



The Nigerian Green Bond Market Development Programme

Green Financing Opportunities for Agribusiness Webinar

DCMD Project Office

June 2020

▪ Exchange

▪ Clearing

▪ Depository

Questions and Responses

S/N	Question	Response
1.	<p>There is a major challenge when it comes to financing farmers. It would be good to know how financing can be provided to farmers, in terms of climate smart financing. For instance, financing for inputs, some assets, working capital and even machinery. Green lending is an option but structuring such loans have not been easy in the past and lenders are not willing to finance farmers due to high defaults and poor repayments. Views on the Nigerian market are welcome.</p>	<p>Credit risk and other risks identified in the question are not specific to green lending but to lending in general. There is the need for derisking mechanisms in form of anchor investments, guarantees, government grants, coupling of different corporates into a Special Purpose Vehicle (SPV), etc. to increase the attractiveness of the instrument and enhance its credit rating.</p>
2.	<p>How can green financing be made the dominant form of sustainable financing going forward, keeping in mind the COVID-19 impacts and transformation going forward?</p>	<p>The COVID-19 pandemic has led global financial systems deal with a crisis that has not been experienced in decades which has spurred organisations and governments to give priority to addressing immediate health issues and its impact on economies and businesses. However, this serves as an opportunity to reconsider the structure of the economy and to align same to culminate in a resilient, low-carbon and sustainable future. The different key stakeholders in a financial system i.e. policy makers, regulators, international institutions, corporates and State Governments, Security Exchanges etc. must plan and strategise to the pandemic with a focus on implications for sustainable (Green, social, sustainability-linked, etc.) finance markets.</p>
3.	<p>Are green building facilities considered for green bonds?</p>	<p>Yes, green buildings facilities are considered as eligible projects for green instruments. The greenhouse gas emissions of cities are significant contributing up to 70% of large city's emissions are related to buildings. Investing in low carbon emissions or zero emission buildings plays an essential role in achieving the Paris Agreement.</p>

Questions and Responses../2

S/N	Question	Response
4.	Many potential (agribusiness) issuers are not what will be deemed capital market ready (perhaps due to their size, lack of adequate governance structures, reporting frameworks etc.). What efforts/programs are being put in place (in terms of education and engagement) for these issuers to get them ready for accessing such financing?	So far, the Nigerian Green Bond Market Development Programme has executed various capacity building and focused training sessions for different stakeholders in the Nigerian financial market. For the pioneer Climate Bonds Certified Corporate Green Bond in Africa, issued by Access Bank PLC, capacity building sessions were facilitated by the Programme. The Programme seeks to support potential issuers in the market with the necessary technical assistance required to facilitate the green bond issuance.
5.	Does the annual report confirming continued compliance with the principles have to be done by an independent party?	Yes, there will be pre-and post-issuance verification of the green bond issuance. Post issuance reports are also required to be developed annually especially in the case of a certified green bond issuance.
6.	Have the agriculture sector criteria has fully been developed as regards the sub sectors in the presentation? Also was the reality of the African market taken into consideration?	The criteria for the Agriculture Sector has been developed by Climate Bonds Initiative. However, an issuance can have various aspects that speak to different sectors e.g. energy, waste management, transportation, etc. Therefore, different components of a project would be assessed against the related sector criteria.
7.	Confirm if all sectors mentioned in the agriculture segment have been duly certified by CBI as prior to this meeting, there some arguments about a lot of sections not yet approved by CBI.	The Climate Bonds Initiative has a criteria for the Agriculture Sector and potential green bond issuances in same sector will be verified against the criteria.
8.	Can a new issuer with no track record issue a green bond?	Track record is a critical component when pre-assessing an issuer, however, an entity can issue a green bond as long as eligible assets are identified
9.	How does the Green Bond Development Programme consider sectors or subsectors for which there are no formal CBI criteria or guidelines for certification?	The Programme supports proposed green bond issuances on merit basis. The Programme would assess specific potential green bond issuances and ascertain areas of support to the extent of eligibility.

Questions and Responses../3

S/N	Question	Response
10.	Provide specific definition of verifiers?	An approved Climate Bonds Verifier checks a proposed green bond against the Climate Bonds Standard and the sector based technical criteria.
11.	How do you hedge against FX risk?	FX risks can be mitigated with Futures, Forwards, Swaps and Options. However, in the Nigerian financial market, two (2) common hedging contracts are used which are the Deliverable FX Forwards and the Naira-Settled OTC FX Futures.
12.	From the description of the green bond issuance process so far, it seems green bonds issuances require more parties than the regular corporate non-green bonds. Does this result in a more expensive cost of issue? Will this reduce its attraction to potential issuers?	The green bond issuance process is like that of a vanilla bond issuance; the only difference is the use of proceeds are tied to projects and assets with transparency, disclosure, and periodic reporting. A potential green bond issuer will require an approved verifier to check and ensure that the green bond framework developed is in alignment with international green bonds standards like the Climate Bonds Standards, and compliance with post-issuance reporting requirements.
13.	Are there green money market instruments by issuers. I presume the market would eventually evolve to issuing short-term green certified instruments.	Yes, they do exist. For example, the commercial paper market is now getting up to speed within the green and sustainable area (also referred to as green notes). It has not experienced the same rapid development as the green bond market. This can be attributed to the fact that a significant number of green assets are long-term oriented and therefore looking for patient capital. An issuing entity can either use ICMA's Green Bond Principles (GBP) as a basis for both green bonds and green commercial papers, or use the entity's ESG rating from an external party as the starting point for establishing an ESG-based commercial paper

Questions and Responses../4

S/N	Question	Response
14.	As an investment banking analyst, can a green note structure be explored, and will this fit into the dynamics of green instrument certification by the CBI?	Yes, they can be explored under the Climate Bonds Initiative certification. Like green bonds, the use of funds must be defined in a Green Notes Framework which will encompass the investment making decision showing the eligible projects, funds monitoring, reporting and verification.
15.	In the Nigeria finance space, it is evident that the Federal Government has been very supportive in the agriculture sector in terms of capital accessibility by Agribusinesses at a single digit rate. How can the green bond programme play within a single digit cost of bond issuance?	Bonds are usually priced relative to a benchmark. In Nigeria, the Federal Government Bond is used as a benchmark for other issued bonds in the market because it is risk-free. Therefore, with the benchmark bond in consideration, bond prices are linked to the interest rate environment and influenced by the credit worthiness of the issuer amongst other factors.
16.	My company needs to set up a starch factory. How can we be financed?	A Non-Disclosure Agreement can be signed between your firm and the implementing parties of the Nigerian Green Bond Market Development Programme, if required, then a bilateral engagement to assess the business plan as well as other required documents. Please send an email to dcmdpo@fmdqgroup.com

Thank you for your attention!



An Integrated Financial Market Infrastructure Group