



**FEDERAL GOVERNMENT OF NIGERIA**  
**GREEN BONDS**  
FREQUENTLY ASKED QUESTIONS





# GREEN BONDS FREQUENTLY ASKED QUESTIONS

## 1. What are Green Bonds?

Bonds are debt securities issued by Governments, Governmental Agencies or corporate bodies in order to raise capital. Green Bonds are bonds that are used to raise capital specifically for environmentally friendly projects i.e. projects that are climate friendly and leave little or no adverse effect on the environment.

### For example:

- Reduced or no pollution of land, water or air
- Reduction in carbon emission
- Conservation of natural resources

Green Bonds provide opportunities for investment in the projects that deliver sustainable development. These projects are also referred to as “Qualifying or Eligible Green Projects”. Such projects produce environmental and economic benefits and also help change the economy away from fossil fuels.

## 2. What are the examples of Qualifying or Eligible Green Projects?

They include but are not limited to investments in the following:

Project Category	Examples
1. Renewable Energy	Solar, wind, hydropower
2. Energy Efficiency	Efficient buildings, energy management
3. Sustainable Waste Management	Pollution prevention and control
4. Sustainable Land Use	Forestry, agriculture and aquaculture
5. Conservation	Biodiversity and natural ecosystems
6. Clean Transportation	Rail, mass transit system, Bus Rapid Transit (BRT) schemes
7. Sustainable Water Management	Water treatment plants, water distribution infrastructure, water capture and storage infrastructure

## 3. How are Green Bonds different from regular bonds?

Green Bonds are essentially the same as regular or conventional bonds in terms of deal structure. Green Bonds have financial characteristics that are identical to regular bonds including the credit quality, yield and price at which they are issued. The primary distinguishing characteristic of Green Bonds relate to the use of proceeds, which are typically earmarked or ring-fenced to finance new and existing qualifying projects with environmental benefits. There are also requirements on transparency and disclosure during the life time of the bond such as annual reporting, auditing and proceeds allocation.

## 4. How is the use of proceeds and impact of Green Projects monitored?

There are requirements for reporting, third party auditing and proceeds allocation in the guidelines for Green Bonds. Issuers also provide Reports on both use of proceeds and the impact achieved. These are achieved through:

- External review
- Annual reporting

## 5. What are Green Bond Principles?

The Green Bond Principles (“GBP” or the “Principles”) 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 Principles highlight the importance of tracking proceeds, allocated funds to eligible projects and providing periodic reports on use of proceeds. These additional requirements provide marketing and branding value absent from regular bonds.

## **6. Who issues the National Green Bond Guidelines and Principles in Nigeria?**

The National Green Bond Guidelines and Principles are issued by the Federal Ministry of Environment to facilitate the process for the issuance of Green Bonds targeted at the Nigerian market.

## **7. How are Green Bonds rated?**

The credit ratings of Green Bonds and regular bonds are determined by Credit Rating Agencies. However, Green Bonds have additional rating called the **Green Rating**. This rating assesses the likelihood or extent to which the projects

## **9. When did the concept of Green Bonds start?**

Green Bonds were launched by a few development banks such as the European Investment Bank in 2007 and the World Bank in 2008. Subsequently, in 2013, other Issuers such as Corporates and municipalities also started participating in their issuance.

## **10. What has been the growth and composition of the Green Bond market?**

The Green Bond market is witnessing rapid growth from its pioneering days. The Green Bond market which accounted for issuance of only \$3 billion in 2012, reached over 1500 issuances in 2017 valued at \$155.5 billion, a 78% increase compared to 2016. There were 239 different issuers, more than half of which were new issuers from 37 different countries across the globe.

## **11. What are the Past Sovereign Green Bond Issuance?**

A number of countries have issued Sovereign Green Bond. Poland is the first country to issue a Sovereign Green Bond in December, 2016, followed by France, Fiji, Nigeria, and Belgium in 2017 and Indonesia and Lithuania in 2018. Other countries such as Ghana, Kenya, Morocco and Sweden have expressed interest in doing so.

proposed to be funded by the bond proceeds will be adjudged to be environmentally or climate friendly, or meet the requirements of the Green Bond Standards. This is referred to as “Green Bond Assessments” (GBAs). Rating agencies such as Moody’s provide this assessment. The rating score runs from GB1 (Excellent) to GB5 (Poor).

## **8. Who can issue Green Bonds?**

Green Bonds can be issued by any entity that can issue bonds such as Countries, States, Corporates, banks and Government Agencies

## **12. How remarkable is Nigeria’s debut Green Bond initiative?**

Nigeria became the first African nation to issue a sovereign green bond and the fourth nation in the world to do so in December, 2017 when the government issued N10.69 billion sovereign green bond.

## **13. How was the first Sovereign of Green Bond of Nigeria received?**

The maiden issuance of the Nigerian Sovereign Green Bond was received with much enthusiasm by the Nigerian investment community. This was indicated by their participation at the investment seminars and road shows as well as the positive media coverage of Issuance and listings. The level of subscription by different groups of the investment community also indicated the strong interest shown by investors in the new product and support for the objective behind the issuance.

**14. Was the first Sovereign Green Bond of Nigeria fully subscribed?**

Subscription for the Sovereign Green Bond was oversubscribed at N10.791 billion at the close of the Offer, higher than the N10.69 billion offered

**15. Which Classes of investors invested in the first Sovereign Green Bond of Nigeria?**

A wide range of investors invested in the maiden Sovereign Green Bond of Nigeria. This included Pension Fund Administrators, Commercial Banks, High Networth Individuals, Custodians, Asset Management firms and retail investors

**16. In which project were the Proceeds of the first Sovereign Green Bond of Nigeria invested?**

The proceeds of the first Sovereign Green Bond were invested in the following projects

S/N	Project	Ministry	Description
1	Renewable Energy MicroUtilities in 45 communities	Federal Ministry of Power, Works and Housing	An initiative to provide access to electricity to 45 unserved communities across the country employing mini grids with distributed loads of between 33-50KW per community
2	Energizing Education	Federal Ministry of Power, Works and Housing	A rural electrification initiative that seeks to develop clean off Grid Independent Power Plant
3	Afforestation Program	Ministry of Environment	Afforestation program that aimed to increase forest coverage through the plantation of seedlings to cover 131,000 hectares of land

**17. What is the plan of the government for Green Bonds in Nigeria?**

Green Bonds will form part of the annual borrowing plan of the government as long as there are programs and projects within individual Ministries, Departments and Agencies (MDAs) sector strategies that meet the criteria specified in the Green Bond guidelines issued by the Federal Ministry of Environment.

Further to the success of the last Green Bond issuance, the government plans to issue one or more Sovereign Green Bonds in 2019.

**18. How will the proceeds from the Green Bonds issued by the Federal Government of Nigeria be repaid?**

Repayment of proceeds from Green Bonds issued are subject to the cash flows from the planned use of said proceeds and structure of the bonds. The

last Green Bond issued by the Government have been guaranteed by the full faith and credit of the

Federal Government of Nigeria, hence are to be repaid from cash flows generated by the Federal Government

**19. Can Green Bonds be Listed and Traded?**

Green Bonds are tradable instrument like regular bonds. The Nigerian Green Bond issued in 2017 was listed on The Nigerian Stock Exchange and FMDQ OTC Securities Exchange. Future Issuance may also be listed on these Exchanges.

**20. Is there a secondary market for Green Bonds issued by the Federal Government of Nigeria and if yes, how is it transacted?**

There is a Secondary Market for the Green Bonds issued by the Federal Government. Primary Dealers, Stockbrokers or Asset Management Firms can be contacted to identify counterparties

**21. Will the proposed Nigerian Green Bond be subject to tax?**

By virtue of the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order 2011 (“CIT Order”), the VAT (Exemption of Proceeds of the Disposal of Government and Corporate Securities) Order 2011 (“VAT Order”) and the Personal Income Tax (Amendment) Act 2011 respectively, income earned on Sovereign and Sub-sovereign bonds issued in Nigeria is tax exempt. This will also apply to Green Bonds issued by the government.

**22. Do we have an enabling environment for Green Bonds in Nigeria?**

To facilitate the process for the issuance of Green Bonds in Nigerian, the Federal Ministry of Environment has issued the National Green Bond Guidelines and Principles. Furthermore, Green Bonds issued by the Federal Government will be based on the existing financial and governance regulatory framework for regular bonds issued by the Federal Government through the Debt Management Office. New rules and regulations have been issued by the Securities and Exchange Commission to further deepen the market for Green Bond issuance by subnational and corporate entities. The Nigerian Stock Exchange has also proposed rules for Listing of Green Bonds on The Exchange

**23. How do investors subscribe to the Green Bonds?**

The mode of subscription is to be determined based on the structure of the Green Bond.