



Climate Bonds INITIATIVE



# State of the Market Report

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**The Nigerian Green Bond Market Development Programme**

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**November 2019**

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# Sustainable Development Goals Related to Green Bonds

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# Foreword



There is no gainsaying that sustainable finance is a critical pillar to challenging the acute threats of climate change on the global economy. The recent Brazilian Amazon rainforest wildfire has resulted in a global outcry reiterating the need to urgently address the effects of climate change on an unprecedented scale. Bringing it back home to Nigeria, the continuous rise in sea level, water pollution, air pollution, desertification, oil spills, deforestation, industrial & solid waste, flooding, erosion and extreme adverse weather conditions, consequently resulting in damage of properties, infrastructure dilapidation, internal migration, poor health and negative impact on various sectors of the economy, are key indications of the need to mobilise long-term funding for capital formation through the Nigerian debt capital markets to address these challenges.

As the public sector balance sheet continues to dwindle, there is an urgent need to crowd-in and mobilise private sustainable finance flows to support public efforts through innovative capital markets products. According to the 2018 Nigerian Sustainable Finance Roadmap Report developed by the United Nations Environment Programme (“UNEP”) Inquiry, in collaboration with market stakeholders, Nigeria requires an annual estimated sustainable/green finance investment of up to \$92 billion between now and 2030. It was highlighted further that the annual sustainable finance investment into Nigeria was estimated at just over \$8 billion.

In view of the above, it has become more pertinent than ever to begin to effectively address the identified environmental and economic challenges afflicting Nigeria’s economy and entrench the role of sustainability in Nigeria’s economic growth. Given the unique role of green bonds in financing climate and environmental projects, FMDQ Securities Exchange (“FMDQ”), Climate Bonds Initiative (“CBI”) and Financial Sector Deepening, Africa (“FSD Africa”), formalised a partnership in March 2018, through the execution of a Cooperation Agreement, to support the development of the Nigerian green bond market. Consequently, the Nigerian Green Bond Market Development Programme (the “Programme”) was established. The Programme, since its official launch in June 2018, has made commendable strides in achieving part of its strategic objectives of developing the corporate green bond market in Nigeria evidenced by the achievement of a series of bi-lateral engagements, trainings and capacity building sessions for different categories of stakeholders in the financial market ecosystem. Amongst these include a masterclass for potential Nigerian-based licensed verifiers, bilateral engagements with potential issuers aimed at developing a pipeline of green opportunities, and training sessions with pension fund administrators on the use of green bond investments as a de-risking mechanism for their portfolios. In addition, the Programme also facilitated the issuance of the maiden corporate bond by Access Bank PLC- the first CBI certified corporate green bond in Africa and supported green bond listing requirements in the Nigerian capital markets through collaboration with the Securities and Exchange Commission (“SEC”) to develop the SEC’s Green Bond Listing Rules.

Our quest to develop the Nigerian green bond market through the Programme is a continuous journey of sensitisation, advocacy, engagement and collaboration with various capital market stakeholders to entrench the principles of sustainability for revolutionising the Nigerian debt capital markets. We are excited to build on the achievements of the Programme thus far and looking forward, we will continue to champion innovative initiatives geared towards positioning the Nigerian green bond market as a catalyst for resolving the Nigeria’s environmental challenges.

**Bola Onadele. Koko**  
Managing Director/ CEO  
FMDQ Securities Exchange



# The Global Rise of Green Bonds

*"FMDQ Securities Exchange (FMDQ), the foremost trading platform for fixed income in Nigeria securities, has played a vital role in the development of the domestic capital market. Consistent with its practice, FMDQ has made immense contributions in the form of capacity building and sensitisation towards the development of the Nigerian green bond market. For this purpose, in collaboration with Climate Bonds Initiative and Financial Sector Deepening, Africa, they organised workshops which have increased the level of awareness, understanding and acceptance of green bonds as a financing instrument. Members of staff of the Debt Management Office, Nigeria benefitted from these initiatives of FMDQ and its partners. We expect the benefits of these trainings and sensitisation efforts to translate to increased issuance of sustainable financing instruments such as green bonds in the near term."*

**- Ms. Patience Oniha,**  
Director-General, Debt Management Office

Green bonds can be defined as debt securities issued by financial, non-financial or public entities to finance 100% green projects and assets. Green bonds are issued to raise funds for climate change mitigation or adaptation solutions. Though green bonds are like vanilla bonds, the difference is the use of proceeds, in terms of the projects to be financed with the funds raised. The global green bond markets have seen exponential growth in over a decade since the first issuance of AAA-rated bonds by multilateral institutions- European Investment Bank ("EIB") and World Bank in 2007. The wider bond market started to react after the first \$1 billion green bonds sold within an hour of issue by International Finance Corporation ("IFC") in March 2013. A turning point occurred in the market in November 2013, as the first corporate green bond was issued by Vasakronan, a Swedish property company, followed subsequently by other large corporate issues. The first green municipal bond was issued by Massachusetts in June 2013. In 2018, green bonds of about \$162 billion<sup>1</sup> were issued globally compared to \$155.5 billion issued

in 2017 alone. According to the Climate Bonds Initiative Green Bond Market Summary Report for H1 2019, about six hundred and twenty-five (625) green bonds have been issued with three hundred and sixty-three (363) from the United States of America, fifty-one (51) from Sweden and thirty-two (32) from China.



<sup>1</sup> Climate Bond Initiative

<sup>2</sup> Amundi Asset Management/IFC Emerging Market Green Bonds Report 2018

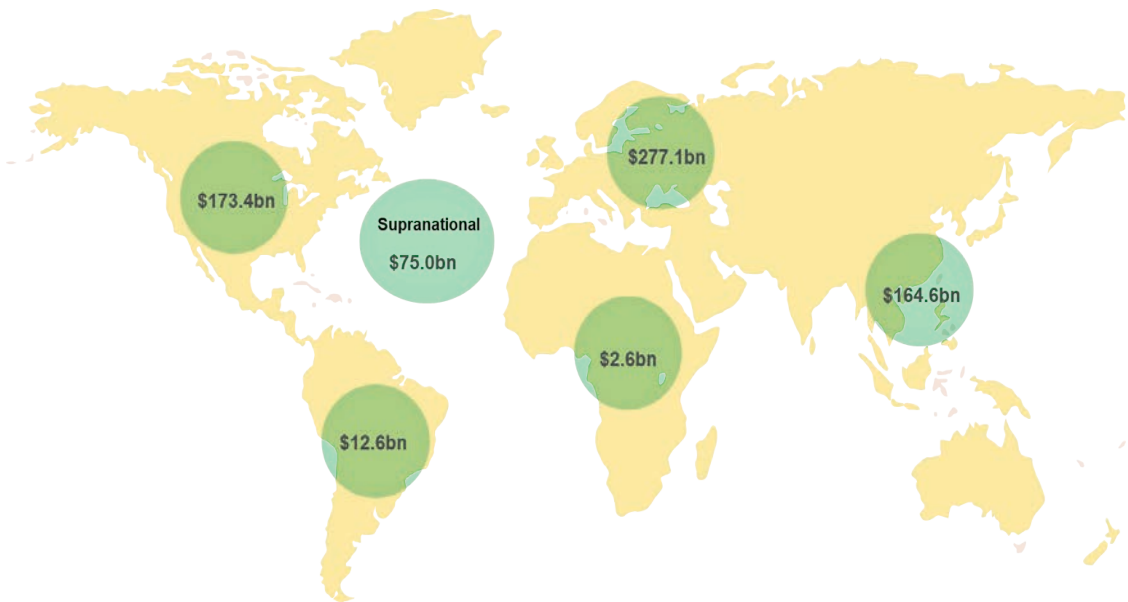
*“The Green Bond Market Development Programme is one of the most important initiatives, of recent, aimed at developing the Nigerian economy in a sustainable way. There is no doubt, FMDQ, CBI and FSD Africa have been doing an excellent job in not only driving this idea, but in demonstrating, through total commitment, to building appropriate capacity across all sectors in the Nigerian economy as well as providing appropriate infrastructure and facilitating participation by all stakeholders.”*

– **Dr. Farouk Aminu**, Head Investment Supervision, National Pension Commission

The environmental commitments made by different countries at the United Nations (“UN”) Climate Change Conference in 2015, as well as the investment needs associated with the 2030 Agenda of the Sustainable Development Goals (“SDGs”), are among the driving forces stimulating the growth of the global green bond market. Globally, stakeholders are waking up to the irreversible damage caused to the ecosystem through human actions that have resulted in global warming. The increasing occurrence of natural disasters, declining natural resources and climate change have become some of the greatest challenges of our time and combating these issues requires more financing than governments alone

can provide. It is worthy to note that green bonds make up about 1% of the circa \$100.00 trillion global fixed income market, although there has been notable increase in both the demand for and supply of the new asset class as climate change and other environmental, social and governance (“ESG”) issues are becoming integrated in investment process and decisions. Green bonds generate financing for projects in different sectors like renewable energy, energy efficiency, green housing, and other eco-friendly projects while tapping into the vast pools of financing held by institutional and other investors such as pension funds, insurance companies and sovereign wealth funds available in global capital markets.

Total Global Green Bond Issuances as at September 2019



Source: Climate Bonds Initiative

## Types of Green Bonds

Type	Use of Proceeds	Debt Recourse	Example
"Use of Proceeds" Bond	Earmarked for green projects	To the issuer: same credit rating applies as issuer's other bonds	European Investment Bank (EIB) "Climate Awareness Bond" (backed by EIB); Barclays Green Bond
"Use of Proceeds" Revenue Bond or Asset Backed Securities (ABS)	Earmarked for or refines green projects	Revenue streams from the issuers through fees, taxes, etc. are collateral for the debt	Hawaii State (backed by fee on electricity bills of the state utilities)
Project Bond	Ring-fenced for the specific underlying green project(s)	To the project's assets and balance sheet	Invenergy Wind Farm (backed by Invenergy Campo Palomas wind farm)
Securitisation (ABS) Bond	Earmarked for green projects	To a group of projects that have been categorised together (e.g. solar leases or green mortgages)	Tesla Energy (backed by residential solar leases); Obvion (backed by green mortgages)
Covered Bond	Earmarked for eligible projects included in the covered pool	To the issuer and, if the issuer is unable to repay the bond, to the covered pool	Berlin Hyp green Pfandbrief; Sparebank 1 Bolligkredit green covered bond
Loan	Earmarked for eligible projects or secured on eligible assets	To the borrower(s) in the case of unsecured loans. Recourse to the collateral in the case of secured loans but may also feature limited recourse to the borrower(s)	MEP Werke, Ivanhoe Cambridge and Natixis Assurances (DUO), OVG
Other Debt Instruments	Earmarked for eligible projects	Depends on the structure of the debt instrument	Convertible Bonds or Notes, Schuldschein, Commercial Paper, Sukuk, Debentures

Source: Climate Bonds Initiative

## The Green Bond Principles

The Green Bond Principles were developed by the International Capital Market Association ("ICMA") to promote integrity in the Green bond markets through guidelines that facilitate disclosure, transparency and reporting. The Green Bond Principles recommend processes and disclosure requirements for issuers, which investors, underwriters, and other market stakeholders may use to understand the dynamics of green bonds. The Green Bond Principles have four (4) core components:

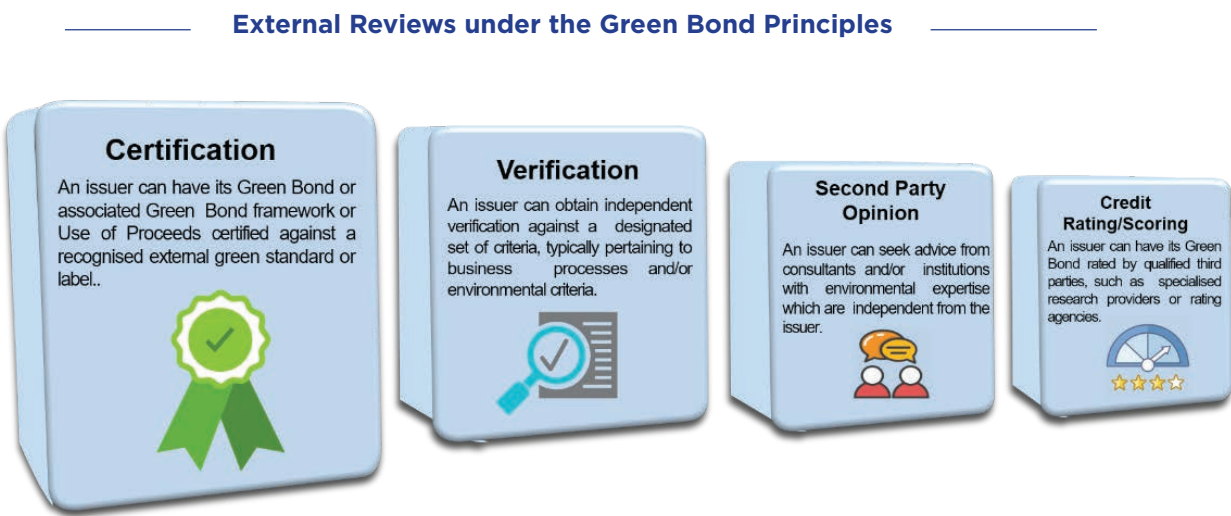
1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

**Use of Proceeds:** One of the major differences between the vanilla bond and the green bond is the use of proceeds from the bond issue. Designated green bond projects should provide environmental benefits which would be assessed, and when necessary, quantified by the issuer. Eligible project categories include, but are not restricted to, renewable energy, energy efficiency, pollution prevention and control, clean transportation, sustainable water and waste management, eco-efficient and circular economy adapted products and technologies, green buildings, and terrestrial and aquatic biodiversity.

**Process for Project Evaluation and Selection:** This states that an issuer should communicate the environmental sustainability objectives of the projects, the undergone process determining eligibility of the projects, and the related eligibility criteria applied in the identification and management of potential environmental and social risks associated with the projects.

**Management of Proceeds:** The management of proceeds obtained from the green bond issue is very vital as the proceeds must be earmarked or ring-fenced and utilised exclusively for the projects identified. The net proceeds from a green bond issue should be credited to a sub-account and tracked by the issuer in a systematic manner, and periodically adjusted to align with allocations to the eligible assets. A third-party verification of the internal tracking method is recommended to ensure high level of transparency.

**Reporting:** Reporting on the use of proceeds from the green bond issue, though voluntary if not certified, boosts investors’ confidence in the market. The issuer is expected to publish information on the use of proceeds annually until full allocation of funds. The Green Bond Principles also recommend that in a situation where confidentiality agreements or competitive considerations are existent, information published can be presented in generic terms or on an aggregated portfolio basis. Impact reporting on green bonds is key as it provides transparent insights into the environmental performance of projects which have been financed through the green bonds.



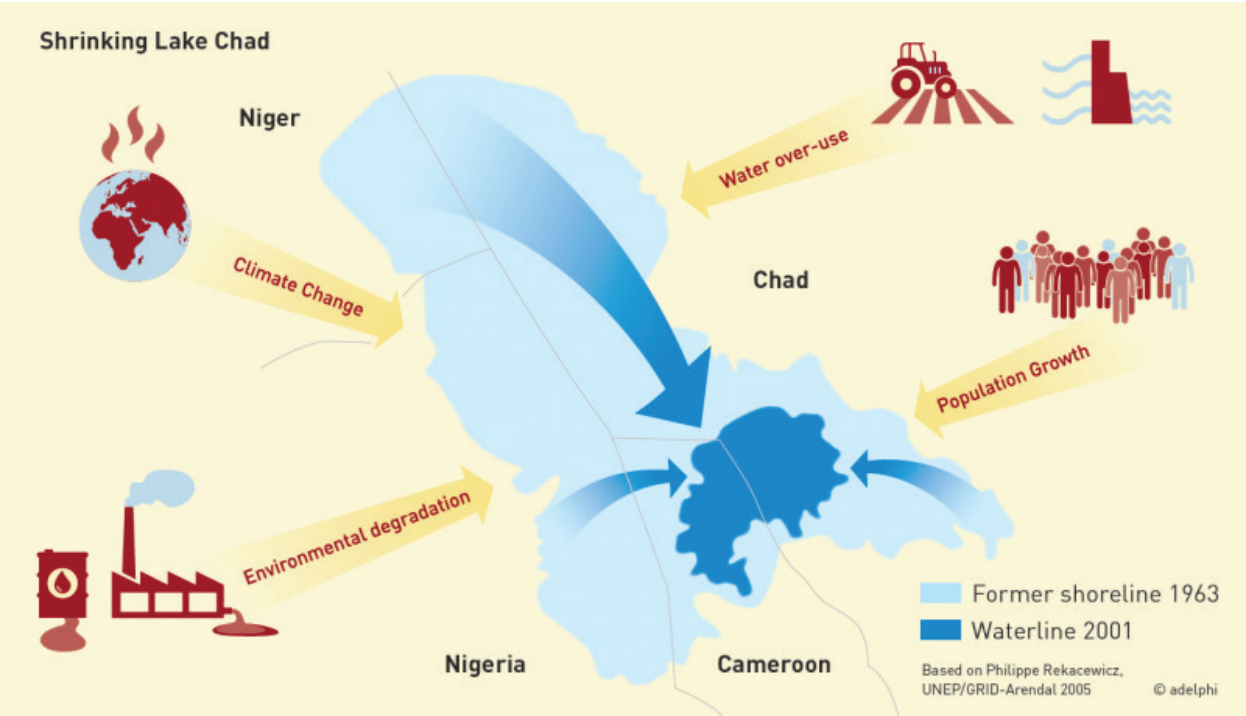
Source: Climate Bonds Initiative



# Role of Green Bonds in the Development of the Nigerian Economy

Climate change is a great concern for countries globally. Africa is expected to be one of the continents that will suffer the most from climate change effects, with increased droughts, storms, floods which will threaten the populations as well as the economy. Surprisingly, Africa accounts for less than 4% of the world’s annual greenhouse gas emissions but will suffer from the undesirable impacts of climate change.

Shrinking Lake of Lake Chad



Lake Chad has shrunk by 90% since the 1960s due to climate change, an increase in the population and unplanned irrigation. Its basin covers parts of Nigeria, Niger, Chad and Cameroon, and has been a water source for between 20 million and 30 million people. But with the desert encroaching further every year, it is getting increasingly difficult for families to make a living through agriculture, fishing and livestock farming. According to the United Nations Office for the Coordination of Humanitarian Affairs, 10.7 million people in the Lake Chad basin need humanitarian relief to survive.

Further, the global shift from fossil fuel to renewable ‘clean’ energy has catalysed the need to attract new investors and diversify investment portfolios. With the availability of diverse investment portfolios, investors can allocate funds to bridge the developmental deficit in Nigeria and encourage investments that would ensure a catalytic impact on the economy .

<sup>2</sup> Amundi Asset Management/IFC Emerging Market Green Bonds Report 2018

Green bond issuances and investments therefore presents a unique opportunity for Nigeria to promote the 2030 Agenda and the seventeen (17) SDGs towards achieving a more sustainable future by providing institutional investors, such as insurance companies and pension funds, the opportunity to increase their investment in sustainable projects in Nigeria. The funds generated from the issuance of green bond can be channelled specifically toward projects such as infrastructure, clean energy, water and sanitation, and agriculture . Green bond also fosters a greater level of transparency and institutional accountability in the delivery of sustainable development.

### Closing the Infrastructure Gap in Nigeria via Green Bond

*“Transitioning the global economy to a sustainable development path has become an existential imperative. As the largest source of long-term investment capital, bond markets have an especially important role to play, and the Nigerian Green Bond Market Development Programme will play a catalytic role in promoting the use of green bonds as an effective investment tool to finance Nigeria’s transition to a low-carbon country.”*

**- Mr. Chinua Azubike,**  
 Chief Executive Officer, InfraCredit

The National Integrated Infrastructure Master Plan (the “Masterplan”) estimates that an investment of \$3 trillion is needed over a period of thirty (30) years i.e. 2014 – 2043 in addressing the problem of huge infrastructure gap across all sectors of the Nigerian economy<sup>4</sup> . According to the Masterplan, a significant level of investment is needed in energy, transport, information and communications technology, agriculture, water and mining, housing, social infrastructure and security infrastructure to ensure growth and development in the country. However, due to budgetary constraints, the Federal Government of Nigeria (“FGN”) alone cannot mobilise the resources needed in addressing the current deficit.



As such, public and private resources will be required to provide leverage to bridge the infrastructure gap. It is pertinent to point out that the current infrastructure challenge can be addressed through green financing. This is in line with international practices where green bonds have been used to mobilise resources for financing infrastructural projects of various types including renewable energy, energy efficiency, sustainable housing, and other eco-friendly industries. For example, in Argentina, a \$100 million, seven-year issue from Argentina’s Banco Galicia was used to finance projects in energy efficiency, renewable energy, sustainable construction, among others. The projects are expected to reduce greenhouse emissions in Argentina by about 157,500 metric tons of carbon dioxide per year, roughly the equivalent of taking 33,700 cars off the road<sup>5</sup> .

<sup>3</sup> [Repositorio.cepal.org/bitstream/handle/11362/42230/1/S1700985\\_en.pdf](https://repositorio.cepal.org/bitstream/handle/11362/42230/1/S1700985_en.pdf)

<sup>4</sup> [Nationalplanning.gov.ng/2017/index.php/about-us/cabinet-ministers/2-uncategorised/110-international-corporation](http://Nationalplanning.gov.ng/2017/index.php/about-us/cabinet-ministers/2-uncategorised/110-international-corporation)

## Green Bonds and the Nigerian Debt Capital Markets

*"In recent times, sustainable development has come up on the public agenda, with businesses placing greater emphasis on responsible and forward-thinking practices. It is particularly exciting that the financial sector in Nigeria is increasingly positioned to play a key role in building a desirable future. To date, Access Bank has strived to pave the way for sustainable business practices, introducing many firsts to our market, including the pioneering CBI-certified corporate green bond in Africa. The Nigerian Green Bond Market Development Programme will further guide the market in building on our successes as well as allow banks to credibly showcase their concrete actions towards financing a truly sustainable world."*

**- Mr. Herbert Wigwe,**  
Group Managing Director/CEO, Access Bank PLC

The Nigerian Capital Market Master Plan '2015-2025' was launched by the Securities and Exchange Commission, as a 10-year road map for developing Nigeria's capital market into a global financial centre. The Masterplan aims to encourage the inflow of capital from all the corners of the world's financial centres to fund national economic priorities such as power, agriculture, solid minerals and infrastructure. Green bonds can play a vital role in deepening the Nigerian debt capital markets ("DCM") by providing diversified products portfolios, improving the allocation of funding sources and increasing access to credit markets. Green bonds can also attract the inflow of foreign direct investment into Nigeria from investors that signed up to the Principles of Responsible Investment ("PRI") by highlighting the country's huge potential and growth opportunities for raising funds through the capital markets – both cross-border and domestic.

The FGN launched its National Development Plan- the Economic Recovery and Growth Plan ("ERGP") in April 2017. Program 47 of the ERGP has the objective of regular issuance of green bonds to address climate-related issues. Following this, the FGN issued its maiden green bond in December of 2017 to fund projects with impact that contribute to the Nationally Determined Contributions ("NDCs"). This represents part of its commitment to the Paris Agreement, and as a signatory to the Helsinki Principles that aim to strengthen the global response to the threat of climate change and ensuring a stronger linkage between public finance and climate action. So far, the FGN has issued the series 1 and 2 sovereign green bond to fund renewable energy, sustainable forestry management and clean transport, of which the series 1 sovereign green bond was the first sovereign green bond, certified under the Climate Bonds Standard, globally.

Following the green bond issuance by the FGN, the corporate green bond market witnessed the emergence of two (2) bonds by Access Bank PLC ("Access Bank") and North South Power Company Limited ("NSP"). Access Bank issued the first certified corporate green bond in Africa, raising ₦15.0 billion at a fixed coupon rate of 15.50% for a tenure of 5 years to fund flood defence, refinance agriculture projects, energy efficiency and renewable energy. Similarly, North South Power (NSP), through its NSP-SPV PowerCorp PLC, issued an ₦8.5 billion 15-year 15.60% Series 1 Guaranteed Fixed Rate Senior Green Infrastructure Bond, due 2034 under a ₦50.0 billion Debt Issuance Programme. The NSP-SPV PowerCorp PLC bond was guaranteed by the Infrastructure Credit Guarantee Company ("InfraCredit") and is the longest tenured corporate bond in the Nigerian DCM.

## Incentivising Green Bond Issuances/Investments

According to the Climate Bonds Initiative 2018 State of the Market Report, incentives in the form of financial support and/or tax credit have been introduced by various international markets to lower the initial hurdle for new issuers entering the market. Key examples of various markets/jurisdictions and their ongoing incentive schemes are enunciated below:

<sup>5</sup>IFC Perspectives/Capital Markets, Climate Finance

<sup>6</sup>Mondaq.com/Nigeria: Capital Market Master Plan 2015-2025: Legal Imperatives for Achieving Nigeria's Big Dream

## Green Bond Policy Incentives



Source: Global Green Finance Policy Framework

## Key Lessons for Nigeria – How Incentives Can Support the Nigerian Green Bond Market

*“Climate change is a global issue and Africa is already suffering from its effects from floods during excessive rainfalls to the recent cyclones. It is therefore imperative to attract private capital towards ESG-aligned and resilient projects. The issuance of the Green Bond by North South Power, which was the first corporate Green Infrastructure Bond, is a proof of our commitment to not only comply with world-class corporate governance, but to propel development of local communities through investments that have positive and social impacts. The Nigerian Green Bond Market Development Programme is commendable as capacity building among key stakeholders would drive the paradigm shift towards green and sustainable finance.”*

**Dr. Olubunmi Peters,**

Executive Vice Chairman/Chief Executive Officer, North South Power Company Limited

Green bond issuers often face initial costs and administrative hurdles associated with aligning with the Green Bond Principles. The FGN, regulators, fiscal authorities, and the Central Bank of Nigeria (“CBN”) need to work collaboratively as seen in other international markets to design potential incentives to increase economic benefits for issuers and ultimately, off-set any additional costs of green bond issuance.

Incentives should be designed in a way that aims to boost investments and stimulate market growth for both the supply and demand sides of the green bond market. The objective of green bond incentives is to neutralise costs related to external reviews and establish a ‘level-playing field’ for green bond issuers compared to issuers of conventional bonds<sup>7</sup>. In Addition, the FGN can encourage institutional investors like asset managers, pension funds, and insurance companies to

increase their holdings in green bonds through the introduction of policies that advocate for a green fixed-income investment strategy and portfolios. Likewise, tax incentives can be targeted at corporate companies as well as investors to increase the issuance and demand for green bonds.

<sup>7</sup> Interim report of the Technical Expert Group (TEG) subgroup on green bond standard

## The Nigerian Green Bond Market Development Programme

The parties of the Nigerian Green Bond Market Programme (the “Programme”) – FMDQ Securities Exchange, Climate Bonds Initiative (“CBI”) and Financial Sector Deepening (“FSD”) Africa (together hereafter referred to as the “Implementing Parties”) signed an agreement in March 2018, to explore and implement initiatives geared towards accelerating the development of a green bond market in Nigeria and to support broader debt capital markets reforms that impact green bonds. The Programme which officially commenced in June 2018 has the objective of developing a non-sovereign green bond market that will entrench the principles of sustainability into the Nigerian capital markets over a 3-year period.

### Implementing Parties of the Programme



FMDQ Securities Exchange is Nigeria’s foremost securities exchange, strategically driven to transform the Nigerian financial markets through its “GOLD” (Global Competitiveness, Operational Excellence, Liquidity and Diversity) Agenda. FMDQ Securities Exchange is a member of the FMDQ Group, Africa’s first vertically integrated financial market infrastructure group strategically positioned to provide seamless execution, clearing and settlement of financial market transactions across the debt capital, foreign exchange and derivatives markets. FMDQ serves as the secretariat of the Programme and the appointed project manager that oversees the implementing activities, convenes meetings, organises workshops, and provides administrative coordination of events.



Climate Bonds Initiative is an investor-focused, not-for-profit international organisation whose mandate is to solely mobilise the \$100 trillion bond market, for climate change solutions. CBI serves as the lead consultant of the Programme, charged with the provision of technical support to accelerate the uptake of the green bond as a tool for Nigeria to tap into the international and domestic capital markets



FSD Africa is a development agency based in Nairobi, Kenya which promotes poverty reduction through financial sector development across sub-Saharan Africa. It sees itself as a catalyst for change, working with partners to build financial markets that are robust, efficient and, above all, inclusive. It uses funding, research and technical expertise to identify market failures, and strengthen the capacity of its partners to improve access to financial services and drive economic growth. FSD Africa is actively supporting the development of capital markets in Africa, given their central role in channeling investment and driving economic growth and their ability to galvanise entire financial systems, e.g. by making long-term capital more accessible, with significant consequences for broad financial inclusion. Established in 2012, FSD Africa is incorporated as a non-profit company limited by guarantee in Kenya and funded by UK aid from the UK government.



## Stakeholders' in the Green Bond Market



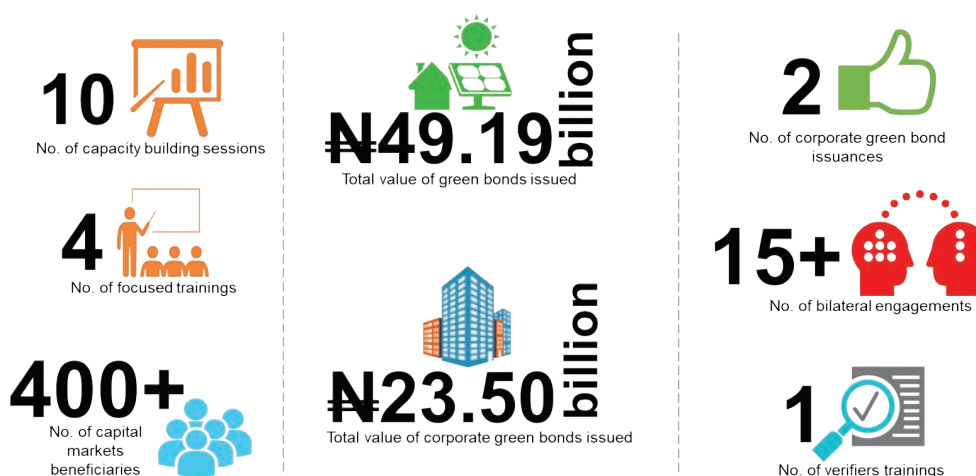
## Programme Components/Workstream

- Facilitate the establishment and development of a green bond market in Nigeria
- Support development of guidelines and listing requirements for green bond in Nigeria
- Develop a pool of Nigeria-based licensed verifiers to support issuers
- Develop a pipeline of green investments and facilitate engagement with extant and potential investors
- Support broader debt capital markets reforms that have an impact on non-government bond markets in Nigeria

## Progress Report

The implementing parties, using the identified workstreams of the Programme, over the past year have worked towards stimulating awareness/knowledge of green bonds in the Nigerian markets through the execution of various capacity building sessions as well as stakeholder engagements with key players in the Nigerian DCM. Key highlights of events executed between June 2018 and July 2019 are as follows:

## Key Highlights in Year 1 (June 2018 – July 2019)



## Development of the Green Bond Rules

The Securities and Exchange Commission of Nigeria (“SEC”) officially launched the Green Bond Issuance Rules, on November 2018, following a series of engagements with stakeholders and Capital Market Operators. The SEC, in collaboration with the Implementing Parties of the Programme, worked to develop a set of process guidelines that enforce transparency and disclosure in promoting integrity and accountability in the development of the Nigerian green bond market.



## Technical Assistance for Green Bonds Issuers

CBI offered technical assistance to Access Bank PLC, assisting in the Green Readiness Assessment undertaken by the bank, the development of a Green Bond Framework and portfolio review. Under the Programme, a focused training was delivered to the internal taskforce of Access Bank PLC on Green Bonds 101, green labelling, how to develop a green bond framework, etc., facilitated by CBI. This precipitated the issuance of the ₦15 billion green bond by the bank in March 2019.



## Driving Compliance with Reporting Requirements

Given the importance of disclosure and transparency in the green bond pre-/post issuance process, and as the Nigerian DCM had witnessed the issuance of two (2) corporate Green Bonds, the Programme executed a training session for the Compliance and Examination Departments of FMDQ and The Nigerian Stock Exchange (“NSE”) which are the departments responsible for ensuring that non-sovereign bond issuers comply with post-issuance reporting requirements in line with global standards.





Delegates at the maiden Green Bond Masterclass for capital markets intermediaries in July 2019

## Creating a pool of Nigeria-based licenced verifiers

The programme executed a maiden Green Bond Masterclass for capital markets intermediaries in July 2019 to equip participants to begin the journey of becoming licensed verifiers. The session was attended by representatives from credit rating agencies, issuing houses, capital markets solicitors, professional audit firms, etc., and covered the green bond verification and certification process.

## Executed capacity building and training sessions for key stakeholders

Capacity building and training sessions were successfully executed across the identified key stakeholders in the Nigerian DCM between June 2018 and July 2019. The sessions include and are not limited to: Series 1 & 2 Investors Capacity Building, Series 1, 2 & 3 Regulators Training Session, a Media Engagement Workshop, an Issuers Capacity Building Session, as well as focused trainings for selected potential green bond issuers and capital markets regulators.



Cross session of participants at the maiden Investors Capacity Building and Training Session in Lagos in October 2018

## Formation of a Green Bond Inter-Ministerial Committee

Following the engagement with key stakeholders in the sovereign green bond issuance during the Series 3 Regulators Training Session, a committee of six (6) senior representatives from the different ministries, departments and agencies (“MDAs”) was formed in July 2019 to:

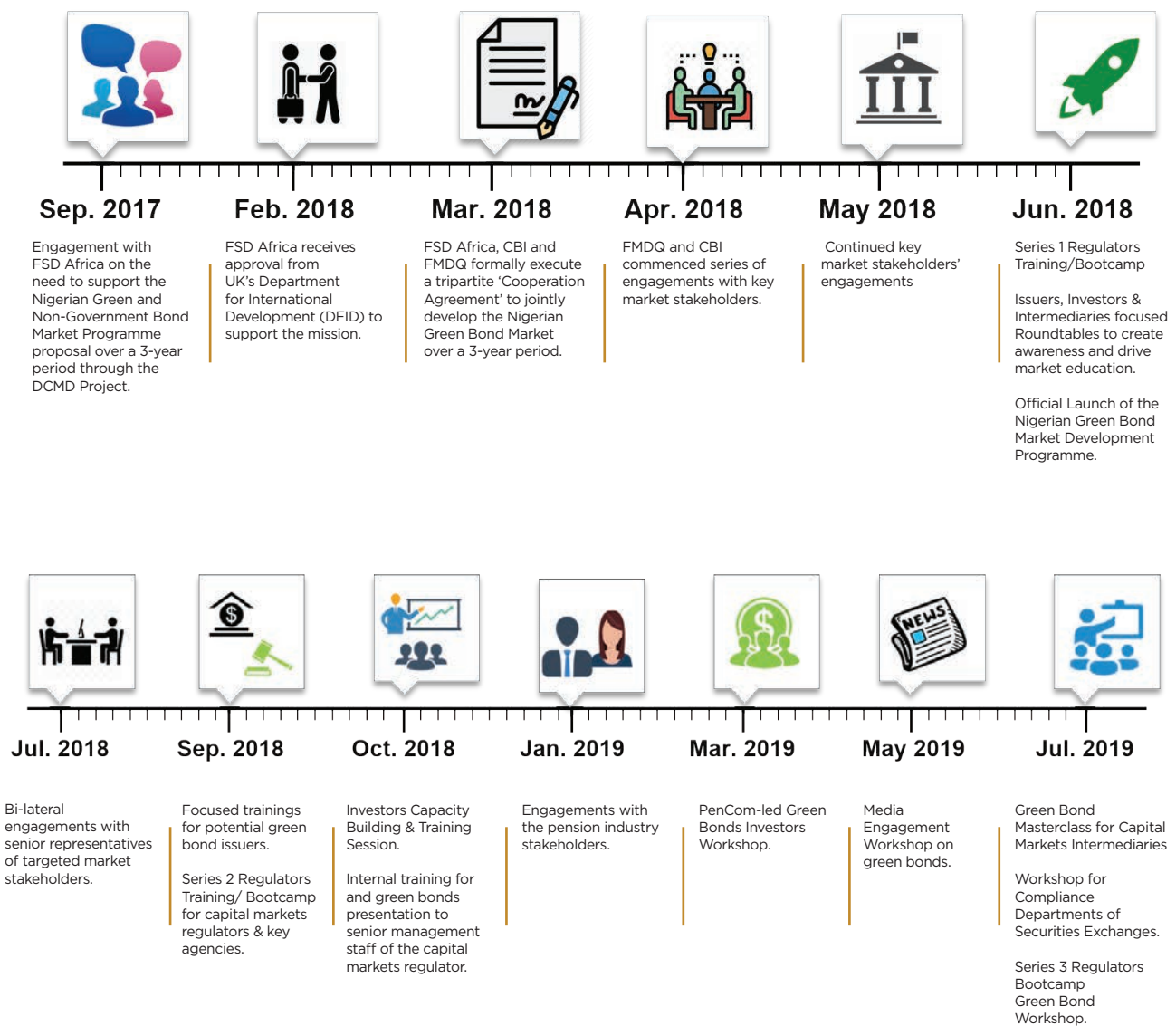
- To harmonise post-issuance processes and drive compliance with CBI reporting standards, as the sovereign green bond serves as a benchmark to corporates
- To work with the MDAs to conduct a portfolio review and ascertain the possibility of private sector financing of green public assets



Cross session of participants at the Series 3 Regulators Training Session, Abuja in July 2019



## Summary of Implemented Activities



**Note:** DCMD – Debt Capital Markets Development, PenCom – National Pension Commission

## Perspective from CBI



with Ms. Justine  
Leigh-Bell

### **A brief description of your role in CBI?**

Deputy CEO - oversight to the operations and market development programmes at CBI.

### **How has the Nigerian Green Bond Market Development Program developed since its launch in June 2018?**

The Programme has been a huge success so far, proving that Nigeria has the ability to lead other African nations on the development of their green finance markets. There is still lots more to do of course, but what we have seen in the last year is the pioneers stepping forward to build momentum across the public and private sector to issue green bonds in Nigeria with the Federal Government issuing its second sovereign green bond along with Access Bank earlier this year with their first green bond. Market education and outreach under the programme has provided stakeholders from all sides of the Nigerian capital markets the necessary information and capacity to begin looking at opportunities for green finance. The next stage of development will be working closely with the banks to review their lending portfolios and package green opportunities for the local pension funds and to explore ways international green

capital can flow into the Nigerian market. Green finance has proven to be a tool for driving the necessary development of nascent local capital markets into the direction needed to attract serious investments that will address gaps in infrastructure and ensuring climate risks are accounted for in the planning. And finally, the recent green bonds we have seen so far prove that Nigeria can provide transparency and disclosure in its investments that will give investors the confidence to invest in Nigeria.

### **What major challenges have been faced by CBI in execution of the Green Bond Development Programme across Africa?**

It's a huge learning curve for any emerging market to begin preparing for this new wave of green finance. This Programme has shown the need for market education and capacity on what is required to meet investor demand for green and building collaborations inside issuer institutions to meet this demand. Where ministries were siloed now requires interaction and collaboration to prepare the investment pipeline for green bonds, coming together for the common agenda. In addition, educating the private sector on the climate risks they are exposed to



and their role in keeping stability in their local economy is vital. The programme will continue to foster technical assistance to ensure issuers and investors know what is required to build a long-term successful green finance market for Nigeria.

**What can the government and regulatory authorities do to entrench the concept of Green Bond in Nigeria?**

The most important role the Government and Regulators have is to maintain the credibility of the market. Rules are critical to ensure consistency and comparability in the market. That is why we commend both the Nigerian Government for taking the first step in issuing green bonds that follow closely to the international best practices of labelling green bonds while also putting in place a set of guidelines that outlines the process for labelling. We would also like to praise the SEC for following in suit putting in place these guidelines to set the local benchmark on best practices for Nigeria's private sector ensuring the market understands what is required when issuing green bonds. We must reach scale in this market and to do that, we need to maintain the transparency and disclosure in what is being financed to assure investors that the investment is credible and delivering on what is expected.

**Looking ahead, what do you think will boost the growth of the Green Bond market across Africa?**

Less lending and more leveraging from the development banks, more capacity building support from the donor community and working to connect markets across Africa. Nigeria has the potential to lead this by first starting to put in place the foundations for building its local green finance market and then sharing this knowledge across other key African markets by building "trust" through the green bond product. We need to map out the investment pipelines and prepare these pipelines for investment. Real project finance with accountability, blended finance and bonds with intermediaries providing their support in helping to get investments flowing to the pipeline. This will require strong African leaders and champions across Governments and the private sector to come together and invest in the future of the region in light of the challenges of climate change. Resilience will be Africa's story.

**Green Bond issuance for 2019 currently stands at about \$200billion, the Global Climate Finance Goal is a target of \$1trillion by the early 2020s, in your opinion do you think this is achievable? If Yes, what do you think will propel this growth?**

Yes, currently we are close to \$700billion in total issuance of green bonds globally to date. We will achieve \$200billion in total this year alone. If we continue this momentum, we expect that by the end of 2020 we will reach a \$1 trillion green bonds market. Now let's see Africa emerge as one of the major issuers in this space. That for me is the real value.

# FSD Africa Insights



by  
**Dr. Evans Osano**

## **A brief description of your role in FSD Africa.**

I lead capital markets development initiatives across sub-Saharan Africa. I also sit on the board and investment committee of the African Local Currency Bond Fund.

## **How is FSD Africa accelerating inclusive growth in the capital markets across Africa?**

The scale of the resources and investment needed to lift the economies of sub-Saharan Africa out of poverty continues to increase. Currently, the estimated capital requirement is in excess of \$200 billion per year for hard infrastructure – for example, energy, irrigation, roads and rail; while at the same time, similar amounts of capital are needed for improvements in social sectors, such as health, education and social protection. About \$1 trillion is currently held by pension, insurance and collective investment vehicles across sub-Saharan Africa (SSA). However, this capital is not being invested where it is needed. Despite the tremendous need, high impact projects are not receiving the necessary finance.

FSD Africa is working to solve this mismatch and to transform sub-Saharan capital markets into a credible source of long-term

finance. We at FSD Africa are working hard to make capital markets relevant to the long-term capital requirements for the real and social sectors. The goal is to address poverty by creating jobs, improving incomes on the one hand and improving access to basic services on the other hand. We are also keen in the development of a sustainable future and in this regard, our work on climate finance and green bonds are particularly important.

We enable market development through policy and regulatory reform, building capacity, catalytic investments and crowding in new partnerships. A critical part of the department's work is the demonstration effect: testing new capital markets tools and financing instruments that are currently perceived as "too risky" and demonstrating that through innovative structures they can be effective.

## **What measurable impact has emanated from the Africa Capital Markets portfolio of FSD Africa?**

FSD Africa Financial Markets team is currently implementing 15 projects in 25 countries across SSA, these cut across regulatory support, new products, market infrastructure, capacity building, knowledge management and

capital investments. The projects have achieved significant impact and I will like to in particular highlight achievements under our green bond programmes.

FSD Africa's green bond markets development programmes in Nigeria and Kenya have supported the development of new issuance and listing guidelines for green bonds in both markets. In Kenya this has included obtaining a withholding tax waiver for green bonds. Furthermore, we have supported four demonstration transactions in both markets that have supported climate-friendly investments. For instance, with support of FSD Africa, in December 2017 Nigeria became the first African nation to issue a sovereign green bond, and the first in Africa to issue a Climate Bonds Certified sovereign bond. The debut green bond is funding a range of renewable energy, afforestation and environmental projects. In Kenya, FSD Africa supported a capital raise of \$42 million for Acorn Holdings which will support custom-built student accommodation.

**The corporate green bond market recently kicked off in Kenya with the issuance of the first corporate green bond by Acorn, what major drivers and barriers of green bond development has been identified across Africa?**

The science around the subject of climate change and its impacts is

more or less settled globally and is increasingly being recognised in Africa as well. The main barriers of developing the green bond market are largely around the development of a bankable pipeline of eligible climate-friendly projects and issuers and educating the investment community on the challenges and opportunities of issuing and investing in climate friendly investments. There is also a dearth of knowledge within the public sector and regulators.

Looking ahead, what potential opportunities exist for the growth of green bonds in the Nigerian market?

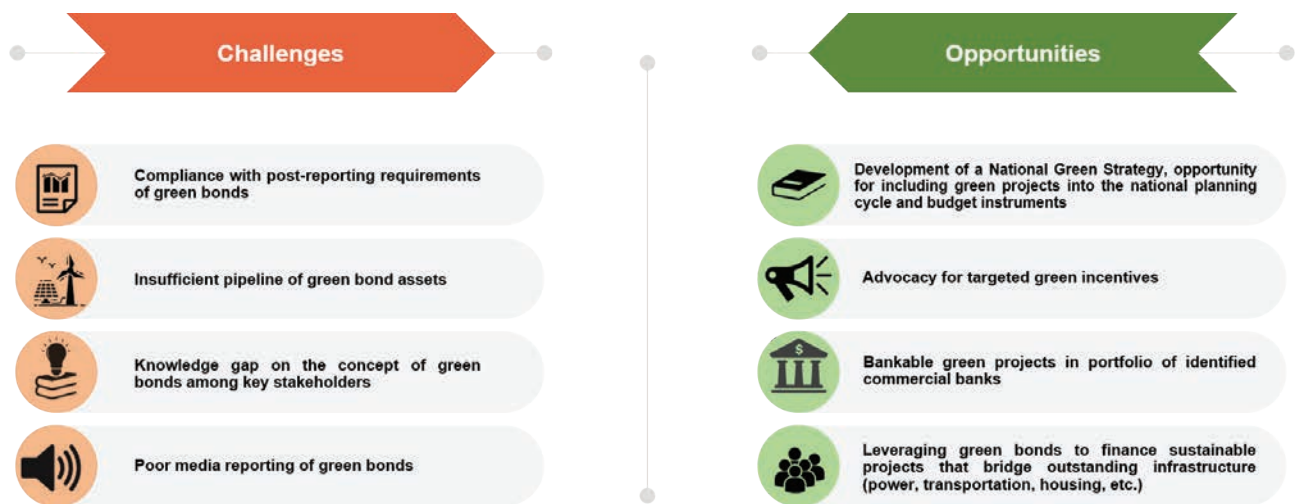
FSD Africa has been supporting the development of an ecosystem for green bonds in Nigeria. This includes building an enabling environment for green bonds, supporting a pipeline of potential issuers and the training of market participants and the public sector. In Nigeria, \$142 billion in new investment is needed by 2030 to meet the country's climate commitments. Green bonds have the potential to deliver the low carbon, climate resilient infrastructure and housing that is much needed in Nigeria. In addition, there are opportunities of funding other economically important sectors such as sustainable agriculture.

**Owing from your experiences in other markets, what are your thoughts on the development of other**

**types of sustainable bonds to promote economic development in Nigeria?**

Three thoughts: The financial markets in Nigeria and Africa in general are relatively nascent. There are therefore substantial opportunities to build them with a sustainability lens from ground up given that the legacy is limited. Secondly, the need for building markets that actually respond to developmental challenges facing Nigeria today, including climate change. Nigeria, being a country in the Sahel region, is one that faces one of the most significant challenges to climate change and the capital markets need to respond to fund mitigation and adaptation opportunities. Otherwise the capital markets actually get disconnected from the Nigerian context. There are also specific transition and physical risks that would hit the financial sector if not addressed. And finally, Nigeria has large developmental challenges around infrastructure and housing for instance. These can be financed and developed in a climate-friendly manner which would ensure a sustainable future for the Nigerian people.

Challenges Faced and Opportunities for the Programme



Going Forward and Call to Action

Whilst the programme is charged with the mandate to develop the Green Bond market in Nigeria, collaborative efforts from various stakeholders in the Nigerian financial market ecosystem is required to achieve these goals identified in the workstreams. The programme will continue engagements with various identified commercial banks to review their portfolio and identify eligible green projects for financing or refinancing with green bonds. We believe this initiative would increase the volume of corporate issuances of green bonds in Nigeria and encourage financial institutions to embed green bonds as a tool for scaling up sustainable finance in Nigeria. The programme will continue delivering capacity building and training sessions, to various key stakeholders through physical sessions and e-platforms to widen the outreach and encourage follow-up from previous training sessions.

In support of the Programmes’ commitment to enhancing transparency and disclosure in the Nigerian Green Bond market, the programme will continue to support the FGN through the constituted Inter-Ministerial Committee (the “Committee”) in adhering to international standards and best practices on the post-issuance reporting on sovereign green bonds as this would serve as a benchmark for corporate reporting of green bonds. Also, through the Committee, the programme will strive to facilitate the identification of eligible government green projects that could be funded by the private sector through a Public-Private Partnership (PPP) framework.

The programme, therefore, urges all stakeholders in the Nigerian financial market in its mandate to catalyse growth in the Nigerian green bond market to play their strategic roles; as regulators, to ensure that favourable guidelines/policies are developed to enhance growth in the markets; as issuers, to ensure that ESG principles are considered in project pipelines, with prerequisite portfolio review, and also adherence to the reporting requirements of green bonds post-issuance; as Investors, to consider not only risk and return in portfolio mix, but risk, return and impact, as well as holding issuers accountable for compliance to disclosure requirements; and the media community, to ensure that the concept of “Green Finance” is incorporated in communicated media thereby facilitating the sensitisation, awareness and education of stakeholders and the general public at large.

# Appendices

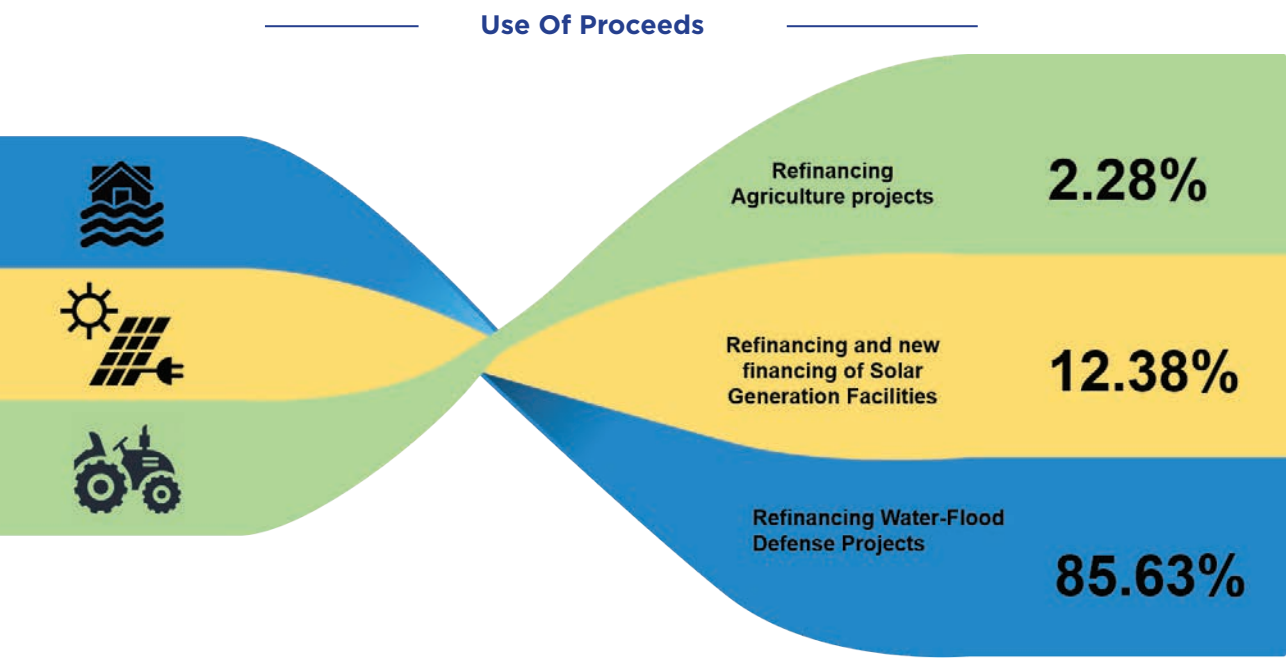
## Corporate Green Bonds in Nigeria

Following the sovereign green bond issuance of ₦10.69 billion in December 2017, the Nigerian DCM witnessed the issuance of two (2) corporate green bonds by Access Bank PLC and North South Power Company Limited in 2019.

### A summary of the corporate green bonds issued in the Nigerian DCM

#### Access Bank PLC

Access Bank PLC issued the first CBI Certified corporate green bond in Africa, raising ₦15.0 billion. The 5-year, 15.50% fixed rate bond was fully subscribed and was awarded an Aa- rating by Agosto & Co., with its underlying framework verified by PricewaterhouseCoopers UK (“PwC”). Ahead of the issuance of its green bond, Access Bank PLC established a Green Bond Committee to identify opportunities and support its clients by financing low-carbon businesses. Access Bank designed a Green Bond Framework (“GBF”), with the support of the Programme Implementing Parties, to guide the Bank’s approach to financing/re-financing of identified eligible green assets and projects. Proceeds from the bond issued were applied to finance / re-finance verified identified eligible green assets and projects geared towards climate smart agriculture, energy efficiency and renewable energy in accordance with the GBF.

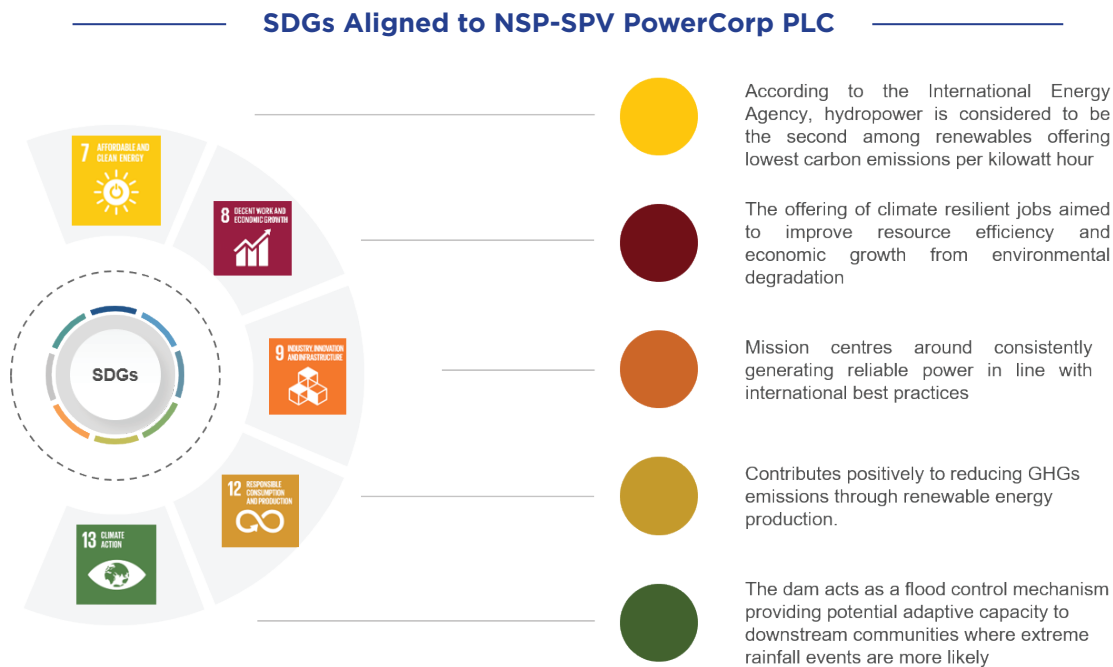


Source: Access Bank Group Media Report



## North South Power Company Limited

North South Power Company Limited (“NSP”), through the NSP-SPV PowerCorp PLC issued its Series 1 ₦8.5 billion Green Bond. With InfraCredit’s guarantee, the Series 1 Green Bond was accorded ‘AAA’ credit rating by Augusto & Co. and Global Credit Ratings Co. and issued on February 2019 as the first certified corporate green bond and the longest tenured (15 years) corporate bond issued in the Nigerian debt capital markets approved by the SEC. The development of the Green Bond Framework and the pre-issuance verification were obtained through technical assistance support from the African Local Currency Bond Fund (“ALCBF”), an initiative of KfW Development Bank.



Source: North South Power Company Limited

The Series 1 Green Bond was certified by TUV NORD CERT, an approved verifier under the Climate Bonds Standard, in conformance with ICMA’s Green Bond Principles, Nigerian Federal Ministry of Environment’s Green Bond Guidelines, and the Green Bonds Issuance Rules of the Nigeria Securities and Exchange Commission. USAID Power Africa supported NSP with the technical due diligence on the plant in connection with the transaction. The proceeds from the Series 1 Green Bond is to be used to refinance past eligible and future eligible projects in renewable energy, specifically hydropower and solar power generation.

# Events in Pictures



Formalisation of the Cooperation Agreement between FMDQ, CBI and FSD Africa in March 2018



Official Launch of the Nigerian Green Bond Market Development Programme in June 2018



Participants at the Focused training for Sterling Bank PLC in September 2018



Delegates at the Series 2 Regulators Training, Abuja, in September 2018



Participants at the maiden Investors Capacity Building and Training in October 2018



Delegates from the Capital Markets Correspondents Association of Nigeria (“CAMCAN”) at the Media Engagement Workshop in May 2019

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## Note

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