



Nigeria: Sovereign green bonds for climate action

Policy Development Facility Phase II (PDF II) supported Nigeria in becoming the first country in Africa (and the fourth globally) to issue a sovereign green bond. This was also the first sovereign bond certified using the Climate Bonds Standard.ⁱ It raised ₦ 10.7 billion (US\$ 29 million) to fund solar power and afforestation projects that will benefit the Nigerian economy and livelihoods as well as reduce greenhouse gas emissions. A second bond raised a further ₦ 15 billion (US\$ 42 million) and will fund a wider portfolio, and a third is now being considered.

Introduction

Nigeria is the largest economy in sub-Saharan Africa, but a third of its population still lives below the poverty line and it is highly dependent on income from oil. Nigeria's nationally determined contributions under the UN Framework Convention on Climate Change's Paris Agreement therefore prioritise greenhouse gas reduction projects that will help to diversify the economy, boost sustainable growth and deliver pro-poor development.

Under a business-as-usual growth scenario, Nigeria's greenhouse gas emissions are predicted to increase to around 900 million tonnes per year by 2030. Nigeria has committed to reducing that total by 20% by 2030, or by 45% if there is sufficient international support. Assistance through PDF II is intended to contribute to helping Nigeria strive for this latter target.

Afforestation and reforestation are key priorities. Over the past 40 years, Nigeria has lost 80% of its forest cover, with impacts on carbon stocks, soil quality and rainfall, and thus farming and food security. Other priorities include developing off-grid solar power, enhancing energy efficiency across

the economy, improving the electricity grid, installing efficient gas generators, ending gas flaring by 2030 and transitioning to more climate-friendly forms of transportation.

It is expected that most of these measures will achieve three key objectives: reduce emissions, contribute to economic growth and help Nigeria meet its commitments under the Paris Agreement. In order to finance the measures, an Embedded Adviser provided by PDF II developed a strategic approach that allowed the ministries of finance and environment to adopt a borrowing plan for green projects within the existing budget. The Federal Ministry of Finance then supported the issuance of a pilot green bond.

Road to change

Nigeria announced its intention to issue a green bond during New York's Climate Week in 2016. Capital market operators and investors were subsequently invited to an exploratory stakeholder forum in Nigeria in September, and the Vice President and several ministers participated in an investment forum in February 2017 to prepare the market for the issuance of the green bond.

The Embedded Adviser provided a wealth of information about the policy, strategic and administrative requirements to issue a five-year green bond. Advice included guideline drafting, operational steps, criteria for identifying green projects and capacity development support to relevant government institutions. The Embedded Adviser also helped to secure the support of the Ministry of Finance to include the green bonds in Nigeria's annual borrowing plan to fund projects in the national budget. These projects are approved through the Inter-Ministerial Committee on Climate Change.

A green bond secretariat, collectively managed by the environment, finance, and budget and national planning ministries, was created to fulfil new administrative and reporting obligations. These ministries also participate in a Green Bond Advisory Group, along with representatives from the World Bank, the African Development Bank, the International Finance Corporation, the United Nations Environment Programme, the Climate Bond Initiativeⁱⁱ and capital market operators.

A Program Technical Advisory Team (PTAT) was set up to guide specialist technical advisers, with support from the World Bank. An initial budget of ₦ 125 million (US\$ 345,000) was allocated to support technical and administrative processes. A follow-on allocation of ₦ 500 million (US\$ 1.38 million) was provided for the PTAT and a number of administrative requirements for the second green bond.

Milestones

Prioritising solar power and afforestation

Solar power took pride of place in the pilot bond, benefiting from 81% of the proceeds.ⁱⁱⁱ Two projects were chosen: the Energizing Education Programme, which will initially fund solar power for seven universities; and the Renewable Energy Micro Utility, to provide solar power to off-grid communities. The balance of the fund financed afforestation, which restores carbon cover and enhances rural livelihoods by planting trees that farmers and communities can use.

Meeting green bond and climate bond standards

Second-party opinions are essential to attracting investment for green bonds, and the pilot bond received two such opinions, despite requiring only one. Moody's assigned a Green Bond Assessment of GB1 (Excellent). DNV GL required some final adjustments to the planned project structures, then verified that they met the Climate Bonds Standard. This ensures that climate bonds are robust and transparent, that funds will be used for activities with enhanced sustainability performance, and that safeguards are in place to ensure proceeds are used as planned.

Energising education in Nigeria

Green bond funding supports the first phase of a plan to ensure uninterrupted power supply for students in 37 universities, and medical professionals in seven university teaching hospitals, by installing solar power and decommissioning diesel generators. The programme aims to establish a world-class renewables training centre in every university, and to create 20 internships per university, enabling female students to acquire hands-on experience designing and constructing power plant systems, streetlights and training centres. A total of 180 female students are currently enrolled.



Reaching out to institutional investors

In the final stages, the Embedded Adviser facilitated weekly calls among the capital market operators, who were central to consolidating the reports provided by the PTAT with the requirements for a prospectus. Financial and legal transaction advisers were appointed, and the Embedded Adviser helped organise two road shows, in Abuja and Lagos, for potential institutional investors.

Issuing the first 'pilot' green bond

By September 2017, the Debt Management Office had approved the prospectus for use in the issuance of the green bond. The bond, for ₦ 10.7 billion (US\$ 29 million), was successfully issued in December 2017. It was oversubscribed by 1.12%, with Pension Fund Administrators taking up 73% of the issued amount. The bond is listed on the Nigerian Stock Exchange and the FMDQ Securities Exchange.

Building on success

A second green bond was prepared and issued in June 2019. It was oversubscribed by 220%, demonstrating increasing awareness and interest. The ₦ 15 billion (US\$ 42 million) raised will finance afforestation, reforestation and ecological restoration projects, off-grid solar and wind farm equipment, and irrigation.^{iv}

Lighting the way

PDF II's support has been pivotal to Nigeria's successful introduction of sovereign green bonds to generate climate finance. The Embedded Adviser advised this ambitious foray into climate finance and, as a result, green bonds are now an accepted financing mechanism in Nigeria, with a third bond process under consideration. Two corporate bonds have also been issued, by Access Bank (₦ 15 billion/US\$ 41.4 million) and North South Power (₦ 8.5 billion/US\$ 23.5 million).

The approach has also catalysed wider engagement: the Nigeria Green Bond Market Development Programme was launched in June 2018 to encourage non-sovereign green bonds and develop a domestic green bond market.^v

Issuing the first bond involved a steep learning curve, and new administrative structures and channels of communication, all of which remain in place for future green bonds. Ministries and departments are setting more realistic project targets, and there is a better understanding of budget and staffing requirements and the need for sector-specific expertise. The process had numerous positive knock-on effects. The offshore naira bond being issued by the Ministry of Finance, Budget and National Planning will likely benefit from adapting the administrative processes developed for green bonds. The Securities and Exchange Commission has now produced green bond rules that have launched a local corporate market. The Nigeria Stock Exchange has also issued green bond listing rules, and capital market operators have developed an understanding of the link between green bonds and commitments under the Paris Agreement.

Attention is now turning to the need to enhance project monitoring and reporting on targets. The Ministry of Environment plans detailed and transparent biannual reports and the Central Bank of Nigeria will also publish periodic reports on the green bond account and how proceeds have been used.

A third green sovereign bond and corporate green bonds are now being planned. However, it is recognised that domestic capacity and expertise, though much improved, are still insufficient. Ongoing support from external specialists, including the Embedded Adviser, is still needed, and a further tranche of ₦ 500 million (US\$ 1.38 million) has been approved by the World Bank.

Overall, Nigeria's sovereign green bonds success has sent a strong signal to local markets and international players that Nigeria is committed to diversifying its economy by developing a raft of pro-poor projects that will help the country reduce its greenhouse gas emissions.^{vi}

ⁱ IFC (2018). Sustainable Banking Network Quarterly Newsletter: February 2018. www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn_news_2018-02

ⁱⁱ Climate Bonds Initiative (2017). Nigeria Issues Climate Bonds Certified Sovereign Green Bond: Signals 'more to come' as part of Paris NDC objectives. 19 December 2017. www.climatebonds.net/2017/12/nigeria-issues-climate-bonds-certified-sovereign-green-bond-signals-%E2%80%98more-come%E2%80%99-part-paris. Also NIPC (2017). Climate Bonds Welcomes First Meeting of Nigeria Green Bond Advisory Group. Nigerian Investment Promotion Commission. 13 January 2017. <https://nipc.gov.ng/2017/01/13/climate-bonds-welcomes-first-meeting-nigeria-green-bond-advisory-group/>

ⁱⁱⁱ Climate Bonds Initiative (2017). Sovereign Green Bonds Briefing. www.climatebonds.net/files/files/Sovereign_Briefing2017.pdf

^{iv} Premium Times (2019). Nigeria's 2nd Sovereign Green Bond issue yields 220% subscription-DMO. 13 June 2019. www.premiumtimesng.com/business/334959-nigerias-2nd-sovereign-green-bond-issue-yields-220-subscription-dmo.html

^v Climate Bonds Initiative (2019). Nigeria: Access Bank 1st Certified Corporate Green Bond in Africa: Leadership in Green Finance. www.climatebonds.net/2019/04/nigeria-access-bank-1st-certified-corporate-green-bond-africa-leadership-green-finance

^{vi} Climate Bonds Initiative (2017). Sovereign Green Bonds Briefing. www.climatebonds.net/files/files/Sovereign_Briefing2017.pdf



About us

Policy Development Facility Phase II (PDF II), funded with UK aid from the UK government, is a flexible, rapid-response facility set up to support Champions of Change in implementing economic and social policies that lead to poverty reduction in Nigeria. Its goal is to provide Champions of Change with improved capacity and evidence to enable them to pursue vital economic and social reforms.

