical. Meeting the targets of the Sustainable Development Goals (SDGs) and increasing growth and poverty reduction is highly dependent on adequate, timely and sustained funding of climate activities.

Financial Institutions (FIs) therefore have a major role to play in developing or implementing climate change action plan. They must proactively align with global financiers such as the Green Climate Fund, through private sector arrangement for sustained climate financing.

Financial sector Considerations to Comply with the climate change Act

- Providing loans to customers that comply with the requirements of the climate change Act or are committed to emissions reduction and reporting on their emission use.
- Reducing the emissions from their loan portfolios, which represent the biggest pool of emissions for Financial Institutions (FIs). Banks, for instance, can now, under the Partnership for Carbon Accounting Financials (PCAF), begin to measure, assess, and report on their Scope 3 emissions under the PCAF methodology. This represents a great avenue for meeting Nigeria's NDCs.
- Identification of potential sources of emissions from their business operations such as generator, electricity use, business travel, among others and reporting on this.
- Facilitate investment to meet climate financing needs.
- Issuance of Green Bonds and other innovative financial instruments to fund sustainable projects.
- Banks are also encouraged to utilize the Taskforce on Carbon Related financial Disclosures (TCFD). (The Task Force on Climate Related Financial Disclosures (TCFD) recommends FIs to align their portfolio investment with climate goals through measuring and disclose the alignment of their portfolios with the goals of the Paris Agreement using forward-looking metrics and targets).
- Players such as insurance companies and asset managers should expand disclosure of carbon-related climate assets.

Telecommunications Sector

The Telecommunications sector has an important role to play in meeting Nigeria's Climate Change Act. As climate change brings warmer temperatures, increased water scarcity, and more frequent and extreme weather events; there is an increased risk for telecommunications facilities and infrastructure, and a need for more ICT solutions. Businesses, governments, communities, and consumers will need to better manage energy and water use, be able to depend on reliable communication, and stay apprised of potential disruptions to maintain business continuity and sustainable growth.

Sector Considerations to Comply with the climate change Act

Emissions from telecommunications sector may be primarily associated with the operation of vehicle fleets, the use of backup power generators, and the use of cooling and fire suppression systems. Companies in the Telecommunications sector can meet up with the requirements of Nigeria's Climate change Act to minimize emissions by:

- Implementation of vehicle fleet and power generator emissions management strategies.
- Substitution in use of chlorofluorocarbons (CFCs) in cooling and fire-suppression systems, using contractors who are properly trained or certified in the management of CFCs.
- Reducing consumption of dirty sources of power, thereby leading to reduced Carbon emissions.
- The use of renewable energy as power source where masts are located across the country.
- Assessing Supply Chains to ensure environmentally friendly practices.

Oil and Gas Sector

The Oil and Gas Sector is the major contributor of GHG emissions in Nigeria. The sector contributed 7.24% to real GDP in 2021and is responsible for about 95% of Nigeria's foreign exchange earnings. The main sources of GHG emissions (continuous or non-continuous) resulting from oil and gas sector include combustion sources from power and heat generation, and the use of compressors, pumps, and reciprocating engines (boilers, turbines, and other engines); emissions resulting from flaring and venting of hydrocarbons; and fugitive emissions (World Bank EHS Guideline).

Sector Considerations to Comply with the Climate Change Act

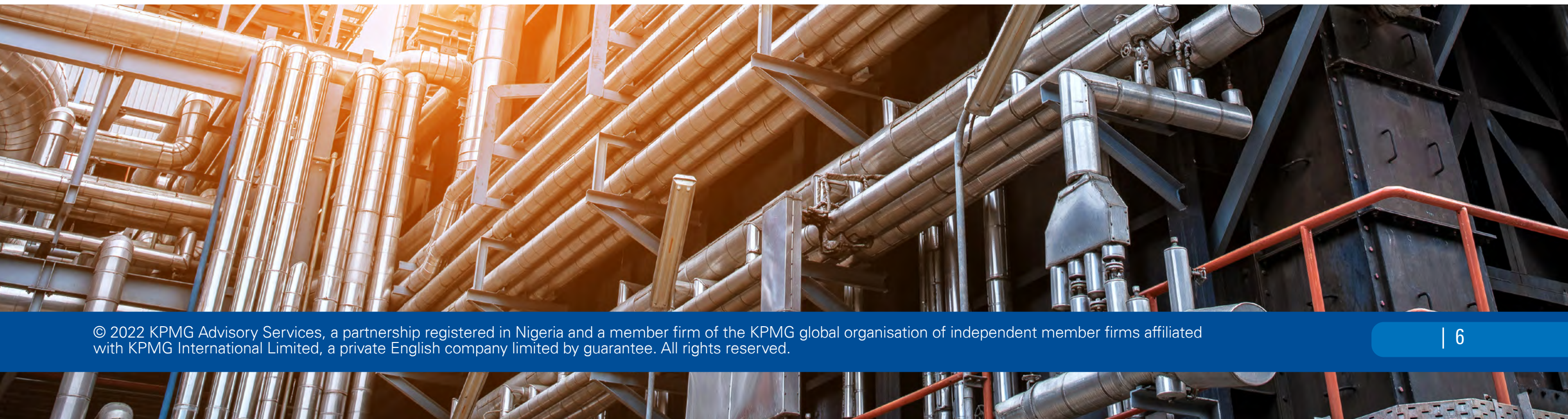
- Maximize energy efficiency and design facilities to minimize energy use.
- Evaluate cost-effective options for reducing emissions that are technically feasible.
- Support low-cost, technically feasible solutions to reduce methane emissions in oil and gas operations, including recovery and use of escaping gas.
- Investment and use of smart technologies in oil refining.
- Reduce fugitive emissions in the sector.

Power Sector

The Power Sector is the second major contributor of GHG emissions in Nigeria. Producing adequate energy for the country's development needs and minimizing GHG emissions in the process remain critical challenges to achieving high socio-economic growth in Nigeria. These will require improved investment, regulatory control, and critical review of existing approaches, as well as the adoption of low-cost but efficient energy generation technologies.

Sector Considerations to Comply with the Climate Change Act

- Expand the production and use of renewable energy, particularly solar and wind, both on-grid and off-grid
- Promote energy efficiency and management activities that include new and innovative energy efficiency methodologies and techniques in power generation, including the use of gas-fired power stations, as well as retrofitting buildings and other infrastructure.
- Minimize potential sources of emission in the generation, transmission, and distribution of power.



Health Sector

The main policy direction is to promote and provide climate resilient and quality health facilities and infrastructure for all the inhabitants of Nigeria. The major Sources of GHG emissions at Health Care Facility include exhaust air from heating, ventilation, and air conditioning (HVAC) systems, ventilation of medical gases and fugitive emissions released from sources such as medical waste storage areas, medical technology areas, and isolation wards.

Sector Considerations to Comply with the climate change Act

- Deploy renewable energy for health facilities and infrastructure.
- Promote efficient use and sustainable management of medical wastes.
- Adopt climate-smart healthcare.
- Promote low-carbon procurement policies for pharmaceuticals and medical equipment.
- Promote the integration of climate-smart healthcare into health sector strategies for universal healthcare coverage.
- Provide a blueprint for resilient systems that address both infrastructure-specific and disease-specific climate impacts.

Consumer Market & Production

Nigeria's manufacturing sector currently contributes about one tenth of the nation's Gross Domestic Product. It is a key source of growth, jobs, and food security. High consumer demand is the main force behind non-oil sector growth. With the current poor supply of electricity in Nigeria and the energy-intensive nature of manufacturing sector, there is the reliance on fossil fuels which generates high level of emissions.

Sector Considerations to Comply with the climate change Act

- Adoption of green technology that supports low emission manufacturing systems.
- Enhance industrial development utilizing an energy mix that is focused on renewable energy.
- Benchmarking manufacturing and supply chain operations against international best practice for industrial energy usage.

KPMG Services are designed to help client to do the following

At KPMG in Nigeria, we can help you to meet up with your needs with regards to the implementation of the requirement of Climate Change Act. We will work with you to develop strategies that align with your organizational needs. The following includes some of the services we can help your organization on:

- GHG and emission reduction strategies.
- Develop and increase knowledge and awareness of climate change risks and opportunities through capacity building.
- Undertake and implement risk assessments and risk reduction measures.
- Incorporate climate change imperatives into ongoing business/strategic planning.
- Climate Risk and Vulnerability Assessments.
- Developing Energy Programs and Optimization Strategies.
- Monitoring and Evaluation of performance with regards to implementation of climate change strategies.

Conclusion

The objective of the Act is to ensure accountability and compliance from different stakeholders towards achieving the country's climate change obligations. It introduces a sustainable framework for the regulator to perform its oversight duties. However, the challenge arises from how an oil dependent Nigeria would be able to achieve these targets while mitigating the vulnerabilities of a transition risk associated with climate change. This then provides an opportunity for the government to proffer workable solutions within its plan in collaboration with both the public and private entities and avoid the trap of making the Climate Change Act solely a revenue generating avenue for the government without implementing proper structures to achieve its climate change obligations.

At KPMG in Nigeria, our services are not only aimed at assisting the players in the private sector but also public entities including the regulator to put in place the right strategies and track the performance of their organizations with regards to implementation of climate change objectives.

- **Tax Impact Reporting**
- **ESG Risk Assessment**
- **Sustainable, Green & Climate Finance**
- **Sustainability and SDG Reporting Services**
- **Waste Management & Circular Economy services**
- **ESG-related Renewable Energy services**
- **ESG Strategy**
- **ESG Policies and Framework Development**
- **KPMG True Value Services (Impact Measurement & Assessment)**
- **ESG/HSE Compliance Reviews**
- **ESG Maturity Assessment**
- **Sustainability/ESG Assurance**
- **ESG Due Diligence for M&A**
- **Business & Human Rights Services (Responsible Labour/ Supply Chain Strategy)**

Furthermore, it is important to highlight the partnership of NCCC with civil society organizations relating to advocacy as this creates an opportunity for private entities to expand environmental, sustainability and governance strategy and initiatives in partnering with these organizations.

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Contacts

Tomi Adepoju
Partner & Head
Internal Audit, Governance,
Risk & Compliance Services
KPMG in Nigeria
E: tomi.adepoju@ng.kpmg.com

Martins Arogie
Partner
Tax, Regulatory and People Services
KPMG in Nigeria
E: martins.arogie@ng.kpmg.com

Femi Awotoye
Partner
Audit Services
KPMG in Nigeria
E: oluwafemi.awotoye@ng.kpmg.com

Yewande Adeyi
Manager
ESG/Sustainability Services
KPMG in Nigeria
E: yewande.adeyi@ng.kpmg.com

Ikechukwu Odoh
Manager
Tax, Regulatory and People Services
KPMG in Nigeria
E: ikechukwu.odoh@ng.kpmg.com

home.kpmg/ng
home.kpmg/socialmedia