Nigeria Green Bond Guidelines

https://environment.gov.ng/index.php/index?what=MTIyKlwwMSo5M2E2OTgxOWYwZWExN2I2YjA5ZDQxZTIzOThhMzUyMw%3D%3D&title=R3JlZW4gQm9uZHMqXDAxKmI2NDNhNGY4MjhlOGUyMmY0YjYzZWM5ZGRlMjZkMGNk

Ministry of Environment

Green Bonds
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Green Bonds

Green Bonds enable capital-raising and investment for new and existing projects with environmental benefits. The nationally determined contributions (NDC) reflect Nigeria's commitment to the COPs of the UNFCCC in reducing the impact of climate change. It has significant overlaps with the nations development objectives and provides a platform to redirect resources in an effective manner that can have a dual impact, key development targets such as power and agriculture and emissions targets in both renewable and energy efficiency.

The resources needed to achieve the targets in the NDCs by 2030 are put at some USD142billion, translating to about USD10billion per annum. Nigeria's confirmed recession and reduction in its main source of income requires creative and directed means to mobilize resources that will fill its funding gap while also ensuring that project implementation achieves the expected outcomes.

The expansion of the global market for Green bonds presents an opportunity to join the momentum to provide resources for the NDCs. Nigeria's relatively developed fixed income market provides a platform for a pilot green bond. However, the fixed income market is dominated by FG debt with a limited slice attributed to the private sector.

A green bond issuance is expected to have multiple objectives:

a. Issuance of an FG backed Green bond to kick start the market
b. Achieve greening of FG debt portfolio and budget
c. Leverage pilot issuance to mobilize private sector issuance of Green bonds with sensitization of operators in order to ensure ownership of the process
d. Reduction if FG share of fixed income market with larger representation from private sector issuers
e. Ensuring that the oversight tools are in place to guarantee segmentation of resources and implementation of projects

Objectives of Issuance

The issuance of a Green bond will enable the country achieve the following:

a. Raise awareness of economic benefits of the themes in the NDC
b. Develop framework guidance for subsequent tranches.
c. Increase financial and industry sector confidence in either issuing green bonds or financing green projects.

d. Establish internal capacity to monitor issuer performance and aggregate information to report back to investors and the UNFCCC

e. Leverage partner programs and funds to direct resources towards providing technical support or participation in green bond issuance

Initiatives that will drive implementation

a. Build institutional base within the capital market for regular green bond issuance

b. Build capacity within Federal ministry of Environment for oversight

c. Develop dialogue across relevant MDAs to regularly identify projects and redirect resources to initiate or scale

d. Periodic interface with Ministry of Budget and National Planning and Finance on the outcomes

Guidelines

These Green Bond Guidelines (GBG) are issued by the Federal Ministry of Environment (FMEnv) to guide the process for issuance of green bonds targeted at the Nigeria market. The GBG are intended for broad use by the market: they provide the FMEnv a means to ensure resources raised are channeled towards activities that compliment the NDCs; they provide issuers with guidance on the key components involved in launching a credible Green Bond; they aid investors by promoting availability of information necessary to evaluate the environmental impact of their Green Bond investments; and they assist underwriters by moving the market towards expected disclosures which will facilitate transactions. The GBG recommend a clear process and disclosure for issuers, which investors, banks, investment banks, underwriters, placement agents and others may use to understand the characteristics of any given Green Bond. The GBG emphasize the required transparency, accuracy and integrity of information that will be disclosed and reported by issuers to stakeholders. The GBG has four components:

a. Use of Proceeds

b. Project Eligibility

c. Management of Proceeds

d. Reporting

Use of Proceeds

The cornerstone of a Green Bond is the utilization of the proceeds of the bond for Green projects which should be appropriately described in the legal documentation for the security. All designated Green Project categories should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer. Linkage with key targets in the NDCs will be an equally important consideration. The projects should include mitigation of and adaptation to climate change.

In the event that all or a proportion of the proceeds are or may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.

The GBG explicitly recognize several broad categories of eligibility for Green Projects aiming to address key areas of concern such as climate change, natural resources depletion, loss of biodiversity and/or pollution control. The list is intended to be indicative and capture the most commonly used types of projects supported or expected to be supported by the Green Bond market.

Project Eligibility

The issuer of a Green Bond should outline:

a process to determine how the projects fit within the eligible Green Projects categories identified below;

i. Mitigation

a. Theme   Equivalent NDC Target Project Type

b. Energy Efficiency 2% per year energy efficiency (30% by 2030)

c. Efficient gas generators Investments in equipment, systems and services which result in more efficient use of energy

d. Resource Efficiency Work towards ending gas flaring by 2030

e. Improve electricity grid Investments to improve industry processes that enhance energy conversion

f. Renewable Energy Work towards Off-grid solar PV of 13GW (13,000MW) Investments in equipment, systems and services which enable renewable energy

g. Clean Technology Transport shift – car to bus Investments in manufacturing of components that support renewables

ii. Adaptation

a. Theme NDC Target Project Type

b. Sustainable Forest Management   Climate smart agriculture and reforestation   Investments in initiatives that benefit sustainable agriculture, fishery, aquaculture, forestry and climate smart farm inputs such as biological crop protection or drip-irrigation

c. the related eligibility criteria; and

d. the environmental sustainability objectives and association with the NDCs

The GBG encourage a high level of transparency and recommend that an issuer's process for project evaluation and selection be supplemented by consultations with the FMEnv.
In addition to information disclosed by an issuer on its Green Bond process, criteria and consultations, Green Bond investors may also take into consideration the quality of the issuer's overall profile and performance regarding environmental sustainability.

Management of Proceeds

The net proceeds of Green Bonds should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process linked to the issuer's lending and investment operations for Green Projects. So long as the Green Bonds are outstanding, the balance of the tracked proceeds should be periodically adjusted to match allocations to eligible Green Projects made during that period. The issuer should make known to investors the intended types of temporary placement for the balance of unallocated proceeds.

The GBG encourage a high level of transparency and recommend that an issuer's management of proceeds be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Green Bond proceeds.

- **a.** Measures of Financial Impact (applies to FG Issuing entities)
- **b.** Contributions to revenues (taxes)
- **c.** Reduction in costs of operations

Reporting

Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and as necessary thereafter in the event of new developments. This should include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact.

- **a.** Annual energy savings
- **b.** Annual GHG Reduction
- **c.** Amount of Renewable Energy Produced
- **d.** Capacity of the Project

Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the GBP recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories). Transparency is of particular value in communicating the expected impact of projects. The GBG recommend the use of qualitative performance indicators and, where feasible quantitative performance measures (e.g. energy capacity, electricity generation, greenhouse gas emissions reduced / avoided, number of people provided with access to clean power, reduction in the number of cars required, etc.) with the key underlying methodology and / or assumptions used in the quantitative determination. Issuers with the ability to monitor achieved impacts are encouraged to include those in their regular reporting.

Consultations

It is recommended that issuers engage with the Climate Change Department of the Federal Ministry of Environment to confirm the alignment of their Green Bonds with the key features of the GBG as defined above.