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THE FUTURE OF GREEN BONDS IN NIGERIA AND IMPLICATIONS FOR FINANCE LAWYERS

Executive Summary

Nigeria, a trailblazer in African sustainable finance, has emerged as a key player in the global green bond market, with its sovereign green bonds being the first of their kind in Africa. This article examines the burgeoning green bond landscape in Nigeria, driven by government commitment, expanding institutional participation, and growing investor appetite for ESG-linked investments. It delves into the regulatory environment, highlighting the crucial roles of the Securities and Exchange Commission (SEC), the Nigerian Stock Exchange (NGX), and the Central Bank of Nigeria (CBN). Furthermore, the article explores the evolving legal complexities and the increasing demand for finance lawyers with specialized expertise in sustainable finance, regulatory compliance, and risk mitigation, particularly in addressing challenges like greenwashing and market readiness. As Nigeria plans significant green bond issuances in 2025, finance lawyers are poised to play a pivotal role in shaping the nation's sustainable economic growth.

Introduction

In recent years, the global financial markets have experienced a profound shift towards sustainable financing, with green bonds emerging as a pivotal tool for raising capital dedicated to environmentally friendly projects. Nigeria, as one of Africa's largest economies, has shown increasing commitment to green finance, evidenced by the successful issuance of its sovereign green bonds, marking a significant milestone for sustainable finance in Africa. This pioneering move has positioned Nigeria as a leader in leveraging financial instruments for environmental stewardship.

For finance lawyers, this shift presents new opportunities and challenges, requiring specialized expertise in sustainable finance, regulatory compliance, and risk mitigation.

This article explores the future of green bonds in Nigeria, the regulatory landscape, emerging legal complexities, and how finance lawyers can position themselves for relevance in this evolving sector.

Understanding Green Bonds

Green bonds are fixed-income securities designed to fund projects with environmental and climate-related benefits, such as investments in renewable energy, sustainable infrastructure, water conservation, waste management, and climate adaptation initiatives, etc. The issuance of green bonds follows stringent standards, such as the Green Bond Principles (GBP), developed by the International Capital Market Association (ICMA).

The Green Bond Principles (GBP) are voluntary guidelines designed to support the development of the green bond market. These Principles provide a framework for issuers to structure and market their green bond issuances, in a manner that promotes transparency and integrity in the green bond market.

Key Characteristics of Green bonds

- **Use of Proceeds:** Funds raised from green bonds must be allocated exclusively to eligible green projects.
- **Transparency & Reporting:** Issuers of green bonds are required to disclose how funds are used through periodic reports which are expected to highlight the impact of the green bonds on the projects. For example, reports might detail reductions in carbon emissions, improvements in water quality, or the amount of renewable energy generated by funded projects.
- **Project Evaluation and Selection:** Issuers are encouraged to clearly state the selection criteria for green projects, ensuring that they align with established definitions from the ICMA. External reviews or certifications is encouraged to enhance credibility and investor confidence.
- **Management of Proceeds:** Issuers are required to clearly indicate how the green Bond proceeds will be managed and how those funds will be linked to green Projects.

The ICMA Green Bond Principles are used by various entities including governments, corporations, and financial institutions to ensure that green bonds are issued in full compliance with the ICMA rules. As a result of the improved standards brought about by the ICMA Green Bond Principles, the global green bond market has expanded rapidly, surpassing \$2 trillion in cumulative issuance as of 2024. Nigeria's involvement in this space underscores its commitment to sustainable development and climate action.

The Growth of Green Bonds in Nigeria

Nigeria officially entered the green bond market in 2017, with the issuance of a 10.69 billion (\$29 Million) Sovereign Green Bond, marking a milestone for sustainable finance in Africa. This pilot green bond was described by the Ministry of Environment as a "Pilot Sovereign" of a foreshadowed 150 Billion Green Bond Programme targeted at providing funding for a range of renewable energy, afforestation and environmental projects. This successful issuance made Nigeria the first African nation and fourth nation globally to issue a Sovereign Green Bond, raising USD29 million in a Climate Bonds Certified Issuance.

In 2019, Nigeria rolled out a second Sovereign Green Bond worth 15 billion (\$41 Million) with a five-year term at a 15.50% fixed rate.

The Federal Government of Nigeria recently revealed plans to issue a third and fourth tranche of green bonds worth 300 billion (\$200 million) in 2025, deepening Nigeria's commitment to sustainable finance and climate-resilient infrastructure. According to Balarabe Lawal, Minister of Environment, the bonds will be offered in two tranches: 50 billion before the end of May 2025, and 250 billion in October, pending regulatory approval and favorable market conditions.

The issuance will be coordinated by the Debt Management Office (DMO), with proceeds allocated to projects focused on clean energy, sustainable agriculture, afforestation, and transport initiatives, aligning with Nigeria's updated Nationally Determined Contributions (NDCs) under the Paris Agreement.

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Factors Driving Green Bond Growth in Nigeria

● Government Commitment to Sustainability

- Nigeria's ratification of the Paris Agreement and commitment to reduce carbon emissions has helped to drive the growth of green bonds in Nigeria.
- The Federal Government's intentional integration of green financing into national policies is providing significant push to drive the growth of green bonds in Nigeria.

● Expanding Institutional Participation

- Private sector entities and Development Finance Institutions (DFIs) are now considering green bond issuances thus accelerating acceptance of green bonds in Nigeria.
- The regulatory support initiated by Central Bank of Nigeria (CBN) through its introduction of regulations and guidelines for green finance provides comfort for investors, thus accelerating the growth of green bonds.

● Investor Appetite for ESG-linked Investments

- Global investors prioritizing Environmental, Social, and Governance (ESG) - compliant financial products has contributed in the growth and acceptance of green bonds in Nigeria.
- The participation of Nigerian Pension Funds (NPF) and other institutional investors embracing green bonds also helped in giving the necessary push for green bonds.

Despite these advancements, several challenges including regulatory gaps, limited awareness, and market readiness must be addressed for green bonds to thrive in Nigeria.

Regulatory Landscape for Green Bonds in Nigeria

Finance lawyers play a critical role in navigating the regulatory environment surrounding green bonds. Key regulatory bodies and frameworks governing green finance in Nigeria include:

1. The Securities and Exchange Commission (SEC) of Nigeria; Green Bond Rules

The **SEC Green Bond Rules** provide guidelines on:

- Eligibility criteria for green bond issuers.
- Mandatory environmental impact disclosure requirements.
- Certification and verification procedures.

2. The Nigerian Stock Exchange (NGX) Green Bond Listing Rules

The NGX has developed listing requirements that enhance the credibility and transparency of green bonds traded in Nigeria's capital market.

3. The Central Bank of Nigeria (CBN) Guidelines on Sustainable Banking

The CBN's Sustainable Banking Principles mandate financial institutions to integrate environmental and social risks into their operations. This impacts banks issuing or underwriting Green bonds.

4. International Regulatory Standards

Finance lawyers must understand global sustainability regulations, such as:

- The Green Bond Principles (GBP) by ICMA.
- The EU Taxonomy for Sustainable Finance (impacting foreign investments): The EU Taxonomy for Sustainable Finance impacts foreign investments by creating a framework to classify and assess environmentally sustainable economic activities, which can be used as a basis for identifying and investing in projects that align with EU climate and sustainability goals. This taxonomy helps investors understand the sustainability of projects, reduce greenwashing, and direct investment towards activities that contribute to the European Green Deal.
- The Climate Bonds Initiative (CBI) standards: The Climate Bonds Initiative (CBI) standards provide a framework for investors and issuers to identify and assess the climate credentials of green bonds and other low-carbon investments. The Climate Bond Standard, developed by CBI, is a science-based, multi-sector standard that allows for easy evaluation of green bonds and ensures their alignment with low-carbon goals. This standard also mandates external verification of green bonds by recognized assessors, as outlined by the Climate Bond Standard Board.

As the market grows, finance lawyers will need to advise clients on compliance, certification process, and ensure adherence to sustainability standards.

Implications for Finance Lawyers

1. Growing Demand for Sustainable Finance Expertise

Green bonds introduce complex financial structuring, requiring lawyers to specialize in ESG compliance, sustainable finance, and impact assessment. This includes understanding specific environmental metrics and reporting requirements.

2. Structuring Green Bond Transactions

Finance lawyers must acquire the skills and knowledge of Green finance to be able to draft watertight legal documentation. Some of the legal documents required to facilitate a green bond includes:

- Green Bond Prospectuses and Terms.
- Investor Disclosures on Fund Allocation.
- Agreements For External Certification and Verification.

3. Advising Clients on Regulatory Compliance

Companies seeking to issue green bonds need legal guidance on meeting SEC rules, NGX listing requirements, and global ESG frameworks. Lawyers will be crucial in navigating the often-complex interplay between national and international regulations

4. Addressing Greenwashing Risks

Greenwashing is the practice of misrepresenting projects as environmentally sustainable when they are not. This situation poses serious risks to all stakeholders, especially the Bondholders. Lawyers must ensure proper due diligence, independent audits, and third-party verifications while facilitating a green bond transaction to avoid the exposure associated with Greenwashing. This involves meticulously verifying project eligibility and impact reporting.

5. Litigation & Dispute Resolution in Green Finance

As green bonds become mainstream, disputes may arise around:

- Misuse of bond proceeds.
- Failure to meet sustainability commitments.
- Investor claims regarding ESG disclosures.

Finance lawyers must understand the Jurisprudence of green finance to accurately represent their clients in potential lawsuits, regulatory sanctions, and investor protection claims.

Challenges Facing Green Bond Adoption in Nigeria

Despite promising growth, several challenges need to be addressed for the green bond market to fully flourish in Nigeria:

1. Limited Awareness & Market Readiness

Despite the issuance of sovereign green bonds, corporate participation remains low. Thus, education and advocacy are needed to create awareness among potential corporate issuers and investors on the benefits and process of green finance. This involves targeted workshops, seminars, and clear communication campaigns.

2. High Certification Costs

Green bond verification can be expensive, consequently discouraging smaller issuers. Subsidies and government incentives, and the development of more localized, affordable certification bodies are needed to promote accessibility to green bond Verification processes and standards.

3. Lack of Uniform ESG Regulations

Nigeria needs lacks comprehensive and uniform ESG Regulations. A unified national green finance policy aligned with international frameworks is required for Nigerian green financing to attain international standards and attract more foreign investment. This would provide greater clarity and certainty for all market participants.

● Market and Liquidity Risks

Although the green bond market is expanding in Nigeria, it still faces lower liquidity compared to conventional bonds, particularly in emerging markets. This can affect secondary market trading and investor exit options. Legal Counsel should advise clients on structuring green bonds in a manner that enhances marketability such as thorough transparent metrics and ensuring the underlying projects align with investor expectations. Strategies to improve secondary market liquidity, such as active market making or specific trading platforms, could also be explored.

Opportunities for Finance Lawyers

To remain relevant and competitive, in the green bond transformation, finance lawyers must:

- Develop expertise in ESG and sustainable finance regulations potentially through dedicated courses or certifications.
- Collaborate with financial institutions and regulatory bodies, and environmental consultants to offer integrated solutions.
- Offer advisory services on green bond structuring and risk mitigation, and compliance, becoming indispensable partners in the issuance process
- Engage in policy advocacy to shape Nigeria's green finance regulations, contributing to a more robust and supportive legal framework.

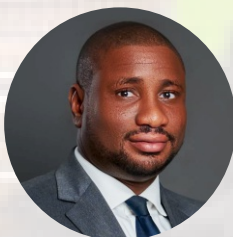
With Nigeria's commitment to climate action and sustainable development, finance lawyers have a crucial role to play in shaping the Green Bond market.

Conclusion

The future of green bonds in Nigeria looks promising, driven by government policies, investor demand, and regulatory frameworks. However, legal complexities, market challenges, and compliance risks require finance lawyers to adapt, specialize, and position themselves as key advisors in sustainable finance.

With the right expertise, regulatory awareness, and strategic positioning, finance lawyers in Nigeria can leverage green bonds as a transformative financial tool, ensuring compliance, transparency, and long-term sustainability in the nation's economic growth. This active engagement will be critical in unlocking the full potential of green finance in Nigeria's journey towards a more sustainable future.

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