



NIGERIA

EU support to strengthening private sector adaptation to EU deforestation regulation (EUDR) and Corporate sustainability Due diligence directive (CS3D)

Volume 3 : Assessment of the potential impact of the CS3D

Final Report

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The TPSDE II Facility

The TPSDE Facility is an advisory service of the European Commission (EC) managed by Unit E2 in charge of Trade, Investment Climate, Entrepreneurship & Value Chains within the International Partnerships Directorate General (INTPA).

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Abbreviations

CAL	Corporate Accountability Lab
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters
CAN	Cocoa Association of Nigeria
CBN	Central Bank of Nigeria
CFAN	Cocoa Farmers Association of Nigeria
CRIN	Cocoa Research Institute of Nigeria
CSA	Climate Smart Agriculture
CS3D	Corporate Sustainability Due Diligence Directive
CSIR	Corporate Sustainability Investor Report
CSO	Civil Society Organisation
CSR	Corporate Social Sustainability
DG	Directorate General (EC)
EC	European Commission
EIA	Environmental Impact Agency
EU	European Union
EUD	EU delegation
EUDR	EU Deforestation Regulation
ESG	Environmental and Social Governance
FGN	Federal Government of Nigeria
FMAFS	Federal Ministry of Agriculture and Food Security
FRCN	Financial Reporting Council of Nigeria
HQ	Headquarters
ICCO	International Cocoa Organisation
IDH	The Sustainable Trade Initiative
IFRS	International Financial Reporting Standards
ILO	International Labor Organisation
INTPA	International Partnerships Directorate General
INCSR	International Network for Corporate Social Responsibility
ISO	International Standards Organisation
LBA	Licensed Buying Agent
LCCI	Lagos Chamber of Commerce and Industry
LWG	Leather Working Group
MSMEs	Micro, Small and Medium Enterprises
NAP	National Action Plan
NARPPMAN	National Rubber Producers, Processors and Marketers Association of Nigeria
NATIP	National Agricultural Technology and Innovation Policy
NCCG	Nigerian Code on Corporate Governance
NCF	Nigerian Conservation Foundation
NCMC	National Cocoa Management Committee
NEPC	Nigerian Export Promotion Council
NESG	Nigerian Economic Summit Group
NESREA	National Environmental Standards and Regulations Enforcement Agency
NFP	National Forest Policy (2016)
OECD	Organisation for Economic Co-operation and Development
OPS	Organised Private Sector
PEBEC	Presidential Enabling Business Council
RA	Rainforest Alliance
RENL	Rubber Estates Nigeria Limited
SEC	Securities and Exchange Commission
SIPH	Societe Internationale Des Plantations D’Hevea
SME	Small and Medium Enterprise

SOCFIN	Société Financière des Caoutchoucs
TOR	Terms of Reference
TPSDE	Trade, Investment Climate, Entrepreneurship & Value Chains (Facility)
TWEAN	Tropical Timber Exporters Association of Nigeria
UN	United Nations
UPR	Universal Periodic Review
VC	Value chains

Executive Summary

The Trade, Private Sector Development and Employment (TPSDE) Facility II is an advisory service of the European Commission (EC) managed by the Unit E2 in charge of Trade, Investment Climate, Entrepreneurship & Value Chains within the Directorate General for International Partnerships (INTPA).

The Facility is aimed at providing technical and support services to INTPA Headquarters and EU Delegations (EUDs) to increase their capacity in programming, designing, and implementing interventions to improve the business environment in partner countries. It is an ad hoc facility working on demand for the EUDs and HQ, supporting INTPA E2.

The EU delegation in Nigeria has requested a technical support from the TPSDE Facility related to a general assessment on cocoa, cattle (including leather), rubber and wood value chains, potentially more affected by the EU Regulation on Deforestation (EUDR), regarding the level of preparedness of their private sector to comply with the new requirements to be implemented in January 2025. The assessment also covers the potential impact of the recently adopted Corporate Sustainability Due Diligence Directive (CS3D).

This document corresponds to the CS3D assessment, consisting of the scope of the CS3D, a summary of the characterization of the four value chains concerned, (detailed in the Value Chain mapping and EUDR reports (Vol 1 and Vol 2) and an evaluation of the state of preparedness of each value chain and an assessment of the potential impact of the CS3D:

The results of the analysis are then presented in summary form based on the following variables:

Preparedness: refers to the ability of actors in each value chain to comply with the requirements of the CS3D. The assessment considers the CSR state of play and operating environment in Nigeria, the policy and legal framework for human rights, environmental standards and protection, assessment of target companies (directly or indirectly in scope) sustainable practices and structural characteristics of each chain, which may facilitate or hinder the adaptation of supply chain players to the conditions of the corresponding due diligence system.

Potential impact: refers to the potential impact that the entry into force of the CS3D may have on each value chain, considering their state of preparedness and their exposure to the EU market, whether direct or indirect. In theory, it could be assumed that the implementation of the obligations linked to the CS3D will have a positive impact in terms of reducing human rights violations and environmental impacts at the level of each commodity chain, which is the main objective of the CS3D. However, this assessment focuses on the potential negative effects (e.g costs of compliance for businesses, loss of income for farmers, due to their potential exclusion from European market supply chains in particular) that the entry into force of the Directive may have on the value chain.

Level of priority estimated/suggested: refers to the recommendation to strengthen stakeholders from each value chain to facilitate CS3D compliance

Brief description of the CS3D

The EU requires extensive and detailed disclosures about how sustainability issues affect a company's business, as well as the impact of its activities on society and the environment All

products marketed in the EU are covered by the Directive (at the difference of EUDR which covers only a selected number of agricultural products). Companies in scope of the directive are;

1) Companies established in the European Union with more than 1,000 employees and with an annual global net turnover of more than 450 million euros;

2) Companies based outside the European Union with an annual net turnover in the European Union of more than 450 million euros.

Due diligence applies not only to a company's own business activities and those of its subsidiaries, but also to direct and indirect suppliers (provided it is an established or ongoing business relationship) as well as the use and disposal of the goods produced. For Nigerian companies they could be indirectly affected as suppliers (e.g upstream and downstream business partners) to the large companies concerned. For example. In the medium term, large companies will indeed compel their suppliers to comply with due diligence obligations.

In terms of the scope, the target companies concerned must check exactly where the goods supplied come from, how they were produced and what the consequences of this production have been on human rights and the environment. This involves, for example, verifying respect for, among other things, child labor, the situation relating to slavery, labor exploitation, pollution, deforestation, excessive water consumption and damage caused to ecosystems. Companies that don't comply with the CS3D could face a number of consequences, including Remedial actions, Civil Liability, Penalties and increased compliance costs. The date of entry into force of the directive is 3 years from the date the directive was published i.e July 2024.

Preparedness and assessment of the potential impact of the CS3D

Summary characterisation of the value chains concerned

Cattle (Leather) Value Chain

Livestock producers belong to groups and cooperatives or are off the radar which poses specific challenges for tracking and technical support. Livestock importation, exportation, processing and retailing is male dominated. A major issue for the industry is the inadequate supply of good quality skins and this is closely related to the poor state of abattoirs in the North. Persistent farmer-herder conflicts in Nigeria due to drought and desertification in the north of Nigeria have forced pastoralist herdsman to seek grazing lands further south resulting in competition over resources and clashes with settled crop farmers. Low productivity and increasing demand for beef which is the main sources of domestic animal protein in Nigeria, has resulted in a domestic supply gap. The sector is also one of the more significant employers of labour in the country. The tanning industry has been known to contribute to environmental impact with high water consumption and waste disposal. However **the EUDR study concluded that exports** of these Cattle (leather) products are sporadic and of low value compared to the exports of hides and skins from Nigeria to the EU.

Cocoa Value Chain

Nigeria is the **third largest exporter of cocoa in Africa** and **the fourth world ´s largest producer of raw cocoa beans**. Expansion of cocoa cultivation in Africa is mainly achieved through increase in land area rather than through improving the yield per hectare thus leading to deforestation. Due to household farming activities investigations have revealed the issue of child labour, forced labor, trafficking and poor working conditions in the Nigerian cocoa sector. Cocoa Farmers are vulnerable as they are often solely dependent on cocoa for income and are affected by fluctuating market prices and environmental conditions. There are also numerous actors along the value

chain such as the LBAs as a result, cocoa is not usually transported directly from fields to processing companies and activities throughout the chain are also not monitored or checked to verify standards as decisions based on income and livelihoods take priority over quality. Furthermore, data on the actors and companies in the value chain is not easily accessible which points to a lack of transparency on operations further creating a challenge for risk mapping and identification.

Rubber Value Chain

Nigeria is the third largest producer of natural rubber in Africa and the eleventh in the world. About 30 million farmers and their families depend on rubber for their livelihood. There is an increasing demand for natural rubber in international markets that could lead to potential loss of land on which to farm for other food crops creating conflicts within communities. There are concerns around rubber production due to the aging of trees which will limit production and impact farmers livelihoods. In addition exports of rubber from Nigeria to the EU are led by a few large rubber processors that are owned by EU rubber groups while small smallholder farmers sell their rubber as raw unprocessed rubber lump and in doing so, profit margins are slim.

Wood Value Chain

Nigeria is the 32nd largest producer of wood in the world an estimated 5 million farm families and value chain employees depend on wood and wood products for their livelihood. The very rapid rate of deforestation and desertification in many parts of the country is leading to a wood supply crisis. Timber harvesting is regulated by the Forestry Department of the Federal Ministry of Environment. The department oversees the issuance of logging permits and aims to ensure that logging activities comply with environmental laws and regulations. However, despite efforts to promote sustainability, Nigeria faces several challenges in forestry management. Illegal logging remains a significant issue driven by high demand for timber and agricultural expansion. Weak governance and corruption further complicate efforts to combat deforestation and promote sustainable land management. Other risks identified include, trade and transport risks (e.g false document declarations) and processing risks which include companies who operate without legal registration of business and hire workers illegally thus putting health and safety of workers at risk.

Preparedness of actors in the value chains

Corporate Social Responsibility in Nigeria - State of Play

There have been **2 failed attempts to get a CSR policy Bill in Nigeria** and there is currently **no specific or dedicated regulatory authority or regulation of CSR in Nigeria**. An Act to regulate CSR has recently been picked up by the House of Representatives committee on corporate social responsibility. Stakeholders have provided divergent views on this Bill during a committee public hearing in June 2024. A review of the draft Bill for an Act to Regulate Corporate Social Responsibility in Nigeria and for Related Matters 2023 (sponsored by Hon Olumide Osoba) highlights key objectives to mandate and regulate CSR in Nigeria. Consultations on the Bill with some key stakeholders revealed some contending issues, such as the overlap with existing sustainability regulations which will further create another bureaucratic step for businesses to navigate. The Companies and Allied Matters Act (CAMA) 2020, is the primary law regulating companies in Nigeria, the CAMA Act fall under the CAC Act which was re-enacted in 2020 however it does not specifically take into cognisance the environmental and social impact of their business activities. There is the corporate governance sector code (**Nigerian Code of Corporate Governance (NCCG) 2018**) monitored by the Financial Reporting Council of Nigeria through

sectoral regulators. FRCN confirmed that there was **no specific trade and agriculture sector corporate governance code**.

Stakeholders interviewed noted that most of the corporate governance codes and CSR practises are voluntary and further recognised the importance of the codes including suggesting the potential for the CS3D to establish areas of alignment for improved due diligence. They also reported that there was a need to support private companies specifically Nigerian companies operating in the value chain to help them to comply to the EU directives as they are not yet prepared.

Environmental standards and protection in Nigeria - state of play

Legal Framework

Nigeria has adopted a number of policies and legal frameworks for protecting the environment, some of these laws have been reviewed and updated, a few of them still needs to be updated. For example, the Environmental Impact Assessment Act (EIA) Act 1992 is ongoing review and is at the stage to be passed by the national assembly. According to the Environmental Impact Assessment agency (EIA), the revised act will consider CSR as part of its conditions for approval and reporting.

Environmental impact monitoring and compliance by regulatory agencies are rarely undertaken. The EIA agency however noted that multinational companies adhere to the environmental impact assessment regulations compared to Nigerian companies. Non-Government stakeholders interviewed further confirmed that the major culprits for non-compliance are the companies operating in the mining sector and food & beverage sector. On environmental issues such as deforestation several federal agencies, state governments and international organisations are implementing some initiatives and collaborating with relevant stakeholder to promote sustainable practices and low-carbon technologies as well as providing access to finance for small to medium businesses. Examples include the World Bank Nigeria REDD+ Readiness and the World Bank Forest Carbon Partnership Facility (FCPF); the Nigerian Conservation Foundation (NCF), Rainforest Alliance Certification in the cocoa value chain (Ondo State) and the Traceability and Resilience in Agriculture and Cocoa Ecosystems of Nigeria TRACE Project 2022 – 2027 (Cross River State).

From a **CS3D perspective**, the Directive presents some challenges for large companies. CS3D requires that target firms verify that there are no environmental negative impacts across their value chains (and beyond, to include business relationships). This creates a challenge for target firms to identify all actors, obtain information, assess information, and make fact-based decisions.

Human Rights – State of Play

Legal framework

Nigeria **has ratified several UN Conventions** including the International Covenant on Economic, Social and Cultural Rights; Convention on the Elimination of All Forms of Discrimination against Women and Convention on the Rights of the Child. Analysis of previous national review reports however suggest that Nigeria has made significant progress in promoting and protecting human rights. For example, previous reports highlighted passage of the Child Rights Bill in Northern Nigeria, development of policies to support women empowerment at state levels and the set up frameworks for regulatory agencies to establish consumer redress and complaints mechanisms against companies and that they are capable of being redressed administratively. There are legislation and regulations in Nigeria to rein in companies from impunities that affect the rights of

their employees, consumers and host communities. According to the NGO Global Rights, the impact of activities of companies, particularly in the extractive industry, on the infringement of **human rights in Nigeria is of great concern to the FGN**. In addressing this challenge, the National Human Rights Commission developed the national action plan on Business and Human rights from 2016-2017. The NHRC mentioned that it has had to rely on government funding and other sources of income which is not sufficient to tackle most of these human rights challenges.

Civil Society Organisations interviewed further discussed the worsening economy (high inflation) and cost of living resulting in high poverty levels and that individual cases are brought to the media by human rights activists or organisations for public awareness and sensitisation as cases reported to Police are not addressed. Other Government and International partners initiatives such as the Accel Africa Project are addressing child rights and eliminating child labour in the cocoa and mining sectors implemented by the **Federal Ministry of Agriculture and Food Security (FMAFS)** in partnership with the **International Labour Organisation (ILO)** Nigeria. **Rainforest Alliance and Lutheran World Relief** are supporting farmers to address human rights violations in cocoa farming communities in Nigeria.

From a CS3D perspective, we acknowledge that companies trading in the value chains will need to verify that the goods they sell in the EU haven't led to any human rights violations and must ensure they mitigate against any adverse impacts. Rainforest Alliance Certification Programme 2020 uses its 'assess and address' approach to tackling child labor, forced labor, discrimination, and workplace violence and harassment in agriculture. In the other value chains e.g wood and cattle there is a significant gender gap, the challenge with regards to human rights will be to ensure gender equality and addressing barriers to opportunities for women. Conflict prevention and security in communities, employment law violations will also need to be addressed. The ILO reported that Nigeria's Labour Act (1990) recognizes the minimum age for employment as 16, with a proposal in the Labour Standard Bill under review, recommending age 15 as a new benchmark. Addressing the root cause of human rights violations will require a strategic approach backed by political commitment. Stakeholders' views is that with the implementation of the CS3D, businesses will take the promotion and protection of human rights more seriously.

Assessment and level of preparedness for the CS3D

Large Companies operating in Nigeria have recognised the importance of CSR as part of their social impact and sustainability practises. More than half of the Eurocham members are large companies and fall within the scope of the CS3D (see Table 1: pg 40-41). It is worth mentioning that members comprise of companies with headquarters in member states such as France, Germany and the Netherlands. It should be recalled that the CS3D is largely inspired by the French law of 2017 and was adopted after the effective entry into force of the German law in 2023 which will therefore be comparable (but not similar) in scope of application to the CS3D and also establish due diligence obligations for social and environmental sustainability along the value chains of target companies of these countries. Due to this peculiarity, we can assume that companies should already be sufficiently prepared to comply with the requirements set out in the CS3D.

It is important to stress that there are a few target companies operating in Nigeria within the four value chains (Olam, SOCFIN, Nestle, WACOT). For example, companies in the cocoa and rubber value chains are certified and already integrating due diligence into company policies and management systems and therefore will need to adapt their existing sustainability due diligence processes to activities in the upstream and downstream sectors. Stakeholder engagement of all

actors in the value chains will need to be strengthened to identify, assess, and mitigate adverse negative impacts on environmental and human rights.

Regarding the four studied value chains (Cattle, including leather, cocoa, rubber and timber), the potential level of preparedness of the target companies in each value chain to comply with the requirements of the CS3D is assessed as Low-Medium.

Potential Impact of the Directive of the CS3D Directive on the value chains.

Regarding the four studied value chains (Cattle, including leather, cocoa, rubber and timber), the potential impact of the CS3D would be assessed as Low - Medium. It is important to stress that there are companies operating in Nigeria within the four value chains.

We acknowledge that the obligation to comply with the CS3D requirements would only apply in the case of EU importers or buyers of these products targeted by the CS3D. It has also to be considered that exporters will have the choice of export to comply with CS3D requirements or try to find other clients not targeted by the CS3D.

Cattle: we consider the CS3D impact will be Low.

Low exports to the EU. In relation to environmental impact, domestic beef production and the tanning industry contribute to deforestation, overgrazing of land, high water consumption and waste disposal pollution. However, for the time being Nigeria is not allowed to export bovine meat to the EU and exports of bovine leather are very low. Nigeria's leather exports to the EU consist indeed almost entirely of goats and sheep skins, with **only a few companies exporting to the EU the finished products**. In relation to human rights, although the sector employs a large number of people, the bulk of employment in these sectors is informal and casual – making tracking, risk planning and compliance difficult and this situation is unlikely to change in the medium term.

Cocoa: we expect the impact to be Medium

Some companies in the Cocoa value chain are already integrating due diligence into company policies and management systems. Potential impact is that they will need to adapt their existing sustainability due diligence processes to activities in the upstream and downstream sector. In relation to the environmental issues, despite efforts led by exporters and traders, cocoa is one of the main drivers of deforestation in Nigeria, which might increase the risk perception by EU importers. A key challenge for public and private players in the value chain is getting adequate data on traceability, certification, forest maps, legality and due diligence. In relation to human rights, child labour is still prevalent despite national and international efforts – perhaps stakeholders need to focus more resources in addressing the underlying root causes. Furthermore, as farmers rely on Local Buying Agents (LBAs) monitoring and compliance is limited due to the presence of several intermediaries in transporting from fields. The low level of awareness amongst key stakeholders (public and private) in Nigeria on the scope of the CS3D will need to be addressed.

Rubber: we expect the impact to be Medium

Large companies in the rubber value chain are already integrating due diligence into company policies and management systems and therefore will need to adapt their existing sustainability due diligence processes to activities in the upstream and downstream sector. In relation to human rights, there is the possibility of community conflicts and tensions with land as demand for rubber and production capacity expand. There are also reports of individual and employer rights being violated. Civil society organisations (CSOs) and human rights activists are

picking up on some of the allegations – transparent reporting, complaints mechanisms will need to be strengthened. Some groups of producers may be negatively affected by the CS3D implementation where the burden on compliance is rigid.

Timber: we expect the impact to be Low.

On the one hand, there are currently **no significant timber exports from Nigeria to the EU**. The fact that a substantial share of timber exports is directed towards markets with low environmental sustainability requirements would discourage the adoption of specific measures adapted to the EU market. The potential impact would result from EU importers requesting verification of the traceability of Nigerian timber re-exported to the EU market via other countries. In relation to environmental and human rights Illegal logging remains a significant issue. Risks identified include trade and transport (e.g false document declarations) and processing which include companies who operate without legal registration of business and hire workers illegally thus putting health and safety of workers at risk.

Table: Evaluation summary

Value chain	Preparedness	Potential impact	Priority (support)
Cattle	Low	Low	Low
Cocoa	Medium	Medium	High
Rubber	Medium	Medium	Medium
Timber	Low	Low	Low

Recommendations in this report includes the following:

- Exploit strategies in improving outcomes for those most vulnerable to adverse impacts in cocoa value chains.
- Consider actions to strengthen and leverage existing partnerships to eliminate child labour, improve production and quality processes; promote awareness and benefits of transitioning towards sustainable VCs
- To further mitigate risks, there could be a planned option to develop a Sustainable finance and programme support for supply chain actors.
- Exploring and developing synergies with existing Public and Private Stakeholder engagements platforms
- Seek for alignment and share opportunities for harmonisation and coordination on the roadmap and implementation towards the EUDR and CS3D.
- Promote institutional efforts in the development of a trade/agribusiness sustainability sector code and seek to further build national efforts on the adoption of the human rights and business guidelines.
- Build public sector capacity building efforts in enforcement, monitoring and compliance
- Support Private Sector and State level efforts to strengthen investment opportunities

Part 1.

Introduction and methodology

1. Introduction

1.1 Context, mission objectives and expected results.

The Trade, Private Sector Development and Employment (TPSDE) Facility II is an advisory service of the European Commission (EC) managed by the Unit E2 in charge of Trade, Investment Climate, Entrepreneurship & Value Chains within the Directorate General for International Partnerships (INTPA).

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The EU delegation in Nigeria has requested a technical support from the TPSDE Facility related to a general assessment on cocoa, cattle (including leather), rubber and wood value chains, potentially more affected by the EU Regulation on Deforestation (EUDR), regarding the level of preparedness of their private sector to comply with the new requirements to be implemented in January 2025. The assessment will also cover the potential impact of the recently adopted Corporate Sustainability Due Diligence Directive (CS3D).

The overall objective of the assignment is to support the EUD in Nigeria with a general assessment of the potential impact of EUDR and CS3D on the cocoa, rubber, cattle (including leather) and wood value chains and to provide recommendations to construct a strategy for the EUD to support the adaptation of the private sector, in particular MSMEs and small producers.

The specific objectives of the assignment are:

- To provide **updated information on the private actors and the cocoa, rubber, cattle (including leather) and wood value chains** (mapping) using the methodology developed in former studies including the information collected and analysed in the ongoing assessment made by TPSDE experts in Africa at regional level.
To **assess the potential impact of the EUDR and CS3D** (readiness and potential impact), covering not only the negative aspects related to non-compliance, but also the positive aspects related to compliance with this regulation for the Nigerian products/companies and the sustainable agriculture in Nigeria.
To **identify mechanisms for dialogue with public and private sector actors** regarding the potential impacts of these regulations on products from value chains targeted by mapping.
- Identify the **key initiatives for responsible business conduct** that comply with international standards and assess how to strengthen them. In addition, to feed the dialogue with the Nigerian private sector, include recommendations on possible trade union and/or regulatory strategies to comply with the EUDR and CS3D.
- To identify **possible synergies with other best practices of private sector in the region to get prepared to implement EUDR requirements** (traceability and legality requirements) **or CS3D and develop sustainable exports to the EU.**
- To propose a **draft Road Map** for the potentially most affected commodities with concrete short-term measures facilitating their adaptation to the EUDR and

recommendations for a sector wide approach to promote ownership from the private (and public) sectors of the proposed Road Map.

The expected outputs of this assignment are:

Output 1. A general assessment of the situation and preparation of the (1) cocoa (2) rubber (3) cattle (including leather) and wood value chains to implement the new due diligence requirements on deforestation and corporate sustainability.

Output 2. Sharing main results and mobilising the private sector in one workshop to be organised with the Delegation after the approval of the Final report.

1.2. Activities carried out by the consultants

As foreseen in the ToRs of the mission, the consultants carried out the following activities:

Phase 1: Kick off and preparation of the field mission:

Phase 2: Field mission. The EUDR field mission took place in Lagos and Abuja between July 15th and 26th. The CS3D field mission dates were August 12th-16th and covered also Abuja and Lagos. Additional virtual meetings were organized before and after the field missions.

Phase 3: Final report

This part of the study corresponds to the CS3D assessment. It is expected that the results will be presented to relevant stakeholders.

2. Methodology

The objective is to estimate the potential impact of the CS3D on Nigeria's cattle (including leather), cocoa, rubber and wood value chains.

The study had the following two limitations.

First, the foundation needed to assess the level of preparedness was based on available data (literature reviews) and on a limited group of stakeholder views. In addition, due to the limited no. of days to cover this study in depth and field mission challenges, the consultant endeavoured to limit subjectivity by drawing on available company reports, International partners studies and other available resources.

Second, although the methodology was guided by the four value chains (cocoa, rubber, cattle (including leather) and wood) mentioned in the terms of reference (ToR) - the potential impact of the CS3D is limited to the four studied value chains. It has nevertheless considered that this analysis remains partial, as CS3D potentially applies to all value chains and therefore some important value chains (e.g Palm Oil, Sheep/Goat, Oil and Gas etc) are not considered in the analysis. We will therefore give an overview of the potential impact the Directive might have at national level and then summarise the elements of potential impact for each of the studied value chains.

To do so, we **first discuss elements related to the scope of the CS3D¹** (obligations for companies in identifying and addressing potential and actual adverse human rights and environmental impacts in the company's own operations, their subsidiaries and, where related to their value chain(s), those of their business partners to ensure that companies comply with human rights and environmental protection standards. We **present a summary of the characterization of the four value chains concerned, (detailed in the Value Chain mapping and EUDR reports (Vol 1 and Vol 2),** then we **analyze the preparedness of actors in each value chain to comply with the CS3D requirements and the potential impact of the CS3D.**

The results of the analysis are then presented in summary form based on the following variables:

- **Preparedness:** refers to the ability of actors in each value chain to comply with the requirements of the CS3D. The assessment considers the CSR state of play and operating environment in Nigeria, the policy and legal framework for human rights, environmental standards and protection, assessment of target companies (directly or indirectly in scope) sustainable practices and structural characteristics of each chain, which may facilitate or hinder the adaptation of supply chain players to the conditions of the corresponding due diligence system.
- **Potential impact:** refers to the potential impact that the entry into force of the CS3D may have on each value chain, considering their state of preparedness and their exposure to the EU market, whether direct or indirect. In theory, it could be assumed that the implementation of the obligations linked to the CS3D will have a positive impact in terms of reducing human rights violations and environmental impacts at the

¹ https://commission.europa.eu/business-economy-euro/doing-business-eu/sustainability-due-diligence-responsible-business/corporate-sustainability-due-diligence_en

level of each commodity chain, which is the main objective of the CS3D. However, this assessment focuses on the potential negative effects (e.g costs of compliance for businesses, loss of income for farmers, due to their potential exclusion from European market supply chains in particular) that the entry into force of the Directive may have on the value chain.

A word of caution is in order regarding the data used in this study. Indeed, the availability of official data in Nigeria for each value chain is limited and heterogeneous. In many cases, available data are simply estimates, made by public or private players.

In order to take into account the information which, in each case, is most relevant for the intended analysis, different sources have been consulted, which, in some cases, provide dissimilar data. Each source used is cited at the bottom of the page or in the body of the text.

Part 2.

Brief description of the Corporate Sustainability Due Diligence requirements (CS3D)

1. About the CS3D

To ensure sustainable practices in EU Exports, the EU's Corporate Sustainability due diligence directive) (CS3D) ². **requires extensive and detailed disclosures about how sustainability issues affect a company's business**, as well as the **impact of its activities on society and the environment**.

The directive requires EU companies to manage the social and environmental impacts of their activities throughout their value chain, i.e. with their direct and indirect suppliers. from their own operations, as well as from the products and services sold.

The **aim** of the directive is to ensure that companies comply with human rights and environmental protection standards to promote a fairer and more sustainable global economy as well as responsible corporate governance.

It also provides rules on sanctions and civil liability in the event of non-compliance with the obligations it lays down. All products marketed in the EU are covered by the Directive (at the difference of EUDR which covers only a selected number of agricultural products).

Who must comply with the new requirements?

According to the version approved by the Council, the target companies (companies in scope of the directive) are:

- 1) **Companies established in the European Union with more than 1,000 employees and with an annual global net turnover of more than 450 million euros;**
- 2) Companies based **outside** the European Union with an **annual net turnover in the European Union** of more **than 450 million euros**.

The directive will hold target companies civilly liable if the violation of human rights or environmental protection was committed by a supplier with whom they work on a permanent or regular basis. Companies can, however, be exempt from this liability if they have codes of conduct signed by their business partners and compliance with them has been verified.

What are the obligations for Nigerian Producers?

Due diligence **applies** not only to a company's own business activities and those of its subsidiaries, but **also to direct and indirect suppliers** (provided it is an established or ongoing business relationship) as well as the use and disposal of the goods produced.

The directive does not establish any specific obligations for producers in Nigeria. However, they could be indirectly affected as suppliers (e.g upstream and downstream business partners) to the large companies concerned, for example. In the medium term, large companies will indeed compel their suppliers to comply with due diligence obligations.

² [Directive \(EU\) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive \(EU\) 2019/1937 and Regulation \(EU\) 2023/2859Text with EEA relevance. \(europa.eu\)](#)

For example, Nigerian companies will likely need to implement measures similar to those mandated by CS3D in the near future, as affected companies are likely to require contractual undertakings from their upstream and downstream business partners as part of their risk mitigation programs.

Beyond CS3D, businesses established in Nigeria or those trading with EU companies will also need to adopt the legal framework and respond to sustainability reporting requirements stated in other policies that apply in specific sectors to promote sustainable business practices.

What are the key obligations and requirements?

The companies in the scope of the Directive must fulfil their obligations of vigilance throughout their supply chain with regard to human rights and the environment.

Companies will be required to take necessary and appropriate measures to prevent, mitigate and remedy them

- Due diligence must be integrated into company policies and management systems.
- Companies must set up an alert procedure and ensure that all actors in the supply chain have access to it.
- Transparent and public information on compliance with the company's monitoring obligations must be provided, including an annual report.
- Affected companies are also required to conduct “meaningful stakeholder engagement” during all phases of risk identification, prioritisation, and implementation of corrective or preventive plans.

The scope of due diligence:

Target companies must ensure compliance with legal requirements not only for themselves and their subsidiaries, but also for their suppliers throughout their value chain, i.e. all activities linked to the production of goods or the provision of services, this concerns all commercial relationships upstream and downstream of their own activities. **This means that the companies concerned must check exactly where the goods supplied come from, how they were produced and what the consequences of this production have been on human rights and the environment. This involves, for example, verifying respect for, among other things, child labor, the situation relating to slavery, labor exploitation, pollution, deforestation, excessive water consumption and damage caused to ecosystems.**

Annex I of the Directive contains a list of specific rights and prohibitions which constitute a negative impact on human rights when misused or violated. The text also specifies the nature of the environmental impacts covered by the directive: this is any measurable degradation of the environment, such as a harmful modification of the soil, water or air pollution, harmful emissions, excessive water consumption or other impacts on natural resources.

Will the requirements be the same in all producing countries?:

Yes, the new requirements will have to be respected by all target companies, regardless of the country where their suppliers are located.

What are the implications for non-compliance?

The Corporate Sustainability Due Diligence Directive (CS3D) is an EU directive that requires companies to adopt a responsible and sustainable approach to their global value

chains. Companies that don't comply with the CS3D could face a number of consequences, including:

- Remedial actions: Companies may be required to take corrective measures within a specified timeframe, either voluntarily or as directed by a supervisory authority.
- Civil liability: Companies may face civil liability if they intentionally or negligently fail to prevent or address adverse impacts that cause damage to individuals or entities protected under national law.
- Penalties: Member states will set penalties that are effective, proportionate, and dissuasive, with a maximum penalty of 5% of the company's net worldwide turnover in the previous financial year.
- Increased compliance costs: Companies that don't comply may face increased compliance costs.
- Reputational harm: Companies that don't comply may also face reputational harm.

What is the date of entry into force of the directive?

The directive was published on July 5, 2024. This will be followed by a process of transposing the new obligations into the rules of each EU member state (usually 2 years). Furthermore, the text approved by the Council provides for a gradual entry into application of between 3 and 5 years from the entry into force of the directive depending on the size of the companies:

a) 3 years later for companies with more than 5,000 employees achieving a net global turnover of more than €1.5 billion (as well as companies from third countries whose turnover in the Union is higher to €1.5 billion)

b) 4 years later for those with more than 3,000 employees achieving a net worldwide turnover of more than €900 million (as well as companies from third countries whose turnover in the Union is greater than €900 million €)

c) 5 years later, for those with more than 1,000 employees achieving a global net turnover of more than €450 million (as well as companies from third countries whose turnover in the Union is greater than €450 M€).

Part 3.

Preparedness and assessment of the potential impact of the CS3D

1. Summary characterization of the value chains concerned

This chapter presents a summary of the characterization of each of the value chains concerned. A detailed characterization of each of the value chains is presented in more detail within the Value Chain (VC) Mapping Report (Vol 1) and EUDR Report (Vol 2). These elements provide the information needed to analyze the state of preparedness and potential impact of each of these sectors regarding the CS3D, which is presented in section 2.

1.1 Cattle Value Chain

Cattle, Sheep, Goats (Hides, Skin and Leather)

Livestock is an important and integral component of Nigeria's agriculture and a major source of household income and food security. According to sources the global population of cattle in 2022 was 1.55 billion with Africa contributing 382 million while Nigeria accounted for 21 million. There were 1.2 billion sheep in the world in the same year and Nigeria produced 50 million sheep, in addition the world's output of goats was 924 million and 88 million was the output for Nigeria³.

Nigerian sheep and goat skins are regarded as amongst the best in the world. Hides and skins from cattle, sheep and goats are the raw materials for producing leather and leather goods in the world. Livestock producers are the source of hides and skins used to produce leather goods for both domestic and export markets. A major issue for the industry is the inadequate supply of good quality skins and this is closely related to the poor state of abattoirs in the North.

Who are the Actors?

Many pastoral herds come into Nigeria across the borders, sell their animals and return home with their proceeds. According to the "2020-2026 Nigeria livestock roadmap for productivity improvement and resilience", only 31% of livestock producers belong to cooperatives or are organised in groups. This poses specific challenges to the ability of public services to provide technical services that could enhance productivity in the sector.

The main cattle association in Nigeria is "Miyetti Allah Cattle Breeders Association", which champions the course of the pastoralists in Nigeria. The association has advocated for the creation of a Livestock Ministry. Other stakeholders include Animal Health and Veterinary Professionals, Livestock Production Extension Agents, and Research and Development Institutions.

Livestock Producers have four different channels to sell their live cattle: directly to households (including corporate firms), live cattle markets, abattoirs, butchers, cattle wholesalers (aggregators), and supermarkets. The role that middlemen play in cattle marketing is a peculiar structure of Nigeria's cattle trade. Most local producers sell to cattle wholesalers (aggregators), who in turn sell to other value chain actors. Therefore, with multiple sources of

³ <https://www.statista.com/statistics/263979/global-cattle-population-since-1990/>
International World Textile Organisation (2022)
<https://www.statista.com/statistics/1297940/stock-of-sheep-in-nigeria/>

supply of cattle, cattle wholesalers hold a powerful position in determining cattle price in Nigeria's value chain.⁴ The involvement of so many intermediaries in the cattle value chain and their power vis-à-vis other actors limit the volume of direct trading between producers and other chain actors, contributing to inefficiencies in the cattle value chain. In the north of the country, livestock importation, exportation, processing and retailing is male dominated, while women engage in limited retailing of meat products, typically in those parts that are not handled by men.

What are the value chain dynamics that impact human rights and the environment?

Drought and desertification in the north of Nigeria have forced pastoralist herdsman to seek grazing lands further south resulting in competition over resources and clashes with settled crop farmers. Farmer-herder conflicts in Nigeria are exacerbated by religious and ethnic divisions, and they result in significant loss of lives and livelihoods and undermine food security. According to information gathered during the field mission⁵, the encroachment of grazing areas and pasture reserves by the desert in northern areas is also causing herders to disregard reforested areas or prune them to provide feed for livestock.

Low productivity and increasing demand for beef, the main sources of domestic animal protein in Nigeria, has resulted in a domestic supply gap, hence the domestic production of beef and cattle hides and skins does not meet domestic demand. Cattle, sheep, goat production for Beef, Hides and Skins are carried out in private or public slaughterhouses where the butchers separate the meat from the hides and skins that are bought by the Local Buying Agents (LBAs). Traditional and industrial tanners are involved in the production of finished and semi-finished leather products which the wholesalers buy and sell to the exporters and also to the producers of finished leather products for the export and domestic markets.

The sector is also one of the more significant employers of labour in the country, with over 750.000 workers in the leather processing sector and about 500.000 workers in the finished leather goods sector. The tanning industry has been known to contribute to environmental impact with high water consumption and waste disposal.

The EUDR study concluded that exports of these products are sporadic and of low value. Exports to the EU are correspondingly negligible, just €25,000 of cattle hides in 2021. Exports of hides and skins from Nigeria to the EU correspond almost entirely to goat and sheep products. Only exporters of these products seem to apply CSR and sustainability strategies.

1.2 Cocoa Value Chain

Nigeria is the **third largest exporter of cocoa in Africa** and **the fourth world's largest producer of raw cocoa beans**. According to the international Cocoa Organisation data 2023-

⁴ Analysis of channel and structure of cattle marketing intermediaries in Mubi Local Government Area of Adamawa State, Nigeria, International Journal of Environment, Agriculture and Biotechnology, 2018

⁵ Ministry of Agriculture (Animal Husbandry Services), Ministry of Environment (Forestry Department), National Agency for the Great Green Walls

2024 Nigeria produced 0.28 million tons. Cote d'Ivoire, Ghana and Nigeria in the West African sub-region had a combined production number at 3.084 million tons⁶

Cocoa farmers in the country are primarily smallholders numbering 300,000 to 350,000 with an average production of 400 to 500 kg per hectare depending on the area, variety, agricultural practices applied, crop density and the age of the cocoa trees. According to the national bureau of statistics, National Agricultural Sample Survey, in terms of farmland under cocoa cultivation Ondo is leading the group with 318,210 hectares followed by Cross River (313,930 hectares) and Osun (216,630 hectares). It is estimated that about 300,000 to 350,000 farmers from 14 states across the country are involved in cocoa production mainly at the subsistence level in dispersed settlements such that harvest is done in small quantities.

Who are the Actors?

The major activities in cocoa value chain include production, processing, marketing and trade. The main actors are small holder Farmers, agricultural inputs and services providers, Local Buying Agents (LBAs), Cooperative Societies, Processors, Exporters, and Local users including manufacturing firms that produce beverages.

The key providers of agricultural inputs and services are the Cocoa Research Institute of Nigeria (CRIN), Ministry of Agriculture, State Agricultural Development Project and Agrochemical Companies. Umbrella Associations include the Cocoa Farmers Association of Nigeria (CFAN) and the Cocoa Association of Nigeria (CAN). These associations belong to networks with international stakeholders such as the International Cocoa Organisation (ICCO) and national stakeholders such as the National Cocoa Management Committee under the auspices of the Federal Ministry of Agriculture and Food Security. The committee was established in August 2022 to facilitate traceability and sustainability in the cocoa value chain through the development of a national framework for the regulation and monitoring of activities in the industry.

Cocoa exporters are the bridge between the producers and the global consumers and manufacturers. Some of them have affiliations with other companies in Europe. The top destinations for Nigerian cocoa are the Netherlands, Italy, Germany, Belgium, and Spain. Notable cocoa exporters in Nigeria include, Olam Nigeria Cocoa, Johnvents Industries Limited, Sucden Nigeria Cocoa, Tulip Cocoa, Starlink Global and Ideal Limited, Olatunde International Limited, DUNE Nigeria Limited, and WACOT Limited. Some of them process cocoa beans into other products for the domestic market. They also provide the producers and the Local Buying Agents with technical support in Good Agricultural Practices and production of traceable and ethically sourced cocoa beans.

What are the value chain dynamics that impact human rights and the environment?

Expansion of cocoa cultivation in Africa is mainly achieved through increase in land area rather than through improving the yield per hectare thus leading to deforestation.

⁶ Source : International Cocoa Organisation Quarterly Bulletin of Cocoa Statistics, Vol 1, No 2 (2023-2024)

Cocoa production and farming often take place in small farms and harvest is done by families or individuals in the communities. According to CAL and AfriLaw reports⁷, across Nigeria, children, teenagers, and adults spend long days working on cocoa farms. Investigations revealed evidence of widespread forced labor, trafficking and poor working conditions in the Nigerian cocoa sector.

Cocoa Farmers are often solely dependent on cocoa for income and are affected by fluctuating market prices and environmental conditions. LBAs play a key role in terms of logistics, accessing remote farms and aggregating production from small plots into commercially feasible lots. As a result, cocoa is not usually transported directly from fields to processing companies. Instead, it goes through several intermediaries to reach the facilities where value it is processed. Transactions and activities throughout the chain are also not monitored or checked to verify standards as decisions based on income and livelihoods take priority over quality.

A key challenge for public and private players in the value chain is getting adequate data on traceability, certification, forest maps, legality and due diligence. The NCMC recognized the need for updating of national forest maps particularly for cocoa producing States in the country to provide data on deforestation and non-deforestation free cocoa and cocoa products. Furthermore, data on the actors and companies in the value chain is not easily accessible which points to a lack of transparency on operations further creating a challenge for risk mapping and identification. The NEPC mainly keeps an online database of exporters, however information is not often updated. Due diligence reporting will nevertheless fall on the target companies in scope.

1.3 Rubber Value Chain

Nigeria is the third largest producer of natural rubber in Africa and the eleventh in the world. Rubber is cultivated on a land area of about 361,396 hectares while the annual output is estimated at 149,396 tons. The tree crop is grown mostly by smallholders on an average farm size of 3 hectares and latex production stands at 1,382 kg per hectare. About 30 million farmers and their families depend on rubber for their livelihood. In 2022, natural rubber export from Nigeria was valued at \$84.5 million and major destinations were Spain, France and Germany. The price of semi-finished natural rubber in the world market is \$1.87 per kg.

Nigeria exports roughly 65% of rubber production. Almost 100% of exports of rubber from Nigeria correspond to non-processed, **natural rubber**. The EU is the largest importer of Nigerian natural rubber and represents around 72% of all rubber exports from the country.

Who are the Actors?

Major actors in the natural rubber value chain are the Rubber farmers, Rubber Tappers, Natural Rubber Producers and Processors. Other stakeholders include National Rubber Producers, Processors and Marketers Association of Nigeria (NARPPMAN) which is the national association that represents the interests of all actors in the value chain and seeks to promote rubber cultivation at the national level. Other actors include the Farm gate off-takers, State Ministry of Agriculture, State Ministry of Environment and Farmers' Cooperatives and Exporters.

⁷ <https://corpaccountabilitylab.org/calblog/2024/1/5/cal-and-afriLaw-document-widespread-forced-labor-in-the-nigerian-cocoa-sector>

About 75% of the small holder farmers are found in Edo, Delta and Akwa-Ibom States in southern parts of Nigeria. About 15% of rubber farmers tap their rubber trees by themselves while an estimated 30% of the farmers also market their produce. The packing, storing, transportation, loading and unloading of the produce are done by the producer or the farm gate marketer and the means of transportation are mainly motorcycles and pick-up vans. The marketing channels are the Farm Gate Marketers or Off-takers, the Wholesalers, the Processors, the Cooperatives, and other farmers.

What are the value chain dynamics that impact human rights and the environment?

Increasing demand for natural rubber in international markets, particularly from Asia and Europe, has driven expansion in production capacities. This could lead to potential loss of land on which to farm for other food crops creating conflicts within communities. In 2022, SOCFIN had to respond to allegations raised by Global Witness on conflicts within communities adding that they run numerous corporate social responsibility programmes aimed at benefiting communities living near the concession⁸.

There is also a risk that rubber production will fall rapidly in the coming years, due to the aging of the trees and the long maturation period required before reaching production age. This will further impact livelihoods as around 62.34% of the total area under rubber cultivation is owned by small farmers, with the remainder made up of large estates owned by multinational companies who usually have their own processing facilities.

Exports of rubber from Nigeria to the EU are led by a few large rubber processors that are owned by EU rubber groups (Rubber Estate Nigeria Limited-Groupe SIFCA/Michelin; Okomu Oil-SOCFIN). Smallholder farmers sell about 98%⁹ of their total production as raw unprocessed rubber lump and in doing so, profit margins are slim. Adding value to natural rubber could generate higher profits. It has been estimated that farmers sell their products to processors (45%), collectors (35%), cooperatives (10%) and local manufacturers (10%).

There is also a weak agricultural extension services to provide training and retraining needed by the farmers and stakeholders. Rubber production is highly technical, from nursery production, plantation establishment, maintenance, exploitation, processing to marketing.

1.4 Wood Value Chain

Nigeria is the 32nd largest producer of wood in the world with 9.7 million m³ of wood in 2022 comprising of 7.6 million m³ of sawlogs and veneer logs, 2.0 million m³ of sawn wood, and 0.1 million cubic metre of wood-based panel. The annual production of wood is 9.7 million m³. Wood export from Nigeria is valued at \$ 14,900 with United Arab Emirates, Niger and Benin Republic as the major destinations. An estimated 5 million farm families and value chain employees depend on wood and wood products for their livelihood.

Who are the Actors?

The actors in the wood value chain in Nigeria include the State Government, Timber Contractors/Concessionaires, Processors and Manufacturers, Timber Wholesalers, Retailers, Domestic Users and Exporters. The State Government, through the Department of Forestry, is

⁸file:///C:/Users/conta/Downloads/SOCFIN_2022_06_03_SocfinFacts_For_Global_Witness_002%20(2).pdf

⁹ AAAE, 2019

the legal owner of forests in its territory and it issues permits for trees to be removed. Concession is also granted to timber contractors and logging companies for the harvesting of trees. Each log harvested is embossed with marks by designated government official to certify that the logs were legally harvested. The timber contractors and concessionaires sell the unprocessed wood to the wood processors and manufacturing companies in the cities.

The processors are the large, medium or small-scale saw-millers and the chain-saw operators who facilitate the logging, processing and distribution of timber wood among their clients. The three marketing outlets for the wholesalers are domestic users, retailers and exporters. The wholesalers mostly sell to the retailers and the wood exporters. The export of certain types of wood from the country has been under suspension for about six years. The Department of Forestry under the Federal Ministry of Environment has issued new policy guideline for production, processing and export of processed wood.

What are the value chain dynamics that impact human rights and the environment?

The very rapid rate of deforestation and desertification in many parts of the country is leading to a wood supply crisis. Timber harvesting is regulated by the Forestry Department of the Federal Ministry of Environment. The department oversees the issuance of logging permits and aims to ensure that logging activities comply with environmental laws and regulations. Companies engaged in timber extraction are required to obtain permits before felling any trees. The Government has also developed regulations to prevent and minimize pollution from all operations and ancillary activities from this Sector in the Nigerian Environment.

Traceability of timber exported from Nigeria could be facilitated by the requirement to obtain previous authorization from the Forestry Department of the Federal Ministry of Environment and the need to precisely identify and map the logging area. However, despite efforts to promote sustainability, Nigeria faces several challenges in forestry management. Illegal logging remains a significant issue driven by high demand for timber and agricultural expansion. Enforcement of forestry laws and regulations poses another challenge. Limited resources and capacity make effective monitoring and control of logging activities difficult, allowing illegal practices to persist. Weak governance and corruption further complicate efforts to combat deforestation and promote sustainable land management.

Other risks identified include, trade and transport risks (e.g false document declarations) and processing risks which include companies who operate without legal registration of business and hire workers illegally thus putting health and safety of workers at risk. A review of the Forests Product Society (FPS)¹⁰ journal published an 'Assessment of Operational Standards for Wood Processing in Selected Sawmills in Oyo State, Nigeria' where most of the respondents (93.7%) agreed that guidelines for log processing exist, however the main requirements for sawmilling operations are sawmill certification and use of Hoppus Measurement Book (HMB) which is a measuring guide book. The CS3D will put more focus on the social and human rights impacts of this value chain.

¹⁰

<https://www.ffps.org.ng/journal/?title=Assessment%20of%20Operational%20Standards%20for%20Wood%20Processing%20in%20Selected%20Sawmills%20in%20Oyo%20State,%20Nigeria>

2. Preparedness of actors in the value chains

As mentioned in the methodology, the assessment of the state of preparedness of the stakeholders to the future implementation of the CS3D refers to the ability of actors in each value chain to comply with the requirements of the CS3D. The assessment considers the CSR state of play and operating environment in Nigeria (6.1), the policy and legal framework for environmental standards and protection (6.2), as well for human rights (6.3). It includes sustainable initiatives and practices of a few companies (6.4). It finally also takes into account the structural characteristics of each chain previously explained (see section 5). All these factors may facilitate or hinder the adaptation of supply chain players to the conditions of the corresponding due diligence system.

2.1 Corporate Social Responsibility in Nigeria – State of play

In 2008, the legislative arm of Government proposed a **CSR Bill** with an Act to establish a CSR Commission. According to the draft bill text¹¹ key functions were to create a standard for social responsibility of corporate organizations consistent with international standards; implement social and environmental regulation and labour standards consistent with international conventions. It included responsibility and accountability measures for compliance, reporting and monitoring as well as identifying fines not less than 2% of its gross annual profit and on subsequent violation to a fine of not less than 3.5% of its annual gross profit for committing an offence and subsequent violation by companies.

A second attempt to pass the Bill in the national assembly was also challenged in 2016. According to the Business Day media reports¹² the Bill was challenged by the Organised Private Sector (OPS) stakeholders as not taking into consideration the additional costs to businesses in the case of punitive fines while the business environment was still fraught with infrastructural challenges. During the 2nd reading the OPS further resisted the passage of the Bill which would compel companies in Nigeria to pay 1% of gross profits to fund projects under Corporate Social Responsibility (CSR). Under the arrangement, the bill was to give additional power to the Corporate Affairs Commission (CAC) – primarily responsible for registering of companies and various entities in Nigeria, to ensure compliance.

Representative of the International Network for CSR (INCSR), who gave his opinion on the challenges of the previous Bills mentioned the poor interpretation and articulation of CSR by stakeholders and the government perception of it as being an avenue for double taxation rather than a risk management process. This has resulted in **2 failed attempts to get a CSR policy Bill in Nigeria. A recent study**¹³ uncovered the potential causes of **CSR discrepancies in Nigeria, CSR obligations and their actual implementation**. The study revealed factors responsible for

¹¹ An Act to Provide for the Establishment of the Corporate Social Responsibility Commission, 2007

¹² <https://businessday.ng/analysis/article/the-csr-bill-and-doing-business-in-nigeria/#:~:text=In%202008%2C%20the%20late%20Senator,a%20supervisory%20body%20that%20wouldh>

¹³ https://mpr.ub.uni-muenchen.de/121668/1/MPRA_paper_121668.pdf

the discrepancy of CSR in Nigeria, such as ineffective stakeholder involvement, consumer attitude, inadequate resources, poor frameworks, and lack of consistent reporting.

There is currently **no specific or dedicated regulatory authority or regulation of CSR in Nigeria.**

However, An Act to regulate CSR has recently been picked up by the House of Representatives committee on corporate social responsibility. Stakeholders have provided divergent views on this Bill during a committee public hearing in June 2024. The Committee Chair in media interviews¹⁴ has been very vocal about the importance of such a Bill and the likely impact for the communities and individuals in which these companies operate in.

A review of the draft Bill for an Act to Regulate Corporate Social Responsibility in Nigeria and for Related Matters 2023 (sponsored by Hon Olumide Osoba) highlights the following key objectives.

- To mandate and regulate CSR in Nigeria
- To integrate long term economic, social and environmental and social aspects in business strategies while maintaining global competitiveness and brand reputation
- To meet social shareholder demands for sound financial returns
- To foster loyalty by investing in customer relationship management
- To set the highest standards of corporate governance and stakeholder engagement, including corporate codes of conduct and reporting
- To manage human resources to maintain workforce capabilities and employee satisfaction

According to the Draft Bill a dedicated Department will be established under the Federal Ministry of Budget and National Planning to implement the Bill. The activities of this Department will be to promote CSR, coordinate with relevant agencies, undertake education and awareness in communities, provide grants to support research in CSR, undertake CSR reporting, provide advice to the Minister as well as cooperating with other organisations and governments on CSR in Nigeria. The Department will also perform a Monitoring and compliance function to ensure companies adhere to established guidelines.

The Draft Bill goes further to mention the following;

- CSR Bill is applicable to Companies with a net worth of Five Hundred Million Naira or more, or turnover of Five Hundred Million Naira or more or a net profit of One Hundred Million Naira or more during any financial year.
- A constituted Board of the company will ensure that the company spends, in every financial year at least 5% of the average net profits of the company made during the three immediately preceding financial years in pursuant of its CSR activities.

The House of Representatives has undertaken consultations on the Bill with some key stakeholders. However, in terms of determining the outcome and passage of the Bill this still remains unknown as there are still some contending issues, such as the overlap with existing Sustainability regulations. A few of the stakeholders interviewed were even not aware of the current bill. The Financial Reporting Council of Nigeria (FRCN) which has a mandate to institutionalise and monitor corporate governance best practises within the Financial Sector stated that the mandate in the CSR Bill is already covered in their corporate governance sector codes and the introduction of the Bill will further create another bureaucratic step for businesses

¹⁴ [Reps To Sanction Companies Violating Corporate Social Responsibility Laws \(leadership.ng\)](https://www.leadership.ng/news/14-reps-to-sanction-companies-violating-corporate-social-responsibility-laws)

to navigate including being supervised by another regulatory authority such as the Corporate Affairs Commission (CAC).

2.1.1 Corporate Governance Codes

The Presidential Enabling Business Environment Council (PEBEC) in improving the investment climate and business environment in Nigeria sought to introduce reforms for regulation of corporate entities. The Companies and Allied Matters Act (CAMA) 2020, is the primary law regulating companies in Nigeria, the CAMA Act fall under the CAC Act which was re-enacted in 2020. The Act introduced measures to ensure efficiency in the registration and regulation of corporate vehicles and, overall, promote a more friendly business climate (KPMG report 2020)¹⁵. Despite these regulatory efforts, and according to reports the CAMA Act 2020 failed to introduce measures that address regulatory requirements for foreign businesses who operate in Nigeria and to specifically take into cognisance the environmental and social impact of their business activities which is becoming more important in the global and national business landscape.

The Nigerian Code of Corporate Governance (NCCG) 2018 is an initiative of the Central Bank of Nigeria (CBN). It falls under the Federal Ministry of Industry Trade and Investment and mandates the Financial Reporting Council of Nigeria (FRCN)¹⁶ to institutionalise corporate governance best practices in Nigerian companies. The NCCG applies to public companies, private companies which are holding companies of public companies, concessioned or privatised companies, and regulated private companies.

The implementation of the sector codes is monitored by the FRCN through sectoral regulators. In response to challenges in their respective sectors, several industry regulators have also developed corporate governance codes for companies operating in their sectors e.g Telecommunications, Finance, Insurance, Securities and Exchange Commission (SEC), and Pensions. When interviewed, FRCN confirmed that there was **no specific trade and agriculture sector corporate governance code**. The Code consists of twenty-eight (28) principles together

‘Paying adequate attention to sustainability issues including environment, social, occupational and community health and safety ensures successful long term business performance and projects the Company as a responsible corporate citizen contributing to economic development’.

with practices recommended by the Code for the implementation of each principle.

Principle 26 focuses on Sustainability:

The FRCN guidelines on sustainability complements existing requirements of the NCCG and the SEC Guidelines on Corporate Governance i.e guidelines on sustainable financial principles for the capital market. Although the principles in the guidelines targets sustainability finance however there is a preferred benchmark on which their ESG practices must target to ensure a sustainable

¹⁵ The sea is history – the Companies and Allied Matters Act, 2020 aspires to optimize corporate regulation in Nigeria, KPMG August 2020

¹⁶ Nigerian Code of Corporate Governance 2018

economy. The SEC guidelines and approach are principles based and therefore do not prescribe specific implementation requirements.

A report of ESG trends in Nigeria¹⁷ recognised that ‘as part of the efforts to promote ESG considerations at the board level, CAMA provides that directors have a fundamental responsibility to consider the impacts of their operations on the environment’. The report also sets out the fulfilment of the objectives of the **International Sustainability Standards Board Global Sustainability Disclosure Standards** which requires companies to report on sustainability using a global baseline sustainability disclosure. The first standard is on General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1), while the second is on Climate-related Disclosures (IFRS S2). Both of these standards are adopted by the Financial Reporting Council of Nigeria (FRCN).

The IFRS S1 on general sustainability disclosures seeks to ensure that companies make disclosures on their sustainability-related risks and opportunities (SRROs), which are fundamental towards influencing the decision of investors and other key stakeholders to provide resources to such companies. IFRS S1 covers four key areas: governance, strategy, risk management, and metrics and targets.

- IFRS S1

IFRS S2 covers disclosures on both climate-related physical and transition risks, as well as climate-related opportunities available to an entity. IFRS S2 covers four key areas: governance, strategy, risk management, and metrics and targets.

- IFRS S2: (i) Utilisation of scenario analysis; ii) Disclosures on Scope 1, Scope 2 and Scope 3 Greenhouse Gas Emissions

IFRS S2 covers certain elements of disclosures on both climate-related physical and transition risks, as well as climate-related opportunities available to an entity. In a nutshell, the Corporate Governance perspective in Nigeria is that the company boards are to develop policies towards promoting sustainability and ensuring their implementation and compliance in line with global best practise.

An advocacy business and consulting organisation in Nigeria, CSR in Action collaborates with businesses (national and international) to conduct research, generate valuable insights, and facilitate the development of socially and environmentally acceptable solutions. The CSR in Action noted that most of the corporate governance codes and CSR practises are voluntary and further recognised the importance of the IFRS S1 and S2. The organisation suggested the potential for the CS3D to establish areas of alignment for improved due diligence. CSR in action developed a database tool which is the **Corporate Sustainable Investor Report (CSIR)**. The CSIR, formerly known as the Collective Social Investment Report was developed in 2013. This high-quality data bank showcases the social investment activities of various organisations and serves as a comprehensive compendium covering all sustainability activities in Nigeria annually. The CSIR is modelled after international sustainable investment reports and aims to include indigenous businesses, multinationals, governments, and multilateral partnerships. Over the years, the CSIR has established itself as the first widely disseminated and inclusive report of its

¹⁷ Global Practise Chambers – ESG 2023

kind in Nigeria, capturing the full spectrum of sustainability efforts across diverse sectors. The last report publicised was in 2020¹⁸.

Although stakeholders like CSR in Action anticipate the implementation of the CS3D, there was a sense of ensuring its complete alignment with national efforts to address the challenge of environmental protection and human rights violation in the country particularly in light of the current vulnerable economy. Nigeria's Export Promotion Council (NEPC) estimates that more than 60% of Nigeria's cocoa heads to Europe and they have a database of Nigerian companies exporting the value chains to Europe. The agency mentioned that CSR is not covered by a legal framework or existing regulation in Nigeria, however the CS3D directive will have a significant impact on stakeholders and the economy. Stakeholder views was that there was need to support private companies specifically Nigerian companies operating in the value chain to help them to comply and prepare for the EU Directives as they are not yet prepared.

2.2. Environmental standards and protection in Nigeria - state of play

2.2.1 Legal framework

The Constitution of the Federal Republic of Nigeria specifically makes environmental protection a state objective and provides for it in the Chapter 2 on Fundamental Objectives and Directive Principle of State Policy. Its Section 20 expressly contains provision on environmental protection and states that **“the state shall protect and improve the environment and safeguard the water, air, land, forest and wildlife in Nigeria”**. Nigeria has drafted several policies and developed legal frameworks to regulate companies' practices in order to limit the negative effects they may have on the environment.

The passage of the Climate Change Act (CCA) 2021 and the Petroleum Industry Act (PIA) 2021 introduced notable environmental and sustainability obligations on enterprises towards Nigeria's energy transition drive. Beyond the CCA and PIA, the Energy Transition Plan (ETP) 2022 was created as a strategic blueprint and roadmap towards attaining net-zero emissions by 2060¹⁹.

A list of **environmental regulatory frameworks** including the policies and action plans are presented below.

- National Climate Change Policy for Nigeria 2021-2030
- The Petroleum Industry Act 2021
- National Biodiversity Strategy and Action Plan (NBSAP) 2016;
- National Policy on Environment 2016;
- National Forest Policy (NFP) 2010;
- Nigeria Agricultural Policy 2001;
- Environmental Impact Assessment Act 1992.
- National Environmental Standards and Regulations Enforcement Agency Act 2007

The National Environmental Standards and Regulations Enforcement Agency (NESREA)²⁰ has developed and published specific sector environmental regulations which include;

- National Environmental (Food, Beverages and Tobacco Sector) Regulations, 2023.

¹⁸ <https://www.csr-in-action.com/csir/our-reports/2020-report/>

¹⁹ Global Practise Chambers – ESG 2023

²⁰ <https://www.nesrea.gov.ng/publications-downloads/laws-regulations/>

- National Environmental (Control of Charcoal Production and Export) Regulations, S. I. No 62, 2014.
- National Environmental (Pulp and Paper, Wood and Wood Products) Regulations, S. I. No 34, 2013.
- National Environmental (Mining and Processing of Coal, Ores and Industrial Minerals) Regulations, S. I. No. 31, 2009.g

Nigeria has adopted a number of policies and legal frameworks for protecting the environment, some of these laws have been reviewed and updated, a few of them still needs to be updated. For example, the Environmental Impact Assessment Act (EIA) Act 1992 is ongoing review and is at the stage to be passed by the national assembly. According to the Environmental Impact Assessment agency (EIA), the revised act will consider CSR as part of its conditions for approval and reporting.

Environmental impact monitoring and compliance by regulatory agencies are rarely undertaken. Organisations such as the EIA agency consider CSR as voluntary activities, and such companies provide information on a voluntary basis. For monitoring and compliance purposes the EIA Division interphases with the private sector e.g oil & gas, mining, manufacturing companies, agri businesses and exporters at the pre-operational and operational phases which they would consider issues such as erosion control, flood and forestry.

The EIA agency however noted that multinational companies adhere to the environmental impact assessment regulations compared to Nigerian companies. A key challenge they noted is the absence of funding for agencies to undertake monitoring and enforcement activities and the timing which to engage companies operational activities. The agency confirmed that enforcement and fines are not well implemented. Penalties are not worth much to the companies and the 2% mandatory payments are kept for ecological funds which are paid into the federal accounts. The only option they would have is to withdraw the company licenses which is not encouraged or often considered. Environmental permits and certificates are issued by NESREA²¹ and EIA.

Non-Government stakeholders interviewed further confirmed that the major culprits for non-compliance are the companies operating in the mining sector and food & beverage sector. According to the EIA agency, NESREA was created for enforcement and has a complaint mechanism on its website for the public to report an environmental violation. A visit to the website displayed reported scenes from mining company operations that had been shut down by the agency and the Nigerian Police force for contaminating water sources in the communities.

²¹ [NESREA Official Website | Permits](#)

In addressing environmental and sustainability issues such as deforestation several federal agencies, state governments and international organisations are implementing some initiatives²²

Federal Ministry of Environment's Departments of Forestry and Pollution and the Climate Change Department within the Ministry of Environment implemented the National Afforestation Programme – As part of the First Green Bond Project, The Nigerian government launched tree planting and reforestation programs to combat deforestation and increase forest cover.

The Forest Carbon Partnership Facility (FCPF) and Nigeria's World Bank REDD+ which stands for countries' efforts to reduce emissions from deforestation and forest degradation, and foster conservation, sustainable management of forests, and enhancement of forest carbon stocks. Assessment of the 2022 Readiness package identifies four broad strategy options to enable Nigeria to achieve the objectives of the National REDD+ Strategy. These options focus on REDD+ activities to address drivers of deforestation, improve forest and climate change governance, attract incentives, and enable equitable access to benefit and grievance redress.

Ondo State - Rainforest Alliance Certification in the cocoa value chain. RA entails a rigorous standard that promotes environmental conservation, fair labour practices, traceability and high-quality crop production. With a targeted approach, the project's initial phase extends its reach from 500 to 1,000 cocoa farmers in Ondo state.

Cross-River State Government – Traceability and Resilience in Agriculture and Cocoa Ecosystems of Nigeria TRACE Project 2022 – 2027: The State Government will partner with the TRACE project in partnership with the US Department of Agriculture and Lutheran World Relief for technical backstopping on deforestation, corporate sustainability and due diligence.

Edo State Government - The Sustainable Development Initiative (IDH) is working with the State Government and private companies (Okomu Oil) in the Oil Palm value chains – certification scheme including supporting small holder farmers to work according to standards for their plantations. Edo state government and IDH developed the landscape approach where an agreement was established with oil palm investors to ensure that they are certified (deforestation free). IDH has also partnered with private companies to support small holder farmers in the cocoa value chains.

The European Fund for Sustainable Development Plus (EFSD+) is one of the financing tools of Global Gateway, promoting sustainable investments in the European Union's (EU) partner countries. The €13 billion EFSD+ Open Architecture Guarantees allow investors to finance projects in more challenging markets by assuming the risks of more unstable environments while avoiding market distortions. [European Fund for Sustainable Development Plus - European Commission \(europa.eu\)](https://european-council.europa.eu/media/en/press-room/pages/press-detail.aspx?id=12345)

²² https://www.pdfnigeria.org/rc/wp-content/uploads/2020/01/P3387_PDFII_stories_of_change_GREEN_BONDS_PRINT_WEB.pdf
https://www.forestcarbonpartnership.org/system/files/documents/nigerias_redd_readiness_package_fin_al_0.pdf <https://lwr.org/technical-resources/usda-food-progress-trace-project-overview>

and collaborating with relevant stakeholder to promote sustainable practices and low-carbon technologies as well as providing access to finance for small to medium businesses.

The World Bank Nigeria REDD+ Readiness and the World Bank Forest Carbon Partnership Facility (FCPF) which was launched in 2008 as a global initiative designed to support developing countries to minimize their rates of deforestation estimates that Nigeria's forest cover (currently estimated to be around 9.6 million ha) has dramatically declined in recent decades, driven primarily by agricultural development, fuelwood demand, uncontrolled forest harvesting and urbanization.

The Nigerian Conservation Foundation (NCF), in addressing deforestation NCF collaborates with the Ministry of Environment. Nigeria's approach has been afforestation and companies contribute to afforestation activities. The foundation established a stakeholder working group to develop a guideline document for companies in export businesses. NCF has also provided a roadmap to ensure they follow the concept of sustainability, and they expect companies will abide with the rules and regulations. The objective of the roadmap and guideline document is to review the activities of the companies and to build partnerships to ensure implementation of guidelines. They however noted the need to be careful with these partnerships, so they don't hinder compliance.

With regards to other actors in the studied value chains, such as **farmers and producers**, conservation is not often perceived as important especially when people are subject to hunger. NCF spends a lot of its time engaging and educating farmers to be mindful of the environment. To promote good agricultural practices, they encourage farmers to undertake selected felling of trees and allow others to exist. In encouraging dialogue mechanisms, NCF approach entails using local people to conserve biodiversity i.e establishing site support groups to work with resource users in communities. If there is a challenge, they will inform NCF to address challenges.

Even with awareness and education, NCF confirmed that there are private companies and individuals still violating environmental laws and this is still persistent despite the implementation of environmental protections programmes. NCF also mentioned that in 2020 3 million trees were planted and these included indigenous species. They discovered that some stakeholders encroach and establish farmlands in the areas where the trees were planted. There is still the practise of the movement of animals for grazing as well as private sector real estate companies clearing spaces to build houses, schools etc.

Other initiatives identified by relevant **non-government stakeholders** include the (i) Nigeria Agency for the Great Green Wall an initiative which was established in 2013 to conserve Nigeria ecosystem improving Nigeria forest cover due to the persistent drought in Northern Nigeria; (ii) NCF project conserving species that have been exploitative and animal and plants that are endangered due to illegal exports. According to NCF, harvest and wildlife laws are old and obsolete, and compensation or fines are meaningless to these companies e.g compensation or fine is N5 for an elephant; (iii) NESG stakeholder advocacy projects on climate change. The NESG Sustainability commission mentioned that there is scope to make more improvements in advocacy and dialogue particularly as there are perceived apprehension of stakeholders on meeting the climate carbon targets.

From a **CS3D perspective**, the Directive presents some challenges for large companies. CS3D requires that target firms verify that there are no environmental or social negative impacts across their value chains (and beyond, to include business relationships). This creates a challenge for

target firms to identify all actors, obtain information, assess information, and make fact-based decisions. Some reports say that it may be easier for target firms to leave countries and sectors that are perceived as too risky.

Furthermore, as global demand for cocoa grows, companies and their subsidiaries will increase their production and processing activities along the value chains which may pose further risks for companies as farmers may likely harvest cocoa beans in conservation areas (where that work is banned). The Cocoa Farmers Associations of Nigeria President described current sentiments of farmers who are already impoverished as a challenge and that they currently lack sufficient information that will enable them to comply to the directive. The CFAN rightly acknowledged that there has been public and private partnerships and engagement with cocoa farmers which cover education, training and capacity building, however attention should also be paid to providing incentives to those in the value chains already adhering to environmental standards. The Government in partnership with state Government could look at value addition strategies of cocoa to ensure sustainability, innovative technologies in agriculture and support farming diversification. CFAN further mentioned that even though the price of cocoa had increased, this did not translate to improved living wage or income for farmers as farmers need to plant climate tolerant varieties of cocoa beans in order to harvest good quantity – out of 500 seedlings planted only 100 survive.

2.3. Human rights - state of play

2.3.1 Legal framework

The UN Declaration on Human Rights prohibits arbitrary deprivation of life; torture, cruel or degrading treatment or punishment; slavery and forced labour; arbitrary arrest or detention; arbitrary interference with privacy; war propaganda; discrimination; and advocacy of racial or religious hatred²³. **The Federal Government of Nigeria** (FGN) in addressing human rights violations has taken up relevant actions and made progress in ratifying the UN conventions²⁴.

Nigeria **has ratified several UN Conventions** including the

- International Covenant on Economic, Social and Cultural Rights
- Convention on the Elimination of All Forms of Discrimination against Women
- Convention on the Rights of the Child

Nigeria's reporting compliance to the human rights treaty bodies in 2019 was just 9%²⁵. Nigeria's human rights record will be examined by the United Nations Human Rights Council's²⁶ Universal Periodic Review (UPR) Working Group in November 2024²⁷

²³ [https://www.un.org/en/global-issues/human](https://www.un.org/en/global-issues/human-rights#:~:text=It%20prohibits%20arbitrary%20deprivation%20of,of%20racial%20or%20religious%20hated)

rights#:~:text=It%20prohibits%20arbitrary%20deprivation%20of,of%20racial%20or%20religious%20hated

²⁴ <https://indicators.ohchr.org/>

²⁵ <https://www.ohchr.org/en/instruments-and-mechanisms/human-rights-indicators>

²⁶ The Human Rights Council is an intergovernmental body within the United Nations system responsible for the promotion and protection of all human rights around the globe. It has the ability to discuss all thematic human rights issues and situations that require its attention throughout the year.

²⁷ . Nigeria's human rights record to be examined by Universal Periodic Review | OHCHR

Analysis of previous national review reports however suggest that Nigeria has made significant progress in promoting and protecting human rights, demonstrating its commitment and effective implementation to relevant recommendations made by the council in order to improve living conditions and achieve sustainable development in the country. For example, previous reports highlighted that **“All 12 Muslim-dominated Northern Nigerian states have passed the Child Rights Bill, with governors assenting”** which is a positive achievement for Nigeria. **Nigeria has also developed relevant policies to support women empowerment at state levels, some states, like Rivers, Cross Rivers, and Akwa-Ibom, have enacted legislation to provide for women's right to inheritance of land.** The reports further noted that asides from litigation **Nigeria has set up frameworks for its regulatory agencies such as the consumer protection agencies and Corporate Affairs Commission to establish consumer redress and complaints mechanisms** against companies and that they are capable of being redressed administratively.

The previous national periodic reports having praised some of the country’s human efforts also reiterated the need for further actions in areas such as **adopting a national plan for implementing the United Nations Guiding Principles on Business and Human Rights (UNGPs)** ²⁸ and intensify efforts to eradicate impunity and align national legislation with international obligations. Additionally, Nigeria was advised to invite Special Rapporteurs on human rights defenders and the environment, including the Niger Delta.

The UN Human rights council UPR reports noted the issue of Nigeria’s constitutional bottleneck and has made recommendations requiring amendment of the Nigerian Constitution which takes longer for laws to be amended. A special majority of the two houses of the National Assembly and of two thirds of the States’ Houses of Assembly are required to amend any provision of the Nigerian Constitution. The report also noted that Nigeria’s application of Federalism also hampers implementation and domestication at State levels where customary and religious practises are prevalent. In addition, the insecurity in Nigeria has spread across all regions making it difficult for monitoring and observance of human rights violations.

There are legislation and regulations in Nigeria to rein in companies from impunities that affect the rights of their employees, consumers and host communities. According to Global Rights, the impact of activities of companies, particularly in the extractive industry, on the infringement of **human rights in Nigeria is of great concern to the FGN.**

The National Human Rights Commission reviewed its National Action Plan on Human Rights 2024 -2028²⁹. The Nigerian National Action Plan (NAP) is an integrated and systematic national strategy to help realize the advancement of human rights in Nigeria. The action plan covers Civil and Political rights, Economic, Social and Cultural rights, the right to Peace, Protected Environment and Sustainable Development, the rights of Women and Children, other areas of rights which includes Business and Human Rights. The recent NAP document noted that the first NAP had left out emerging areas of challenge which have now been incorporated as cross cutting issues in all sections. Specifically, the Business and Human Rights has been captured as a separate chapter to conform to the format prescribed by the United Nations Working Group on Business and Human Rights (UNWGBHR) for the development of a NAP on Business and Human Rights. This is a positive progress for Nigeria in implementing the NAP.

²⁸ [Guiding Principles on Business and Human Rights : \(un.org\)](https://www.un.org/development/dp/dp2/en/guiding-principles-on-business-and-human-rights)

²⁹ <https://globalnaps.org/wp-content/uploads/2024/02/NAP-Nigeria-2024-2028-English.pdf>

The commission partnered with relevant CSOs, NGOs such as Global Rights to develop the national action plan on Business and Human rights from 2016-2017. According to Global Rights an international non-governmental organization dedicated to the promotion and protection of human rights, the organisation stated that the guiding principles on Business and Human Rights sets out how each sector interprets their role such as the Government responsibility to ensure adherence to the principles, the need for businesses to respect the principles and conduct due diligence, while CSOs are to monitor compliance and seek remedial actions for violations including judicial and non-judicial channels.

Non-Government stakeholders also reported that Civil Society engagement with companies is often hampered by distrust especially in the oil and gas and extractive sectors, there is the lack of a strong independent voice, disunity and weak non-government organisations who may eventually compromise their standards. There is the challenge with CSO organisations inability to maintain an oversight of the relevant laws and the existing gaps in laws as well as challenges relating to enforcement. CSO Stakeholders interviewed further discussed the worsening economy (high inflation) and cost of living resulting in high poverty levels. INCSR mentioned cases becoming rampant with foreign employers taking advantage of their employees and are seen to exploit their labour, sexual harassment of women and poor working conditions. Cases reported to police are often not addressed or swept under the carpet as the companies are able to bribe the police. Individual cases are brought to the media by human rights activists or organisations for public awareness and sensitisation.

Organisations such as Global Rights and NESG engage and coordinate with the public, private sector and CSO actors, however when it comes to CSR advocacy and ensuring compliance there are a plethora of businesses they will need to map and collect data. These organisations are also not able to maintain relevant technical expertise to implement programmes efficiently. For example, NESG policy commission are supported by a large group of volunteers to implement their national events. The NHRC mentioned that it has had to rely on government funding and other sources of income which is not sufficient to tackle most of these human rights challenges. The Executive Secretary noted the importance of international partnerships and collaboration with the public sector as crucial.

The **Federal Ministry of Agriculture and Food Security (FMAFS)** in partnership with the **International Labour Organisation (ILO)** Nigeria are collaborating on projects (The ACCEL Africa Project³⁰) towards eliminating **child labour in the cocoa and mining sectors** as well as implementing innovative strategies to enhance access to social protection and occupational safety and health in Ondo State³¹.

From a CS3D perspective, we acknowledge that companies trading in the value chains will need to verify that the goods they sell in the EU haven't led to any human rights violations and must ensure they mitigate against any adverse impacts.

The CFAN commended the activities of organisations such as the **Rainforest Alliance and Lutheran World Relief** in supporting farmers to address human rights violations in cocoa farming communities. The President noted that the remediation steps for the young children was necessary. Cocoa farming practises have been known to involve young children and there have

³⁰ <https://www.ilo.org/projects-and-partnerships/projects/accelerating-action-elimination-child-labour-supply-chains-africa-accel>

³¹ <https://www.ilo.org/resource/article/unveiling-next-chapter-child-labour-elimination-ilos-accel-africa-project>

been reports by human rights activists of farmers' homes lacking running water and toilets, forcing women and children to collect water from narrow streams to use while the men work. Rainforest Alliance Certification Programme 2020 uses its 'assess and address' approach to tackling child labor, forced labor, discrimination, and workplace violence and harassment in agriculture. According to the policy which aligns with international guiding principles, the risk-based approach focuses on prevention, engagement, improvement, and incentivizing farms and companies to tackle these issues rather than hiding them.

On the other hand, the **wood-processing industry** is characterized by outdated technology, poor recovery and inefficiency. It is a male dominated industry with a significant gender gap, the challenge with regards to human rights will be to ensure gender equality and addressing barriers to opportunities for women in the wood value chain. The **Cattle (leather) value chain** is also male dominated, and exports are made informally. Traceability and tracking for risk planning and mitigation will be a challenge for companies. Aba, Lagos, Onitsha and Kano are leading leather hubs in Nigeria while Kano leads in leather tanning. Another challenge with the **Rubber value chains** are disputes over land and resources which has caused some tensions in communities such as Okomu in Edo State.

The Lagos Chamber of Commerce and Industry (LCCI) is a business membership organisation comprising of 27 Sectoral groups (Agriculture, Export, Trade, Oil & Gas) and the association confirmed that business code of conducts are developed by companies to adhere to social rights, health and safety at work. The association mentioned that Health, Safety and Environment (HSE) Commitment and Policy documents are developed for management to adhere to global standards.

According to the International Labour Organization (ILO), Nigeria's legal framework for labour and employment consists of the Trade Unions Act, amended by Trade Union (Amendment) Act 17 of 20; the Labour Act (Cap L1 LFN 2004 and the Trade Disputes Act [as amended through 1989]. The Nigerian Labour code prohibits discrimination in the workplace and requires equal pay for equal work without discrimination. In 2022 (ILO) and the Nigeria Employers Consultative Association (NECA) unveiled a Child Labour Guidance Tool for Businesses in Nigeria, under the framework of the Dutch Government funded ACCEL Africa Project. The ILO reported that "**Currently, Nigeria's Labour Act (1990) recognizes the minimum age for employment as 16, with a proposal in the Labour Standard Bill under review, recommending age 15 as a new benchmark**"³².

Addressing the root cause of human rights violations will require a strategic approach backed by political commitment. Stakeholders' views is that with the implementation of the CS3D, businesses will take the promotion and protection of human rights more seriously.

2.4 Assessment and level of preparedness for the CS3D

Large Companies operating in Nigeria have recognised the importance of CSR as part of their social impact and sustainability practises. These vary from philanthropic activities, community engagement, public relation campaigns, corporate sustainability reporting and self-regulation.

In recent years, Environmental sustainability continues to drive corporate governance conversations amongst Nigerian enterprises, especially considering Nigeria's classification

³² <https://www.ilo.org/resource/news/ilo-and-neca-launch-child-labour-guidance-tool-businesses-nigeria#:~:text=ILO%20and%20NECA%20Launch%20Child,in%20Nigeria%20%7C%20International%20Labour%20Organization>

amongst the ten most vulnerable countries to the adverse impacts of climate change by the World Climate Change Vulnerability Index and recent ranking as 168 of 180 countries in the Environment Performance Index 2022. Beyond voluntary corporate action, regulatory trends have evolved, obligating corporate enterprises to address environmental degradation concerns and take active steps towards carbon emissions reduction and climate change mitigation and adaptation actions³³.

During the mission, the consultant captured various **CSR initiatives of large companies** from company websites, annual sustainability reports, and CSR Survey reports which evidenced the various initiatives and interventions undertaken at the national level that might facilitate the future CS3D implementation.

Commercium Africa undertook a **survey of Dutch Companies in Nigeria** which reviewed the Netherlands and its Business impact in Nigeria³⁴. The report indicated that 74% of Dutch businesses were implementing voluntary CSR initiatives. Education and training were the most popular initiative followed by initiatives aimed at youth empowerment and the livelihoods of Nigerians. The Dutch companies are active in 18 business sectors and Agriculture was the highest business sector at 14%, Mining and Construction were the least active sector at only 1%.

EuroCham Nigeria has 56 corporate members. Membership is open to:

- any company having its headquarters in a European country (EU Member States)
- or any legal entity whose majority of the capital is owned by a citizen of a European country,
- or any company whose business is essentially dependent on trade between Europe and Nigeria.

More than half of the Eurocham members are large companies and fall within the scope of the CS3D (see Table 1). On the one hand, it should be noted that these companies cover sectors such as Energy, Oil and Gas, Transport, Food and Beverages, Construction, Financial Services, Engineering, Technology etc. Sectors identified as a challenge in the report with regards to human rights are mainly in the Mining and extractive industries. Concerning the Agriculture sector there is only one company identified in the sector and focus is on Oil Palm value chain which is not considered as part of the studied value chains.

Table 1: The table below provides a list of the large EU companies established in Nigeria (***based on the review of their turnover and number of employees**) .

EU Multinational Companies in Nigeria		
Company	Sector	Country
AIR FRANCE-KLM	Transportation	France
ALLIANZ	Financial Services	Munich, Germany
AMADEUS	Technology, Travel & Tourism	Madrid, Spain
APM TERMINALS	Transportation & Logistics	Hague, Netherlands

³³ Chambers Global Practise Guides – ESG 2023

³⁴ The Netherlands and its Business Impact in Nigeria – survey of Dutch companies in Nigeria, June 2024

ARLA FOODS	Food & Beverages	Viby, Denmark
ASSECO SOFTWARE NIGERIA	Information Technology	Poland
AXA MANSARD	Financial Services	France
BASF WEST AFRICA	Chemical	Germany
CFAO	Automotive, Healthcare	Paris, France
CMA-CGM	Transportation & Logistics	France
COMMERZBANK	Financial Services	Frankfurt, Germany
DEUTSCHE BANK	Financial Services	Frankfurt, Germany
DSM NUTRITIONAL PRODUCTS NIGERIA LTD	Health, Nutrition & Bioscience	Heerlen, Netherlands
DANONE	Food & Beverages	Paris, France
FRIESLAND CAMPINA WAMCO	Food And Beverages	Amersfoort, Netherlands
GRIMALDI-PTML	Shipping & Logistics	Italy
LAFARGE NIGERIA	Construction	Switzerland
LAYHER	Construction	Germany
NIGERIAN BREWERIES	Beverages	Netherlands
NIGERITE (ETEX)	Building Materials	Belgium
NOKIA SOLUTIONS & NETWORKS NIGERIA	Telecommunication	Finland
ORIFLAME COSMETICS	Beauty And Care	Stockholm, Sweden
PERNOD-RICARD	Alcoholic Beverages	Paris, France
PRESCO (SIAT GROUP)	Agricultural	Belgium
ROBERT BOSCH NIGERIA	Engineering & Technology	Gerlingen, Germany
ROCHE PRODUCTS LIMITED	Health Care & Pharmaceutical	Basel, Switzerland
SCHNEIDER-ELECTRIC	Energy & Automation Mgt	France
SIEMENS ENERGY	Energy	Munich, Germany
SMT VOLVO	Heavy & Volvo Construction	Belgium
TOTAL ENERGIES (DISTRIBUTION)	Oil And Gas	France

It is worth mentioning that the above list of companies established in Nigeria and who are members of the Eurocham comprise of companies with headquarters in member states such as France, Germany and the Netherlands. It should be recalled that the CS3D is largely inspired by the French law of 2017 and was adopted after the effective entry into force of the German law in 2023 which will therefore be comparable (but not similar) in scope of application to the CS3D and also establish due diligence obligations for social and environmental sustainability along the value chains of target companies of these countries. Due to this peculiarity, we can assume that companies should already be sufficiently prepared to comply with the requirements set out in the CS3D.

In hindsight and according to EuroCham, in general the level of awareness of Nigerian companies on the CS3D for the specific value chains in Nigeria is quite low. The mission presented an opportunity for them to engage with their members to create awareness. For example, Total Energies which is in the Oil and Gas Sector (although not covered as part of the value chains being evaluated) responded that they strictly apply all regulations and laws in all countries where they do any business however, they were reluctant to provide any information on CSR and the environmental impacts as it's a sensitive topic.

It is important to stress that there are a few target companies operating in Nigeria within the four value chains. For example, companies in the cocoa and rubber value chains are certified and already integrating due diligence into company policies and management systems and therefore will need to adapt their existing sustainability due diligence processes to activities in the upstream and downstream sectors. Stakeholder engagement of all actors in the value chains will need to be strengthened to identify, assess, and mitigate adverse negative impacts on environmental and human rights. We provide some examples of the companies below.

Some of the Nigerian Companies (e.g Olam³⁵, WACOT^{36 37}) declare and adopt the international standards and certifications such as **ISO³⁸** and **ECOSERT³⁹**. Multinational companies operating in Nigeria also adopt the **OECD Guidelines for Multinational Enterprises on Responsible Business Conduct**. These guidelines are recommendations by governments for businesses to

Examples: Companies in the Cocoa and Rubber value chains

- WACOT (TGI Group) exports certified sustainable & conventional Nigerian-origin cocoa beans. Wacot cocoa operation spans Nigeria's major cocoa-producing areas: Abia, Cross-river, Oyo, Ondo, and Osun. As part of its sustainability programme, WACOT reports to achieving the RA Certification across 5 states after implementing the RA 2020 Certification Standard. The program aims to establish a credible traceability system.
- OLAM Cocoa (Olam Group) is a leading supplier of cocoa beans and ingredients. The company work with third parties such as the Fair Labour Association (FLA) that assess and report its progress to achieve sustainable supply chains in Cocoa sector, Olam Agri Nigeria is a member of the Nigerian Agribusiness Group (NAGB).
- Nestle is active in the food and agricultural chain and reports that through its 'Forest Positive Strategy', it invests in suppliers who actively conserve forests; respect human rights for all, including Indigenous Peoples and Local Communities (IPLC); and promote sustainable livelihoods.
- SOCFIN Group has large plantations in Nigeria. Okomu is its second largest plantation in Nigeria, SOCFIN is also part of the Sustainable Natural Rubber Initiative (SNR-i) a multi-stakeholder initiative that encourages participation from all sections of the supply chain to contribute to the sustainability journey of the global natural economy.

align their activities with sustainable development and conduct due diligence to avoid adverse impacts on people, planet and society (e.g SOCFIN⁴⁰, Nestle⁴¹) The Human Rights Chapter of the OECD Guidelines for Multi-national Enterprises is fully aligned with the UN Guiding Principles on Business and Human Rights.

As mentioned above, leather exports to the EU correspond almost entirely to goat and sheep skins. Only exporters of these products seem to apply sustainability strategies. The Leather

³⁵ <https://www.olamgroup.com/sustainability/sustainable-supply-chains.html>

³⁶ <https://wacot.ng/corporate-responsibility-sustainability/>

³⁷ <https://wacot.ng/cocoa/>

³⁸ [Policies & Positions \(olamgroup.com\)](#)

³⁹ <https://www.ecocert.com/en/certification>

⁴⁰ <https://www.socfin.com/dashboard/en/home/>

⁴¹ <https://www.nestle.com/stories/seeding-forest-positive-approach-zero-deforestation>

Working Group (LGW)⁴² database shows only 3 certified Nigerian leather companies⁴³, and all of them are involved in the manufacture of goat and sheep leather products. Z Tannery⁴⁴ reports on its corporate social responsibility (CSR) in Kano State to uplift communities and create a sustainable impact by implementing Skills Development and Training Programs, however for these Nigerian companies CSR reporting is weak.

Regarding the four studied value chains (Cattle, including leather, cocoa, rubber and timber), the potential level of preparedness of the target companies in each value chain to comply with the requirements of the CS3D is assessed as Low Medium.

⁴² Leather Working Group (LWG) is a not-for-profit global standards organization, representing a quarter of the world's finished leather production, with audited sites in 55 countries. It is gradually aligning its requirements to the EUDR obligations.

⁴³ https://www.leatherworkinggroup.com/get-involved/our-community/certified-suppliers/?tx_llcatalog_pi%5Bfilters%5D%5Bsite_type%5D%5B%5D=all&tx_llcatalog_pi%5Bfilters%5D%5BBrating%5D%5B%5D=all&tx_llcatalog_pi%5Bfilters%5D%5Bleather_type%5D%5B%5D=all&tx_llcatalog_pi%5Bfilters%5D%5Banimal_type%5D%5B%5D=all&tx_llcatalog_pi%5Bfilters%5D%5Btannage_type%5D%5B%5D=all&tx_llcatalog_pi%5Bfilters%5D%5Bcountry%5D%5B%5D=155&tx_llcatalog_pi%5Bfilters%5D%5Bkeywords%5D=#c4672

⁴⁴ <https://www.ztannery.net/>

3. Potential impact of the CS3D on the studied value chains

In this chapter, the “potential impact”: refers to the potential impact that the entry into force of the CS3D may have on each value chain, considering their state of preparedness and their exposure to the EU market, whether direct or indirect.

Since the target companies are responsible for ensuring compliance with the CS3D throughout their value chain (and even beyond, since the CS3D also covers the "established business relationships"⁴⁵ of the target companies), **the real impact of the directive on the studied value chains will depend on a combination of factors (size of the company, resources and location) and business-oriented decisions.**

In general, **due to factors related to the size, available resources, and location of businesses,** it is likely that the implementation of CS3D will be easier for large businesses (target companies) operating in locations with minimal identifiable risks and more expensive for those with value chains made up of informal sector suppliers and in sectors or countries with weaker regulatory and institutional frameworks, or with low social and environmental standards.

In theory, it could be assumed that the implementation of the obligations linked to the CS3D will have a theoretical **positive impact** leading companies to adopt more sustainable practices in terms of reducing human rights violations and environmental impacts at the level of each commodity chain.

On the other side, the mission has also enabled to identify some potential risks and difficulties resulting from the entry into force of the Directive on the studied value chains (e.g costs of compliance for businesses, loss of income for farmers, due to their potential exclusion from European market supply chains in particular) . In addition to these risks, exist also the perception of risk that EU companies could perceive when implementing the CS3D in Nigeria.

According to the methodology of the study, **the assessment of the potential impact focuses mainly on these potential risks.**

3.1 Potential impact for the studied value chains

There is currently a low level of awareness amongst key stakeholders (public and private) in Nigeria on the scope of the CS3D and its alignment with existing legal frameworks. The potential impact is that companies are not able to comply effectively with national regulations due to duplicity and inconsistency in legislative frameworks.

Furthermore, the lack of data and reliable information to map and identify locations where operational activities are carried out would result in the production of poor-quality reporting and evaluation which companies would need in order to respond to any adverse impacts or developments.

There is the potential impact on target companies in terms of additional costs to businesses to train and build capacity of actors in the VCs for example moving players from voluntary to mandatory sustainable reporting practises. This may pose a risk with business costs compliance especially where additional national CSR or corporate governance obligations are required in the

⁴⁵ "Established business relationship" in the official version available at the time of writing.

future putting a burden on businesses and thus encouraging Greenwashing practises which is already being experienced in the Climate action space resulting in consumers losing confidence in process.

In terms of the impact on economic and social welfare of vulnerable groups e.g livelihoods and income, there is a risk of individual actors in the VCs such as farmers or producers giving up their rights due to the inability to voice or negotiate better livelihood services as well as not being empowered to make the best decisions due to poor representation. For example, a lack of transparency and accountability in the setting of company due diligence requirements, with little or no opportunity for producers to question or challenge their need. Farmers, transporters, buyers may consider focusing on other value chains with less stringent rules. In order to mitigate against this risk, stakeholder collaboration and engagement will need to be established at all levels and during the due diligence processes.

Regarding the four studied value chains (Cattle, including leather, cocoa, rubber and timber), the potential impact of the CS3D would be assessed as Low - Medium.

It is important to stress that there are companies operating in Nigeria within the four value chains. Large companies are already implementing due diligence in the Cocoa and Rubber value chain, so they will need to only adapt existing processes to consider impacts of the activities in the upstream and downstream sector. There may be questions that they may require actors in the chain to consider additional certification or verification steps to ensure compliance.

The obligation to comply with the CS3D requirements would only apply in the case of EU importers or buyers of these products targeted by the CS3D. It has also to be considered that exporters will have the choice of export to comply with CS3D requirements or try to find other clients not targeted by the CS3D.

Cattle: we consider the CS3D impact will be Low.

Low exports to the EU. In relation to environmental impact, domestic beef production and the tanning industry contribute to deforestation, overgrazing of land, high water consumption and waste disposal pollution. However, for the time being Nigeria is not allowed to export bovine meat to the EU and exports of bovine leather are very low. Nigeria's leather exports to the EU consist indeed almost entirely of goats and sheep skins, with only a few companies exporting to the EU the finished products. In relation to human rights, although the sector employs a large number of people, the bulk of employment in these sectors is informal and casual – making tracking, risk planning and compliance difficult and this situation is unlikely to change in the medium term.

Cocoa: we expect the impact to be Medium

Some companies in the Cocoa value chain are already integrating due diligence into company policies and management systems. Potential impact is that they will need to adapt their existing sustainability due diligence processes to activities in the upstream and downstream sector. In relation to the environmental issues, despite efforts led by exporters and traders, cocoa is one of the main drivers of deforestation in Nigeria, which might increase the risk perception by EU importers. A key challenge for public and private players in the value chain is getting adequate data on traceability, certification, forest maps, legality and due diligence. In relation to human rights, child labour is still prevalent despite national and international efforts – perhaps stakeholders need to focus more resources in addressing the underlying root causes. Furthermore, as farmers rely on Local Buying Agents (LBAs) monitoring and compliance is limited

due to the presence of several intermediaries in transporting from fields. The low level of awareness amongst key stakeholders (public and private) in Nigeria on the scope of the CS3D will need to be addressed.

Rubber: we expect the impact to be Medium.

Large companies in the rubber value chain are already integrating due diligence into company policies and management systems and therefore will need to adapt their existing sustainability due diligence processes to activities in the upstream and downstream sector. In relation to human rights, there is the possibility of community conflicts and tensions with land as demand for rubber and production capacity expand. There are also reports of individual and employer rights being violated. Civil society organisations (CSOs) and human rights activists are picking up on some of the allegations – transparent reporting, complaints mechanisms will need to be strengthened. Some groups of producers may be negatively affected by the CS3D implementation where the burden on compliance is rigid.

Timber: we expect the impact to be Low.

On the one hand, there are currently **no significant timber exports from Nigeria to the EU**. The fact that a substantial share of timber exports is directed towards markets with low environmental sustainability requirements would discourage the adoption of specific measures adapted to the EU market. The potential impact would result from EU importers requesting verification of the traceability of Nigerian timber re-exported to the EU market via other countries. In relation to environmental and human rights Illegal logging remains a significant issue. Risks identified include trade and transport (e.g false document declarations) and processing which include companies who operate without legal registration of business and hire workers illegally thus putting health and safety of workers at risk.

Part 4.

Conclusions and Recommendations

1. Conclusions

1.1. General conclusions

CSR in Nigeria is still evolving, and some companies have made some visible achievements. For example, CSR awareness has increased, companies are implementing CSR initiatives rather than just voluntary reporting as previously practised.

The CS3D is generally not known by operators (producers, exporters, traders, civil society) in the studied value chains, probably because it applies only to large companies. In addition its implementation (transposition in the Member States legal framework) will take some more years which is quite different to the EUDR that is initially expected to be implemented from December 2024).

A potential positive impact of CS3D would be that companies in the value chains keen on enhancing their environmental sustainability practises will appeal more to investors and other key government stakeholders will capitalise on the opportunities stemming from the CS3D implementation to combat the negative impact of environmental practises as there is no specific mandate requiring companies to proactively engage in monitoring and compliance to actively oversee their value chains. In this situation, monitoring and compliance will likely be undertaken by third party organisations, certifiers and assessors.

In locations where security risks are enhanced, where value chain activities are informal or are not organised and national data is not updated or lacking, due diligence reporting efforts may become a tick box exercise.

Companies are already implementing social responsibility practises in Nigeria and these include companies who directly export to the EU and those who are directly or indirectly affiliated with EU multinational companies already applying similar directives in their country such as France Netherlands and Germany. As a result, some multinational companies are ahead of others in implementing due diligence procedures. This should facilitate the adoption of the new CS3D obligations. **So we believe that the impact of the entry into force of the directive will be limited.**

With regard to the value chains analysed in this study, the impact of CS3D would be Low-Medium.

It should be noted that the CS3D target companies (EU companies and non EU companies in scope) in the value chains concerned will be obliged to comply with the directive as they are the importers or buyers of these products in Nigeria who are covered by this regulation.

It must also be taken into account that, even if the supply chain actors are not directly affected by the directive, they would be required to comply with the directives by their clients if asked to do so, or to seek other clients who are not targeted by the CS3D.

Finally, given the fact that **exports of Cattle (Leather) products** are sporadic and of low value. exports to the EU are correspondingly negligible, and thus the **impact will be low**. In the **wood value chain**, there are no significant timber exports from Nigeria to the EU. The potential impact

would result from EU importers requesting verification of the traceability of Nigerian timber re-exported to the EU market via other countries and thus the **impact will be low**.

On the other hand, the **Cocoa and Rubber value chains present both environmental and human rights risks in Nigeria**. Large companies in these value chains are already integrating due diligence into company policies and management systems and therefore will need to adapt their existing sustainability due diligence processes to activities in the upstream and downstream sector to comply with the CS3D and as such the **impact is prioritized as medium**.

1.2. At the value chain level

The following table summarises the assessment for each of the four value chains regarding their capacity to comply with CS3D requirements, as well the potential (negative) impact, based on the above analysis:

- **Preparedness:** refers to the ability of actors in each value chain to comply with the requirements of the CS3D. The assessment considers the CSR state of play and operating environment in Nigeria, the policy and legal framework for human rights, environmental standards and protection, assessment of target companies sustainable practices and structural characteristics of each chain, which may facilitate or hinder the adaptation of supply chain players to the conditions of the corresponding due diligence system.
- **Potential impact:** refers to the potential impact that the entry into force of the CS3D may have on each value chain, considering their state of preparedness and their exposure to the EU market, whether direct or indirect. In theory, it could be assumed that the implementation of the obligations linked to the CS3D will have a positive impact in terms of reducing human rights violations and environmental impacts at the level of each commodity chain, which is the main objective of the CS3D. However, this indicator focuses on the potential negative effects (e.g costs of compliance for businesses, loss of income for farmers, due to their potential exclusion from European market supply chains in particular) that the entry into force of the Directive may have on the value chain.
- **Level of priority estimated/suggested:** refers to the recommendation to strengthen stakeholders from each value chain to facilitate CS3D compliance.

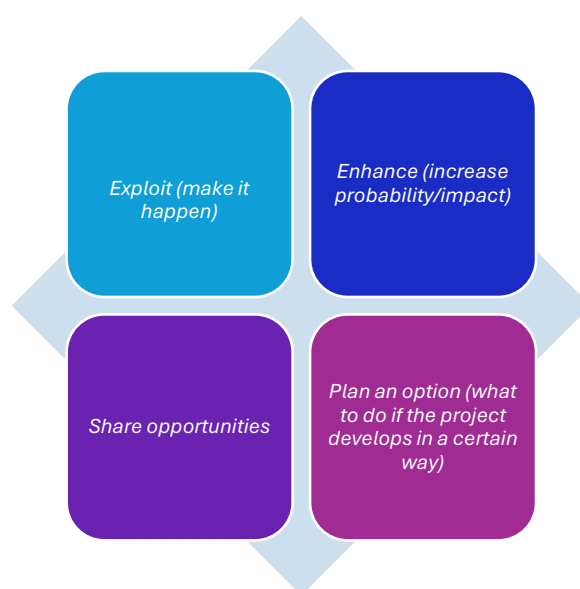
Table: Evaluation summary

Value chain	Preparedness	Potential impact	Priority (support)
Cattle	Low	Low	Low
Cocoa	Medium	Medium	High
Rubber	Medium	Medium	Medium
Timber	Low	Low	Low

2. Recommendations

This section presents a set of recommendations aimed at supporting the adaptation of the Nigerian concerned value chains to the CS3D. The focus of most of these recommendations is on the **cocoa value chain**, given that it would be the most negatively affected value chain and in the case of non-compliance will have a stronger impact on the Nigerian economy. We recommend the following strategies that could be considered to exploit and enhance opportunities and mitigate any potential risks are listed below.

Figure 1: Strategy box



The CS3D establishes obligations of ensuring target companies monitor activities across the supply chain (upstream and downstream). For example, exploiting strategies that involve collaborative partnerships with the different actors and players in the sector would prove to be beneficial and help reduce risks whilst improving opportunities.

- I. **Exploit strategies in improving outcomes for those most vulnerable to adverse impacts in cocoa value chains.** This may involve initially developing a detailed business mapping, undertaking a business perception survey and analysis of the key actors in the VCs or ecosystem – to understand any root cause and adverse risk which exist.
- II. **Consider actions to strengthen and leverage existing partnerships to eliminate child labour, improve production and quality processes; promote awareness and benefits of transitioning towards sustainable VCs.** There are current opportunities to address any challenges and to define clear roles/responsibilities including identifying strategic alliances to build synergy, share lessons, support businesses and implement high level policy actions e.g partnering with international organisations such as ILO on Child Labour to address root causes and implement remedial actions; delivering training and technical

assistance to enable producers and other actors to meet the CS3D; working with the public and private sector to launch an ethical trade and business council to improve sustainability in the agricultural value chains.

- III. **To further mitigate risks, there could be a planned option to develop a Sustainable finance and programme support for supply chain actors.** This will perhaps require partnerships with international organisations or NGOs working to reach actors in the VCs. The programme could also look to support actors in the business regulatory environment to close any gaps and realise benefits for sustainable exports.

Concerning the implementation of the CS3D, the directive will come into force in 2-3 years and as such not a lot of focus and efforts will be geared towards implementing the directive in the short term. However, adequate awareness and preparation for the key players in the value chain will go a long way in ensuring compliance. Strategies should include;

- I. **Exploring and developing synergies with existing Public and Private Stakeholder engagements platforms** focused on sustainability, environmental protection and human rights at the national and state levels **to improve awareness, increase stakeholder dialogue and planning around the CS3D in Nigeria;**
- II. **Seek for alignment and share opportunities for harmonisation and coordination on the roadmap and implementation towards the EUDR and CS3D.** For example establish a participatory stakeholder led CS3D initiative that brings together the key stakeholders in the VCs providing an impartial ‘‘ participatory ‘communication space’ to build trust and understanding between public sector (government), private sector e.g producers, traders and buyers in the VC as well as CSOs. The IDH landscape approach case study in Ghana and business case⁴⁶ could be explored.
- III. **Promote institutional efforts in the development of a trade/agribusiness sustainability sector governance code** and seek to further build national efforts on the adoption of the human rights and business guidelines in Nigeria’s National Action Plan.
- IV. **Build public sector capacity building efforts in monitoring and compliance.** This could be a short-medium term approach to build capability and skills for the key regulatory agencies.
- V. **Support Private Sector and State level efforts to strengthen investment opportunities** in Nigeria such as innovative technologies for value addition or diversification for farmers. For example, in Cross River State where there are ongoing efforts in the Cocoa value chain.

⁴⁶ https://www.idhsustainabletrade.com/uploaded/2018/06/IDH_Business-case-study_Touton_Ghana_cocoa-1.pdf

Annex 1. Stakeholder List

Organisation	Contact Person
Cocoa Farmers Association of Nigeria (CFAN)	– Adeola Adegoke, National President
CSR in Action	– Bolaji Sanyaolu, COO – Isaac Emmanuel, Sustainability Expert and Project Manager
EU Chamber of commerce	– Elele Ogunsanya, Executive Secretary
Federal Ministry of Agriculture and Food Security (FMAFS)	– Engr Adebisi, Director Agribusiness
Federal Ministry of Environment	– Mr Abbas Suleiman, Director EAD – Engr Gomwalk Celestine
Financial Reporting Council of Nigeria	– Comfort A Osondu
Global Rights	– Abiodun Baiyewu, Executive Director
International Network for CSR (INCSR)	– Eustace Onuegbu, President
IRISSMART	– Salman Dantata
Lagos Chamber of commerce and Industry (LCCI)	– Abosede Okeyemi, Director Member Relations
National Human Rights Commission (NHRC)	– Mr. Anthony Okechukwu OJUKWU, SAN Executive Secretary
Nigeria Conservation Foundation	– Mohammed Boyi Garba, Zonal Coordinator, Abuja Office
Nigerian Export Promotion Council (NEPC)	– Dr Sherifat, NEPC Connect – Iyanu Ajayi, Trade Promotion Officer
Nigeria Economic Summit Group - Sustainability Commission	– Dolapo Kukoyi – Abbas Agbaje – Ese
Nigerian Agri Business Forum	– Jafar Umar
The Sustainable Trade Initiative (IDH)	– Prof Eniola Fabusoro – Cyril Ugwu – Abraham Ogwu
The Office of the Vice President (SSA on Agri Business)	– Dr Kingsley

*Private Companies offices visited during the field Mission in Lagos include Nestle, WACOT, and Dune.

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