INFORMATION SHEET

FEDERAL MINISTRY OF ENVIRONMENT (DEPARTMENT OF CLIMATE CHANGE)

Green Bonds Nigeria

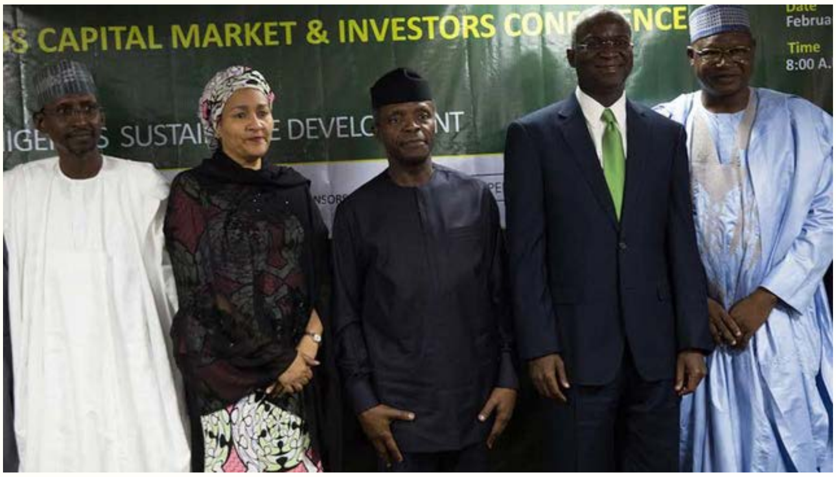
GREEN BONDS FOR SUSTAINABLE DEVELOPMENT

What is Green Bond?
Green Bonds are any type of bond instrument where the proceeds are exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible green projects that align with the four core components of the Green Bond Principles (GBP).

The Green Bond Principles (GBP) are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. The Green Bond Principles recommend a clear process and disclosure for issuers, which investors, banks, underwriters, placement agents and others may use to understand the characteristics of any given Green Bond. The GBP have four core components:

- **Use of Proceeds**
- **Process for Project Evaluation and Selection**
- **Reporting**
- **Management of Proceeds**

This is the cornerstone of a Green Bond which requires that utilization of the proceeds of the bond are exclusively for Green Projects. All designated Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer.



Nigeria Green Bond
Nigeria's N10.69 billion Sovereign Green Bond issued on December 18, 2017, is the world's first fully-certified sovereign green bond. The fully subscribed bond's tenor is five years, and investors would receive a 13.48 per cent annual coupon, creating high expectations for the environmental projects linked to the government's use of proceeds from the bond.

The green bond series II was issued on 11th of June 2019 for N15b to fund three themes in its NDCs, renewables, sustainable forest management and clean transport. This issuance also resulted in an expanded pool of ministries departments and agencies participating, from 2 in the pilot to 6 in this second green bond. The green bond is expected to be priced at 14.5% for a tenor of 7 years.

NEWMAP gef THE WORLD BANK SCCF Special Climate Change Fund

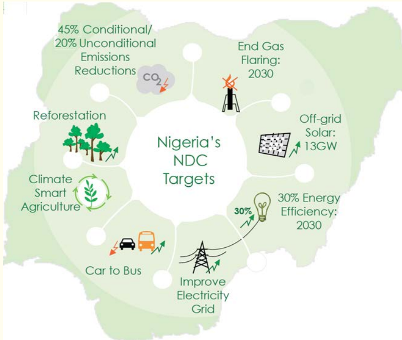
Background

The Federal Government of Nigeria launched its National Development plan, the Economic Recovery and Growth Plan (ERGP) in 2016. Program 47 of the ERGP has the objective of regular issuance of green bonds to address climate related issues, as well as to a new source of funds, front-loaded, to spend at the nexus between environmental protection and enterprise development. Subsequently a green bond advisory group made up of public and private sector representatives, development partners (World Bank, IFC and African Development Bank) as well as Capital Market Operators, was constituted.

The Ministry of Finance 'own' the process with a cross sector collaboration within government Ministries, Department and Agencies (MDAs) that includes the Ministry of Environment with partnerships of the private financial community, including key capital market actors, this also includes the financial and technical support by the World Bank funded Nigeria Erosion and Watershed Management Project (NEWMAP) as well as the Department of Climate change (DCC), federal ministry of Environment

The Objectives

- This is a broader strategy of reducing its dependency on a fossil fuel intensive economy.
- The green bond was a means of creating pathways towards the greater goal of engaging government and financial markets in the merits and opportunities associated with greening Nigeria's economy, as well as being about raising some funds to invest in the here and now".



- Implementation of the FGN Green Bond is to fund Nationally Determined Contributions(NDCs) put at N142 billion by 2030 as part of its commitment to the Paris agreement and as a signatory to the Helsinki Principles, in ensuring a stronger linkage between public finance and climate action
- Initiative aimed at building resilience and sustainably growing Nigeria's economy

Milestones achieved

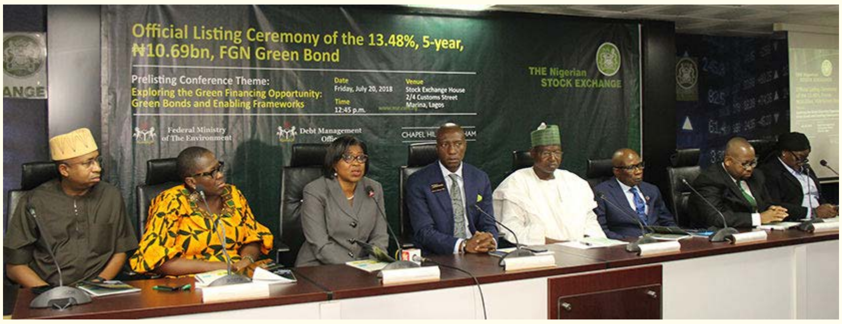
- Development of Nigeria's innovative Green Bonds Project is a major success with NEWMAP acting as a catalyst for the development of a high impact and sustainable program.
- 19 projects identified for funding from Green Bonds with a total cost of USD 100 million.
- First issuance of 10.69 Billion Naira was in December, 2017 for energy and afforestation projects.
- Second issuance was on 11th June, 2019 in the sum of 15 Billion Naira.
- The Federal Government of Nigeria agreed that the second issuance was oversubscribed by more than 2x.

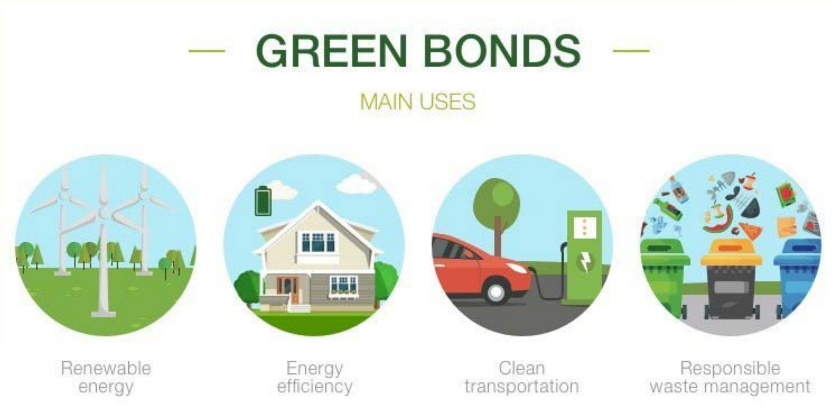
Types of Green Bonds

- There are currently four types of Green Bonds (additional types may emerge as the market develops and these will be incorporated in annual GBP updates):
- Standard Green "Use of Proceeds" Bond: a standard recourse-to-the-issuer debt obligation aligned with the GBP.
- Green Revenue Bond: a non-recourse-to-the issuer debt obligation aligned with the GBP in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and whose use of proceeds go to related or unrelated green project(s).
- Green Project Bond: a project bond for a single or multiple green project(s) for which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer, and that is aligned with the GBP.
- Green Securitized Bond: a bond collateralized by one or more specific green project(s), including but not limited to covered bonds, ABS, MBS , and other structures; and aligned with the GBP. The first source of repayment is generally the cash flows of the assets.

Benefits

- Green bonds provide all the benefits that regular bonds provide such as low risk, fixed





regular income, tradability, tax savings and capital appreciation.

Benefits to Issuers

- Diversification and/or expansion of the investor base
- Access to new investors such as sustainable funds (which consider Environmental, Social, and Governance issues - ESG), investors with a specific mandate to buy green bonds or with long-term goals (such as pension funds and insurance companies).
- Potential to attract new investments at cheaper costs, on account of the huge demand for bankable green projects over their supply.
- Reputational gains
- More visibility for the green projects.
- Positive marketing instrument differentiating the issuance of green bonds from conventional issuances.
- Recognition of Issuer's commitments related to environmental conservation and to mitigation and prevention of the risks posed by climate change.
- Improve issuer's sustainability goals and develop closer relationships between finance and sustainability professionals.

Benefits to Investors

- More transparency in the use of resource
- The projects funded by green bond proceeds are often structured within the company's long-term strategy and should be aligned with its policy for social and environmental responsibility and governance model for sustainability issues.
- The clarity and demonstration of the use of proceeds in green projects as well as its monitoring may reduce the risks associated with investments.
- Convergence with voluntary commitments
- For specialist investors with sustainability mandates, the availability of green bonds facilitates the identification of projects and target assets in the fixed income market.
- Investments in green bonds facilitate the fulfilment of commitments for asset managers that are signatories to the PRI2 (Principles for Responsible Investment) and IIGCC3 (Institutional Investors Group on Climate Change). These commitments which were undertaken by close to 2,000 organizations in international markets direct investment in projects that promote sustainable environmental and social development.

Benefits to Financial Market

- Green bonds enhance the reputation of institutions that offer green bonds and also promote interests in investments that deliver sustainable development;
- Green bonds attract investors outside the domestic financial markets;
- Green bonds foster a greater level of transparency and institutional accountability in the delivery of sustainable development.

Process of Project Evaluation

The issuer of a Green Bond is required to clearly communicate to investors
- the environmental sustainability objectives;
- the process by which the issuer determines how the projects fit within the eligible Green Projects categories identified above;
- the related eligibility criteria, including, if applicable, exclusion

criteria or any other process applied to identify and manage potentially material environmental and social risks associated with the projects

Management of Proceeds

The net proceeds of the Green Bond, or an amount equal to these net proceeds, are required to 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 the issuer in a formal internal process linked to the issuer's lending and investment operations for Green Projects. For as long as the Green Bond is outstanding, the balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible Green Projects made during that period.

Issuers are required to make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in case of material developments. The annual report 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.

The Green Bond Principles stipulate that eligible projects include, but are not limited to, the following:

renewable energy (including production, transmission, appliances and products);

- energy efficiency (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products);

- pollution prevention and control (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission efficient waste to energy);

- environmentally sustainable management of living natural resources and land use (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally-sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes);

- terrestrial and aquatic biodiversity conservation (including the protection of coastal, marine and watershed environments);

- clean transportation (such as electric, hybrid, public, rail, non-motorized, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions);

-sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation);

-climate change adaptation (including information support systems, such as climate observation and early warning systems);

-eco-efficient and/or circular economy adapted products, production technologies and processes (such as development and introduction of environmentally sustainable products, with an eco-label or environmental certification, resource-efficient packaging and distribution);

-green buildings which meet regional, national or internationally recognized standards or certifications.

Tonakawa Green Bonds financed solar farm

Nigeria's Nationally Determined Contributions

For a domestic Green bond issuer, the projects must align with Nigeria's Nationally Determined Contributions which include

- Work towards ending gas flaring by 2030
- Work towards Off-grid solar PV of 13GW (13,000MW)
- Efficient gas generators • 2% per year energy efficiency (30% by 2030)
- Transport shift car to bus • Improve electricity grid
- Climate smart agriculture and reforestation.

This is a publication of the Green Bond Secretariat, Department of Climate Change, Federal Ministry of Environment, Green Building. Maitama Abuja