



FUTURE-PROOFING INVESTMENTS: LEGAL STRATEGIES FOR ADAPTING TO GREEN FINANCE REGULATIONS IN NIGERIA



INTRODUCTION

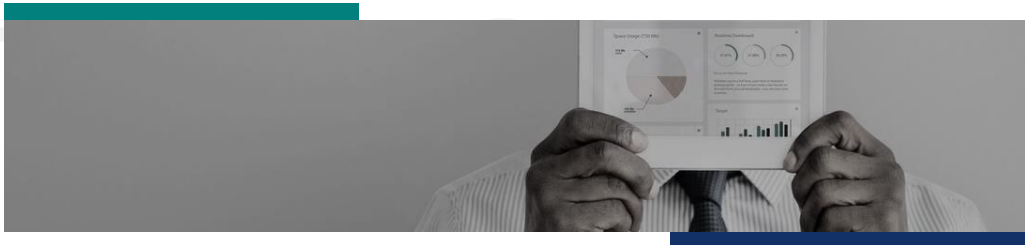
As the global focus shifts towards sustainability financing and investment, future proofing finance has become a critical component of the financial sector. In future proofing, future investment products are anticipated, and regulations built around it to minimise shocks and inherent challenges. Future-proofing is a strategic concept aimed at anticipating and preparing for the uncertainties and rapid changes that the future might bring within various investment paradigm and industries. Future proofing encompasses a range of proactive measures and adaptable strategies designed to ensure resilience and sustainability in the face of evolving technologies, market shifts, and unforeseen challenges. This approach emphasizes the importance of staying agile, embracing innovation, and continuously evolving to not only survive but thrive in a dynamic and ever-changing business landscape.

The growing emphasis on environmental sustainability is prompting significant changes in the global financial landscape as both governments and regulatory bodies worldwide are introducing regulations, albeit stringent, to first understand its implications and to ensure that investments are made which can contribute positively to environmental goals. Future-proofing investments are sustainable, such as green financing, which has to comply with the Environmental, Social, and Governance (ESG) goals of investment. Green finance, which refers to financial products and services that support environmentally sustainable projects is rapidly gaining traction.

In Nigeria, the Securities and Exchange Commission (SEC) in October 2018, issued green bond guidelines to promote the issuance of green bonds, which are debt securities issued to finance environmentally friendly projects. This evolving regulatory landscape thus presents both challenges and opportunities for investors and financial institutions.

To navigate these changes successfully, it is essential for investors to employ robust legal strategies that align with green finance regulations as only those who can adapt their operations and investments to align with green principles will be well-positioned to thrive in the new era of sustainable finance.

This article explores key legal approaches to future-proofing investments in the context of green finance and how investors and regulators in Nigeria can align purposes towards sustainable financing, investment and regulations.



UNDERSTANDING THE PRINCIPLES AND OBJECTIVES OF GREEN FINANCE

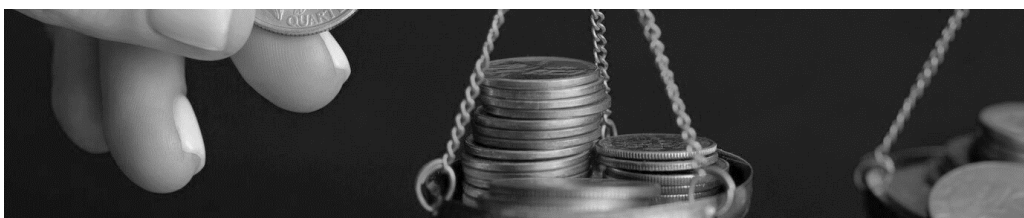
Green finance over the years, integrates environmental, social, and governance (ESG) criteria into financial activities to support sustainable development. Its principles focus on sustainability, transparency, risk management, accountability, and inclusivity. The primary objectives of green finance are to promote sustainable economic growth, combat climate change, support renewable energy, enhance resource efficiency, protect biodiversity, ensure social equity, and foster innovation. By channeling financial resources towards environmentally friendly projects and businesses, green finance aims to reduce greenhouse gas emissions, improve resource use, conserve natural habitats, and support community well-being. In essence, green finance seeks to align the financial system with global sustainability goals



IMPORTANCE OF FUTURE-PROOFING INVESTMENTS IN GREEN FINANCE

Future-proofing investments is essential for ensuring long-term success and sustainability in a forever evolving industry like the financial sector. Also, the key financial sector regulator such as the Central Bank of Nigeria (CBN) can also realign its regulations to evolve with modern sustainable practices. This will involve identifying and mitigating risks from environmental changes, regulatory shifts, technological advancements, and market dynamics, thereby reducing the likelihood of suffering from poor investment and regulatory decisions. Resilient investments can better withstand economic and social shocks, maintaining stable returns even in volatile conditions. Hence, it is important for investors to anticipate future trends around green finance to allow them to capitalize on emerging opportunities in financing green projects.

Future-proofing needs to ensure compliance with evolving regulations, so as to encourage security enhancement and cost reduction. This will bolster reputation by demonstrating social responsibility and attracting socially conscious stakeholders.¹ This is where the CBN as well as the SEC can integrate in ensuring clear but objective regulations for the nascent financial, and investment product.



AN OVERVIEW OF GREEN FINANCE REGULATIONS AND INITIATIVES IN NIGERIA

Green finance encompasses financial activities that support environmentally sustainable projects and initiatives. This includes investments in renewable energy, energy efficiency, sustainable agriculture,

¹Stakeholders who are well informed about sustainable investments.

and green technologies. Regulations in this area are designed to promote transparency, accountability, and environmental responsibility. Though still nascent and fully untapped, Nigeria has been making strides in promoting green finance through various regulations and initiatives as it recognizes the importance of integrating sustainability into its financial sector to address environmental challenges and promote sustainable development. Some key green finance regulations and initiatives in Nigeria include:

1. The Nigerian Green Bond Market Development Program

The Green Bond Development Program aims to promote the issuance of green bonds as a way of increasing investments in green projects in Nigeria. In 2018, FMDQ OTC Securities Exchange (FMDQ), in collaboration with the Climate Bonds Initiative (CBI) and Financial Sector Deepening Africa (FSD Africa), had initiated a 3-year Nigerian Green Bond Market Development Programme. This program was designed to enhance Nigeria's non-sovereign debt capital markets by raising awareness, establishing guidelines, and creating a pool of licensed verifiers for green bonds, thereby incorporating green financing principles into the market.

This partnership, established through a Cooperation Agreement in March 2018, aims to support sustainable finance and economic growth by promoting impact investing and facilitating access to global climate-related capital. The Programme, launched in June 2018 with the backing of the Securities and Exchange Commission (SEC) and Access Bank PLC (Access Bank), included a series of educational events and roundtable discussions to introduce and explain the concept of green bonds. The Programme sought to address environmental issues and infrastructure needs by developing a vibrant green bond market in Nigeria.

The success of this initiative berthed the Access Bank of the first certified green bond issuance in Africa in 2019 which was a N15,000,000,000 (Fifteen Billion Naira), at fifteen percent (15.50%)

fully subscribed green bond issuance listed on the FMDQ exchange and proceeds used for funding sustainable projects in Nigeria.

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

The Central Bank of Nigeria in 2012, issued guidelines to encourage sustainable banking practices. These guidelines require banks and financial institutions to integrate environmental and social considerations into their lending and investment activities. The key components include:

- a. Environmental and Social Risk Management (ESRM) frameworks.
- b. Promoting green finance products and services.
- c. Enhancing transparency and reporting on sustainability performance.

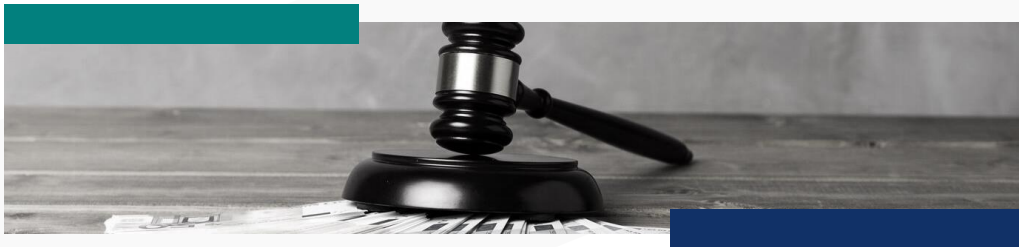
3. Securities and Exchange Commission (SEC) Nigeria Green Bond Guidelines, 2018

The SEC has developed guidelines for the issuance of green bonds to ensure transparency and integrity in the green bond market. These guidelines align with the International Capital Market Association (ICMA) Green Bond Principles and provide a framework for issuers to disclose the environmental benefits of their projects.

4. Nigeria Sovereign Green Bond

Nigeria issued its first sovereign green bond in 2017, becoming the first African country to do so. The proceeds from this bond were used to finance renewable energy projects, reforestation programs, and other environmental initiatives. The success of this issuance has paved the way for subsequent green bond issuances by both public and private sector entities.

These regulatory attempts in Nigeria have helped in encouraging series of green financing in Nigeria and the applicability must be sustained perhaps with regulations in compliance with global practices.



LEGAL STRATEGIES FOR ADAPTING TO GREEN FINANCE REGULATIONS IN NIGERIA

1. Conducting Comprehensive Regulatory Analysis

Investors and financial institutions delving into financing green projects must first have a thorough understanding of green finance regulations as this is the foundation of any compliance strategy. These investors should engage legal advisors who can conduct detailed analysis of existing and upcoming regulations that govern certain investment options. This will involve identifying relevant laws and regulations, assessing the impact of these regulations on both current and future investments and staying updated with regulatory developments and amendments.

2. Integrating Environmental, Social, and Governance (ESG) Criteria

Investors incorporating ESG criteria into investment decision-making processes is crucial for aligning with green finance regulations. When this occurs, they can find companies that are better prepared to handle climate change, social issues and governance problems. The legal strategies to focus on under this ambit will include establishing ESG policies and procedures, ensuring that investment portfolios meet ESG standards and conducting regular ESG assessments and audits to monitor compliance.

3. Developing Sustainable Investment Policies

Creating and implementing sustainable investment policies ensures that all investment activities align with green finance goals. This involves drafting corporate policies that prioritize investments in sustainable projects, setting measurable sustainability targets and objectives and regularly reviewing and updating policies to reflect regulatory changes and best practices.

4. Engaging in Regulatory Advocacy

Investors are advised to actively participate in regulatory discussions or workshops that can help shape the future of green finance regulations.

This can be achieved by engaging with policymakers and industry groups to provide input on regulatory proposals through their legal advisors, advocating for regulations that support sustainable investment practices and monitoring legislative developments.

5. Implementing Risk Management Strategies

Potential market participants are encouraged to implement risk management strategies. Managing these risks associated with green finance is essential for safeguarding investments. Investors and corporate entities must be able to conduct risk assessments to identify potential regulatory and environmental risks, develop mitigation plans to address identified risks, as well as establish contingency plans for regulatory changes and market shifts.



CONCLUSION

Conclusively, adapting to green finance regulations requires proactive and comprehensive legal strategies. While Nigeria is still in the early stages of developing a comprehensive green finance regulatory framework, the initiatives and regulations in place demonstrate a strong commitment to promoting sustainability in the financial sector. Also, the commitment has also berthed sustainable investment instruments and decisions by both investors and regulators alike. The green finance debt issuances and the implementation of regulations, such as; the Nigerian Capital Market master plan is paramount for the Securities and Exchange Commission.

Further, to achieve a more robust future proofing investment, the regulators must adopt a more inclusive and adaptable investment approach that will embrace new products and financial innovations that align with international best practices. By continuing to build on these efforts, Nigeria can attract more investment in environmentally sustainable projects and contribute to global climate goals.

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