



**THE Nigerian  
STOCK EXCHANGE**

# GREEN BONDS

FREQUENTLY ASKED  
QUESTIONS



## 1. What are Green Bonds?

A green bond, like any other bond, is a fixed-income instrument for raising funds through the capital market. Green bonds can be issued by Governments, Government Agencies and Corporate Organizations. The funds raised by a green bond issuance are specifically used for environmentally friendly projects i.e., projects with little or no adverse effect on the environment. For example:

- Projects which reduce the pollution of land, water or air
- Projects which reduce carbon emissions
- Projects which conserve the earth's natural resources

Green bonds provide opportunities for investments in 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 transition economies away from fossil fuels.

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

Issuers of green bonds define the green project categories that the proceeds from the issuance can be used for. The criteria used to identify a green project may relate to actions either to mitigate negative environmental/climate-related impacts, or to adapt to its effects. The table below presents examples of categories of eligible projects for the issuance of green bonds and the types of activities that can be considered for financing or refinancing using the proceeds of a green bond issuance:

Categories	Examples
Renewable Energy	<ul style="list-style-type: none"><li>• Generation, transmission, storage, or usage of solar, wind, bio, hydro, tidal, or geothermal power.</li></ul>
Energy Efficiency (equipment and products)	<ul style="list-style-type: none"><li>• Sustainable and low-carbon buildings</li><li>• Efficient storage systems</li><li>• Efficient heating systems</li><li>• Smart grids</li></ul>
Energy Efficiency (equipment and products)	<ul style="list-style-type: none"><li>• Sustainable and low-carbon buildings</li><li>• Efficient storage systems</li><li>• Efficient heating systems</li><li>• Smart grids</li><li>• Power generation from waste</li><li>• Environmental analysis and monitoring</li></ul>

Categories	Examples
<b>Sustainable management of natural resources</b>	<ul style="list-style-type: none"> <li>• Low carbon agriculture and livestock</li> <li>• Sustainable forestry and forest management</li> <li>• Native vegetation conservation, restoration and recovery</li> <li>• Recovery of degraded areas</li> <li>• Sustainable fishing and aquaculture</li> </ul>
<b>Biodiversity Conservation</b>	<ul style="list-style-type: none"> <li>• Protection of terrestrial, coastal, marine, fluvial and lacustrine habitats</li> <li>• Sustainable usage of biodiversity</li> <li>• Deployment of wildlife corridors</li> </ul>
<b>Clean Transportation</b>	<ul style="list-style-type: none"> <li>• Production and use of electric and hybrid vehicles</li> <li>• Non-motorized vehicles</li> <li>• Railway and subway</li> <li>• Multimodal</li> <li>• Infrastructure for clean vehicles</li> </ul>
<b>Sustainable management of water resources</b>	<ul style="list-style-type: none"> <li>• Water treatment and cleaning</li> <li>• Impounding and storage infrastructure</li> <li>• Distribution infrastructure</li> <li>• Basin protection</li> <li>• Sustainable urban drainage systems</li> </ul>
<b>Products, production technologies, and eco-efficient processes</b>	<ul style="list-style-type: none"> <li>• Eco-friendly stamps / sustainability certificates</li> <li>• Development of biodegradable or renewable source technologies / products</li> <li>• Eco-efficient products / processes</li> <li>• Flood control systems</li> </ul>

### 3. How is the Green Label determined?

There are several evolving standards and sources of guidance on green bonds, all of which have a different purpose and approach. These standards and guidelines determine which bonds are in fact green. The standards include:

- Green Bond Principles (GBP);
- Climate Bond Standards and Certification;
- Instruments to certify “greenness” such as “Second Opinions”, “Green Ratings”) and “Green Bond Indices”

### 4. How are Green Bonds different from conventional bonds?

There are no differences between green bonds and conventional bonds other than

that proceeds from a green bond issuance are used to finance environmentally friendly projects. This specific feature of a green bonds introduces a different requirement for reporting, auditing and proceeds allocation.

#### **5. How do financial characteristics of Green Bonds compare with regular bonds?**

Green Bonds have financial characteristics that are identical to regular bonds including the credit quality, yield and price at which they are issued.

#### **6. How are Green Bonds priced?**

The market prices of Green Bonds are determined like any other regular bond in **relation** to the market condition at the time of issuance.

#### **7. Are Green Bonds used to finance only new projects?**

Green bonds can be used to finance new eligible green projects and also to re-finance existing eligible green projects.

#### **8. How is the Use of Proceeds and impact of Green Projects monitored?**

In the same way investors in conventional bonds perform an analysis of financial due diligence and rely on assessments from rating agencies regarding credit quality, investors in green bonds demand additional information for environmental due diligence. As occurs with the credit quality, the assessment of the green aspect of the bond by an independent organization ensures the recognition and credibility of the issuance in the market.

Also, the documents of the offer must clearly indicate the procedure that will be adopted to collect and allocate the proceeds for the green projects, including refinancing, and reimbursement of related costs, expenses, or debts. There are requirements for reporting, auditing and proceeds allocation in the guidelines for green bonds. Issuers provide reports on both use of proceeds and the impact achieved.

#### **9. Can investments in Green Projects be profitable?**

Certainly. Green Projects provide sustainable developments that have positive impacts on the environment, while also providing employment opportunities and sustainable cash flows amidst other socio-economic benefits.

#### **10. What are The Green Bond Principles?**

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 Principles highlight the importance of tracking proceeds, allocating funds to eligible projects, and providing periodic reports on Use of Proceeds. These additional requirements provide marketing and branding value absent from regular bonds.

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

The credit ratings of green bonds and regular bonds are determined by rating agencies. However, green bonds have additional ratings which assesses the likelihood that bond proceeds will be invested to support environmentally friendly projects

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

Green bonds can be issued by Countries, States, Government Agencies, or Corporate Entities.

### **13. What are the steps in the issuance of Green Bonds?**

The green bond issuance process is similar to that of a regular bond, with added emphasis on governance, traceability and transparency in the use of proceeds. Below is a simple outline of a generic green bond issuance process:

#### **I. Identify qualifying green projects and assets**

A prospective green bond issuer identifies a project that meets the green eligibility criteria.

#### **II. Arrange independent review**

The issuer carries out a credible independent review and verification procedure to confirm the green credentials of the identified project.

#### **III. Set up tracking and reporting**

This involves tracking the value of the proceeds to ensure the value of the assets or projects stays equal to, or greater than, the amount of the bond. The issuer needs to track this as transparency is essential in a green bond issuance.

#### **IV. Listing of the Green Bond**

This process is similar for any other conventional bond. The issuer gets approval from the SEC; the bond is then structured by an investment bank and rated by a credit rating agency; thereafter, the bond is listed on the NSE.

#### **V. Monitor use of proceeds and report**

The issuer through a public report, indicates that the funds are still properly allocated to green projects. This can be done by an external auditor or in a letter signed by an authorised officer of the company.

### **14. Are Green Bonds underwritten?**

Green bonds are underwritten, and undergo the same underwriting process as conventional bonds.

### **15 What are the forms of Green Bonds?**

The early issuers of green bonds were principally highly rated multilateral development banks (MDBs or Supranationals), which have a mandate to channel funds into climate-related and environmental projects. Today, the green bond market has expanded in size and scope to include diverse issuers and various forms, including:

- **Corporate Green Bonds:** These are issued by corporate entities.
- **Project Bonds:** These are issued to fund specific projects.
- **Financial sector bonds:** These are issued by financial institutions to specifically raise capital to provide loans to green projects or activities.
- **Asset-backed Security (ABS) Green Bonds:** These are issued for specific projects and are collateralised by one or more of the projects.
- **Supranational, Sub-sovereign and Agency Green Bonds:** These are issued by International Financial Institutions (IFIs) such as the World Bank and the European Investment Bank and Sovereign National Development banks.
- **Subnational or Municipal Bonds:** These are issued by a municipal governments, regional governments, State governments or cities.
- **Sovereign Bonds:** These are issued by a National Governments.

### **16. What are the benefits of Green Bonds?**

Green bonds provide all the benefits that regular bonds provide such as low risk, fixed regular income, tradability, tax savings and capital appreciation. Green bonds also provided other specific benefits which include:

#### **A. Issuer**

Green bonds provide the following benefits to issuers:

##### **I. 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.

## **II. 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.

## **B. Investors**

Green bonds provide the following benefits to investors:

### **I. More transparency in the use of resources**

- 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.

## **II. 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.

## **C. Financial Market**

The benefits of green bond issuances in the financial market includes:

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

### **17. What are the possible risks in investing in Green Bonds?**

Green bonds have similar risk exposures of regular bonds such as credit risk, interest rate risk, market and liquidity risk, event risk etc. However, because green bonds issuances have a higher degree of disclosure and are used to finance environmental friendly projects, there are lower degrees of environmental and financial risks.

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

Green bonds were launched by the European Investment Bank in 2007. Subsequently, corporates, multilateral organizations, and Sub-national and Sovereign entities commenced issuance of green bonds.

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

The green bond market accounted for \$800 million of issuance in 2007, but has expanded significantly every year since then. The green bond market which saw issuances of only \$3 billion in 2012, reached a record issuance of \$81 billion in 2016 and by 2017 had grown to \$160 billion. Green bond projections for 2018 are expected to grow to \$250bn

### **20. What factors are behind the growth of the Green Bond market?**

Several factors have been driving interest in and growth of the green bond market. The first factor is the increased consciousness of environmental issues, including an increased understanding among investors and the general public about the long-term implications of climate change.

Another factor is the growing recognition that developing the infrastructure needed to reduce the world's carbon footprint, and more broadly addressing climate change and other environmental issues, requires long-term and cost-effective capital at a scale that realistically can only be provided by institutional investors via investment-grade fixed income instruments. Finally, the development of eligible projects criteria and standards for green bonds has also helped to increase their appeal among investors.

## **21. Who buys Green Bonds?**

Green bond purchasers are typically institutional investors, often with either an ESG mandate or an environmental focus. Other buyers include investment and fund managers, corporate investors, high net worth individuals and retail investors.

## **22. Who have issued Green Bonds?**

The early issuers of green bonds were principally highly rated multilateral development banks (MDBs or supranationals). However, in recent times, the green bond market has expanded in size and scope to include diverse issuers, including:

- Commercial Banks: IDBI Bank, Axis Bank, Yes Bank, Dutch bank ABN Amro, etc.
- Corporate: Apple, Toyota, Hyundai Capital Services, and Iberdrola etc.
- Asset-backed Security (ABS): FlexiGroup Ltd, Toyota Financial Services, Citi and Renew Financial etc.
- Subnational, Municipal: The City of Johannesburg, Province of Ontario, Canada and State of Victoria, Australia, the Commonwealth of Massachusetts etc.
- Development Banks: The World Bank, the African Development Bank (AFDB), the European Investment Bank, the International Finance Corporation etc.
- Sovereign: Poland, France

## **23. How remarkable is Nigeria's debut Green Bond initiative?**

It is the first Sovereign green bond issuance in Africa and emerging markets and the fourth Sovereign green bond in the world.

## **24. Can Green Bonds be Listed and Traded?**

Green bonds are tradable instrument like regular bonds. The proposed debut Nigerian Sovereign issuance will be listed on The NSE. The NSE's platform will provide a dedicated environment where issuers of green bonds can market their bonds and publish information relating to the use of proceeds, both at the start and during the lifetime of the bond. At the same time, the NSE will cater to environmentally conscious investors by providing full and unrestricted access to a list of bonds that are green.

## **25. What are the advantages of listing a Green Bond on the NSE?**

The NSE is a member of the United Nations Sustainable Stock Exchange Initiative and issuers listing a green bond on the NSE will benefit from a dedicated environment where they can fulfil their reporting duties in line with international best practices. The NSE will also provide issuers the ease of disclosure through different methods, to the market.

Furthermore, the NSE will act as a platform that brings green investors and issuers together. Having securities listed on the NSE offers issuers the opportunity to raise awareness about their green projects to potential investors and promote their climate and corporate social responsibility commitments.

## **26. Are Green Bonds subject to tax?**

Green bonds are taxed the same as conventional bonds. However, some jurisdictions grant a tax exempt status on interest earned by investors investing in green bonds. In Nigeria, interests earned on bonds are tax exempt and this will also apply to the proposed green bonds.

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

Green bonds issued by the Federal Government will be structured on the existing financial and governance structure for regular bonds issued by the Federal Government through Securities & Exchange Commission and Debt Management Office. New rules and regulations will be issued by the regulatory agencies to further deepen the market for green bond issuance by subnational and corporate entities.

## **28. Who are the players in a Green Bond issuance?**

In addition to the usual players in the Nigerian bond market, the green bonds market also uses external review agents to provide an independent opinion on the positive environmental attributes of the projects to which the funds raised will be allocated.

Typical agents in the green bonds market:

- |                          |                |                         |
|--------------------------|----------------|-------------------------|
| • Issuers                | • Underwriters | • Investors             |
| • External Review Agents | • Stockbroker  | • Financial Accountants |
| • Rating Agencies        | • Trustees     | • Registrars            |
| • Legal Advisors         | • NSE          | • SEC                   |

# Investing for a sustainable future



As a sustainable Exchange, we are playing our part in transforming lives and communities. Our Corporate Social Responsibility strategy is anchored on four pillars:



## COMMUNITY

*Contributing positively to the communities where we live and work.*

- Global Money Week
- Employee Volunteering
- NSE Essay Competition
- NSE Corporate Challenge
- Employee Volunteering & Employee Give-Back Initiative
- XTours
- Adapt – a – School Initiative
- Executive Health Enlightenment Programme



## WORKPLACE

*Fostering a qualitatively oriented work environment that values employee diversity and wellbeing and harnesses the talents and skills of our people.*

- Appropriate training for employees, with 72% training participation achieved over the last three years
- Achieved 38% female staff in managerial positions
- The CEO Awards in recognition of outstanding staff performance.
- The NSE Graduate Trainee Programme
- 1:2 female to male ratio staff retention
- Provision of an Activity Centre, comprising Crèche, Gym and Cafeteria



## MARKETPLACE

*Promoting market-based approach to Environmental, Social and Governance (ESG) imperatives amongst all stakeholders.*

- Corporate Governance Rating System
- Joined the Sustainable Stock Exchanges Initiative
- Launched Investors' Protection Fund
- Improving transparency via the X-Compliance Report and X-Whistle
- Ring the Bell for Gender Equality
- GRI Gold Community Member
- Curbing market infractions through the Nasdaq SMARTS Market Surveillance Technology



## ENVIRONMENT

*Focusing on reducing the environmental impact of the Exchange's operations*

- Efficient use of energy
- Reducing waste and promoting recycling
- Revitalisation of the Lagos Island financial district
- Reduction in Paper Use
- Efficient and Clean Water System

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