Unlocking Climate Finance for Nigeria: Between Aspirations and Realities.

/Public Dialogue and Launch Event/

Date: 16 June, 2022.
Unlocking Climate Finance for Nigeria: Between Aspirations and Realities.
# Glossary

<table>
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<th>Abbreviation</th>
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<tr>
<td>CSOs</td>
<td>Civil Society Organisations</td>
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<tr>
<td>EEP</td>
<td>Energising Education Programme</td>
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<td>ETP</td>
<td>Energy Transition plan</td>
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<td>GCF</td>
<td>Green Climate Fund</td>
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<tr>
<td>MDAs</td>
<td>Ministries, Departments and Agencies of government</td>
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<td>NDCs</td>
<td>Nationally Determined Contributions</td>
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<td>OONP</td>
<td>Old Oyo National Park</td>
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<td>RE</td>
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Introduction

Heinrich Böll Stiftung (HBS) and the Centre for Journalism Innovation and Development (CJID) partnered to host a public dialogue on climate finance, pertaining to how Nigeria can mobilise more resources to mitigate and adapt to the devastating impacts of climate change. The public dialogue also served to launch the report, “Unlocking Climate Finance for Nigeria: Between Aspirations and Realities”.

Nigeria has played a pioneering role in raising climate funds towards its Nationally Determined Contribution (NDC) committed to in 2017 in line with the Paris Agreement. The country has raised two “green bonds” worth N10.69 billion and N15 billion respectively, becoming the first country in Africa to raise a debt instrument entirely for the purpose of financing environmentally sustainable projects.

“Green bonds”, also referred to as “climate bonds”, are a relatively new asset class through which the proceeds of debt instruments are invested in specific projects that will either mitigate the causes of climate change and/or help to adapt its effects.

Asides the sovereign (green) bond, Nigeria’s private sector has also stepped up with the issuance of corporate green bonds. Three notable examples include:

- Access Bank’s issue of the first certified corporate green bond in Africa, raising N15.0 billion at a fixed coupon rate of 15.50 per cent for a tenure of five years, to fund flood defence, the refinancing of agricultural projects, energy efficiency, and renewable energy;

- North South Power (NSP)’s issuance, through its NSP-SPV PowerCorp PLC, of a N8.5 billion, 15-year, 15.60 per cent Series 1 Guaranteed Fixed Rate Senior Green Infrastructure Bond, due by 2034 under a N50 billion Debt Issuance Programme. The NSP-SPV PowerCorp PLC bond was guaranteed by the Infrastructure Credit Guarantee Company and it is said to be the longest tenured corporate bond in the Nigerian Debt Capital Market;
OnewattSolar (OWATTS), a clean technology company’s issue of a mixture of the green and Sukuk bonds to finance its pipeline of solar projects. Part of these projects included the powering of residential estates, malls, schools, and hospitals, etc. OWATTS issued a Seven-Year $25 Million Green Bond/Sukuk Programme, which happens to be the First Corporate Green Sukuk in Africa and the 13th Green Sukuk in the World.

On the international market, Nigeria has accessed $3.4 million of readiness funds and $126.6 million of project funds from the United Nations’s Green Climate Fund through the Ministry of Environment, which is a modest sum when compared to South Africa’s access of $600 million.

The dialogue assessed the performance of these funds and stakeholders made recommendations for the unlocking of more opportunities for climate change adaptation, to fund Nigeria’s energy transition, and create one million green jobs.
Key Theme 1

Unlocking Climate Finance for Nigeria: What Nigeria Can Do To Attract Finance

In July 2021, Nigeria updated its Nationally Determined Contribution (NDC) to achieve the Paris climate goal, which reflects an increase in ambition from the NDC submitted in 2015. However, the implementation of climate change mitigation and adaptation efforts in developing countries like Nigeria continue to be severely constrained by the lack of financial resources.

Instead of marking the beginning of what the United Nations framed as a decade of action on climate change and development, the 2020s has seen Nigeria and many other developing countries being pushed into economic recession and deeper debt due to the COVID-19 pandemic. This has further hampered their ability to fulfil their commitments to achieve the Sustainable Development Goals (SDG) and to contribute to the attainment of the Paris climate goals.

The investment needed for the country’s climate commitments appears more daunting than ever before. The estimated cost of implementing the country’s Nationally Determined Contribution alone, which would lower Nigeria’s carbon emissions by up to 47 per cent, in comparison to the business-as-usual scenario, by 2030 is estimated at N74 trillion (about $178 billion).

This cost does not even consider the damage and loss induced by the growing impact of severe weather events, which are becoming more frequent due to climate change. Nor does it include the cost of restructuring Nigeria’s economy away from the oil and gas sector.

The panel addressed issues spanning climate finance, mitigation, adaptation, and communications:
On finance, it was observed that:

- **Developed countries have not delivered on their $100 billion per annum commitment.** Climate justice requires that developed countries that are responsible for climate change should provide funds to developing countries that are on the receiving end of the issues involved;

- The **war in Ukraine** has taken resources and attention away from climate change finance;

- **Most of the funds approved have not been used.** The process for accessing these funds needs to be made simpler and easier. Government can provide and pay for consultants to help companies and communities prepare bids to access these funds;

- Local banks play a key role in providing access to funds to the private sector;

- **Climate finance needs to be inclusive** of gender, disability, and rural communities that often are not part of the conversation, even though they are the most affected;

- Financing received from the global fund should be more of grants rather than loans;

- Nigeria needs to be creative in sourcing local funds for climate finance, and possible sources could include debt for climate fund swaps, tax on fossil fuels, ecological funds, Niger Delta Development Commission (NDDC) funds, and other sources;

- Negotiating debt restructuring for climate commitments from developing countries should be considered. However, a significant amount of Nigeria’s debt is to local markets. Also, this should not be a substitute for climate justice funding, as described earlier;

- Climate projects that attract debt funding need to perform on their commitments to attract more private capital (from pension funds and money market institutions);

- Nigeria needs to present strong coherent proposals at climate negotiations, like South Africa did, when it was able to attract $8.5 billion as part of a Just Energy Transition Partnership at the 2021 UN
climate summit. Nigeria’s Energy Transition Plan (ETP) is a good starting point but the process needs to be more inclusive of civil society organisations to ensure comprehensive development outcomes.

**On mitigation, it was noted that:**

- Government should use tax incentives to promote solar deployment. A carbon tax should be introduced to discourage people from using diesel or any other dirty fuel;

- Government, through innovative regulation of the private sector, must fix liquidity and transmission problems in the power sector, if mitigation technologies like solar and wind are to help in the energy transition. For example, 14 independent power projects, with solar power purchase agreements, are unable to raise financing because of the problems with the grid;

- Commercial banks should be engaged in closing financial and social gaps in the sector, to mitigate challenges;

- Rural electrification projects under the Nigeria Electrification Programme, where the Rural Electrification Agency (REA) provides a grant of the naira equivalent of $600 per connection, seems to be effective in stimulating solar deployment and rural development;

- Developers under the Nigeria Electrification Project (NEP) programme need working capital, which could be funded through climate finance mechanisms.

**On adaptation, it was agreed that:**

- More focus needs to be placed on adaptation, loss and damage financing. Global climate finance must make these available since the loss and damage is a direct cost of development paths taken by developed countries;

- Rural dwellers need to benefit from climate finance, especially adaptation, loss and damage opportunities. Governments can leverage last mile service providers such as financial technology companies and mini-grid developers to channel relevant climate subsidies.
On communications, it was declared that:

- The climate finance sector needs to communicate more with the media in easy-to-understand terms, to allow the private sector to access funds;

- There needs to be continuous dialogue among stakeholders and the government to enhance the dissemination of quality information;

- Climate financing must reach grassroots communities. They are unlikely to have the educational resources to apply for the available funding. This could be solved by leveraging Fintech companies and mini-grid companies who provide last-mile financing;

- All rural electrification projects in the country should be tracked to get a more holistic picture of the state of affairs on green and green-labelled funds;

- Transparency of reporting is key. Civil Society Organisations need to get more involved in ensuring the accountability of climate funds and projects.
Key Theme 2

Nigeria's Green Bond Programme - Aspirations and Realities

The Climate Bond Initiative forecasts that by 2025 the market would hit $5 trillion. The current growth trajectory could make that happen even faster. Hitting this milestone early this decade indicates that capital is shifting at a high scale towards climate solutions. A recent analysis by McKinsey suggests that a total of $9 trillion in green investment is needed each year to reach net-zero by 2050.

This session discussed the implementation of Nigeria’s first green bond. The bond was utilised on two key projects, namely

- Energising Education Programme and
- Afforestation Programme.

The panelists were made up of the researchers and authors of the report, "Nigeria’s Green Bond Programme: Aspirations, Realities and Solutions", complimented by the Managing Director of the Rural Electrification Fund and a representative from the Federal Ministry of Agriculture and Rural Development. The researchers shared their experiences of visiting the green bond project sites to monitor the progress of the funded projects. They also highlighted key problems, namely:

- Inadequate reporting on green bonds;
- Poor monitoring of projects and impact tracking;
- Limited private sector participation in projects;
- Insecurity and vandalism of projects;
- Poor sustainability planning on projects.
Recommendations On Energising Education Projects

Overall, the energising education project received pass marks from the panel. However, the Bayero University project seemed to be failing to deliver on its promise of uninterrupted power to the University. The Rural Electrification Agency (REA) acknowledged that this was due to poor demand forecasting, as the solar hybrid system is too small for the school’s load. The systems in the other universities visited were working fine.

Although powering higher education with free and clean electricity is a commendable effort, its long-term sustainability and the government’s ability to maintain and grow its commitment, along with rising electricity demands, should be taken into consideration.

A comprehensive operational plan should have been developed and better integrated into the REA’s deployment of the project before handover to the universities. This planning should have considered:

- Metering and billing the University a token fee for energy consumed to cover operations and maintenance expenses.
- Creating a long-term operations and maintenance agreement between the University and a qualified service provider.
- Adopting technology to drive transparency and accountability.

The university electrification projects could have leveraged private sector funds and public funds allocated to provide guarantees that give comfort to the private sector. Productive users should pay for electricity. To solve the sustainability problem, Power Committees have been set up in the universities to generate income from productive users for the operations and maintenance of the plants.

Recommendations for the Afforestation Programme

The country’s national afforestation programme currently lacks a strategic sustainability framework, which would have to be co-created with identified local communities where the trees will be planted. As the field findings from the Old Oyo National Park (OONP) demonstrate, the inclusion and active
participation of immediate community beneficiaries in the project’s formulation, implementation and management is crucial to its success. Accordingly, the Ministry of Environment/Ministry of Agriculture should:

- Develop an updated and more comprehensive roadmap in collaboration with eligible local communities and afforestation experts across the country;

- Identify, map out and explore collaborations with organisations and experts within and outside the country, who are successfully executing afforestation and agroecology projects, for better learning and skills development;

- Set up zonal afforestation committees that include members from local communities;

- Facilitate trainings by field experts, experienced academics and relevant government MDAs of the staff of the local executing institutions, along with members of local communities, in the requisite skills and information related to the needs, execution and sustainability of similar afforestation projects;

- Ensure proper representation of women and youth from the respective communities in the above interventions;

- Maximise the twin benefits of carbon capture and socio-economic development in local communities, through the use of agroforestry systems which should be central to the afforestation programme.
Conclusion

The role of Green Bonds in Nigeria's Climate Finance Landscape and the Key To-Dos for Climate Negotiations

Green and Sukuk bonds have become fixtures in the capital markets, which are being issued by both the private and public sectors, and a market exists for trading them. However, given Nigeria's high local debt profile, the government should suspend the issuance of green bonds in the near term to collate learnings from previous rounds, while future issuances should be better planned and implemented. Such future funds should do more to leverage private sector funds, by providing financing securities and guarantees, rather than as grants and government contracts, as was the case with the first few green bonds.

Moreso, such an interregnum in bonds issuance should be used to build capacity in government ministries, departments and agencies responsible for implementing green projects to develop better proposals to access funds, select viable projects and implement funded projects. Capacity building is also required to scale up projects at the subnational levels in all MDAs.

The REA estimates that Nigeria needs about $3.5 billion in public funds to close the energy access gap. The Agency has raised about $800 million, including $350 million from the World Bank, $200 million from the African Development Bank, and a few other smaller donors and development partners. The remaining $2.7 billion could come from COP 27, if Nigeria is strategic and deliberate in its negotiations. Two key points must be top of mind for negotiators:

First, they must continually emphasise the climate justice angle, which requires that developed countries should pay for the loss and damage caused by historical emissions and also pay to avoid developing countries taking a similar path to development.

Secondly, Nigeria needs to present a coherent funding request in climate funding negotiations, just like South Africa did, to attract funding. The
Energy Transition Plan (ETP) is a good starting point to develop an internationally funded energy partnership similar to what was achieved in South Africa. However, the government needs to engage civil society organisations and the private sector for input in the months leading up to COP 27. Nigeria also needs to start bilateral negotiations early to ensure better outcomes at the conference.