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Green Bonds in Nigeria: Navigating the Boundaries between Sustainable Finance and Greenwashing

In today's economy, where sustainability has shifted from aspiration to necessity, green bonds have emerged as a crucial instrument for mobilising capital toward climate and environmentally beneficial initiatives. These bonds allow governments and corporates to finance projects with verifiable environmental impacts, ranging from renewable energy to clean transportation and climate-resilient infrastructure.

However, the exponential growth of the green bond market globally and in Nigeria has also spotlighted a troubling trend: greenwashing, the act of overstating or misrepresenting environmental claims to gain access to green capital. In response, Nigeria strengthened its regulatory landscape, hosted educational workshops, undertook partnerships, and created robust enforcement mechanisms.

This article explores the scope of green bonds under Nigerian law, the current regulatory framework, the legal exposure associated with greenwashing, and the critical gatekeeping role of solicitors in maintaining integrity in this fast-evolving space.

What Are Green Bonds?

Green bonds are debt instruments, the proceeds of which are used exclusively to finance or refinance new or existing projects that yield positive environmental benefits.[1] Their value proposition lies in their dual function–delivering financial returns to investors while advancing sustainability objectives. There are several types of green bond structures, like the Use-of-Proceeds Bonds, which are typically backed by the Issuer's balance sheets and proceeds must go to eligible green projects. Other structures include Revenue-Backed bonds, which are repaid from project-generated revenues, and Securitised green bonds, which are supported by pools of green assets.

Nigeria stands at the forefront of green finance in Africa,[2] this is evidenced by its issuance of a N10.69 billion inaugural sovereign green bond in 2017, followed by a N15 billion second tranche in 2019, and in 2025, a N50 billion sovereign green bond was issued.[3] These bonds funded key projects like the Energising Education Programme,[4] rural solar electrification,[5] and energy projects in the Appropriation Act, 2024. These serve as proof of concept for climate-aligned finance in the Nigerian context.

Legal and Regulatory Framework in Nigeria

Nigeria's green bond regime is governed primarily by the Investment and Securities Act, 2025 (the "ISA 2025"), and the Rules, issued by the Securities and Exchange Commission ("SEC" or the "Commission"). The ISA 2025, alongside the Rules outline qualification of projects, eligibility and conditions of approval, utilisation and management of proceeds, and

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[1] New Rule And Sundry Amendments To The Rules And Regulations Of The Commission, accessed from https://sec.gov.ng/wp-content/uploads/2018/10/12-October-2018-SEC-NG-Approved-Rules.pdf on July 20, 2025.

[2] Among African commercial hubs such as South Africa, Ghana, and Kenya, Nigeria has issued the highest number of green bonds, comprising three sovereign issuances and two corporate issuances, one of which was the first corporate green bond issuance in Africa.

[3] Press Release dated June 19, 2025 from Debt Management Office accessed from https://www.dmo.gov.ng/news-and-events/circulars-releases/5348-press-release-sovereign-green-bond-offer-closes-with-91-42-billion/ on July 29, 2025.
This bond closed with N91.42 billion total subscriptions, indicating investor confidence in the Nigerian green bond market.

[4] For more information on the EEP: https://ead.gov.ng/wp-content/uploads/2021/04/Final-LRP-Report-for-MOUA.pdf

[5] Press Release dated May, 2019 from Debt Management Office accessed from https://www.dmo.gov.ng/news-and-events/circulars-releases/2803-federal-government-of-nigeria-issuance-of-n15-billion-series-ii-green-bond/file on August 20, 2025.

imposes strict reporting standards.

i. Qualification of Projects
The Rules provide for projects eligible to benefit from a green bond issuance. These projects include renewable and sustainable energy, clean transportation, sustainable water management, climate change adaptation, energy efficiency, amongst others. It further contains an omnibus clause, intended to cover positive environmental projects not expressly enumerated.[6]

ii. Eligibility and Conditions of approval
Eligible issuers of green bonds include the federal, state and local governments,[7] as well as corporate and supranational bodies.[8] To commence an issuance, the Rules mandate the filing of a letter, feasibility study, prospectus, independent assessment and any other document required by the Commission, all meeting the specific content and disclosure requirements, set out in the SEC Rules on Green Bonds.[9]

iii. Utilisation and management of proceeds
The Rules stipulate that the net proceeds of a green bond must be used strictly for the purposes stated in the offer documents and tracked in line with the issuer's approved internal policy. Proceeds are to be domiciled in an escrow account jointly managed by the issuer and trustees, with the custodians holding the funds, to ensure their application to eligible green projects within the timeframe prescribed in the prospectus. The trustees are responsible for investing any unallocated proceeds in investment-grade money market instruments that exclude greenhouse gas-intensive projects.[10]

Greenwashing: Legal Risks and Market Threats

Greenwashing occurs when issuers overstate the environmental credentials of their bonds or misuse proceeds for non-green purposes. It undermines investor trust, misallocates capital, and may violate securities law. Examples of greenwashing include: broad or ambiguous project descriptions, labeling transition technologies (e.g., gas projects) as "green", failure to provide post-issuance impact reports, and misrepresenting climate benefits in prospectuses.

A practical illustration of greenwashing is seen when an automobile company uses software designed to cheat at emissions tests. Such software detects when a car is undergoing carbon emissions testing and alters the engine's performance to make it appear as though the vehicle emits lower levels of pollutants. This practice is often employed to secure sustainable investors' buy-in and access to green capital.

Under the ISA 2025, as well as the Rules, such acts attract serious legal consequences which include personal liability for directors and company officers involved.[11]

The Role of Legal Practitioners in Safeguarding Integrity

Solicitors play a pivotal role across all stages of a green bond life cycle from structuring

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[6] Rule 2.0 of the 2018 SEC Rules on Green Bonds.
[7] Section 268 of the ISA 2025.
[8] Section 308 of the ISA 2025.
[9] Rule 3.0 of the 2018 SEC Rules on Green Bonds.
[10] Rule 4.0 of the 2018 SEC Rules on Green Bonds.
[11] Section 307 of the 2025 ISA and Section 309 – 309 of the 2025 ISA.

to issuance, and post-issuance compliance. They also assist issuers with navigating the authenticity of sustainability in order to avoid claims of greenwashing from regulators and the public alike. Core responsibilities of solicitors include:

i. Legal Structuring and Due Diligence:
This entails ascertaining the terms such as tranches, amounts, timeline upon which the green bond would be issued, preparation of transaction documents reflecting these terms, and carrying out a regulatory survey to ensure compliance of transaction documents with established regulations. Also, a detailed survey and analysis of various documentations such as environmental policies, material contracts, memorandum and articles of association (MEMART) of the issuer would be executed in a bid to uncover the true claim of sustainability alleged by the issuer and further detect potential likelihood of greenwashing.

ii. Regulatory Filings and Disclosures:
This involves submission of relevant transaction and corporate documents, as stipulated by law, to be provided to various regulators. These documents would be evaluated with the intent of uncovering if they meet specific regulatory requirements, that is, qualifications for green bond issuance and conditions precedent to such an issuance.

iii. Monitoring and Post-Issuance Compliance:
Here, consistent observation of the project and its milestones to ensure its continued compliance with laws and regulations is undertaken. Further, specific documents such as project reports are presented to the regulators periodically, in the manner and form mandated by law.

iv. Risk Advisory and Greenwashing Prevention:
Under this head, a meticulous review of transaction documents, regulations and market landscape is undertaken, with a view to identifying existing and potential legal risks to the transaction. Upon identification, robust measures would be deployed through careful drafting, rigorous due diligence and transparent disclosure protocols, to mitigate these risks and maintain the integrity of the overall transaction.

Green bonds represent more than a financial instrument; they are a commitment to sustainability, accountability, and impact. However, their effectiveness depends on the integrity of the process and the actors involved. Ultimately, the provisions of the ISA 2025, together with the SEC Rules on Green Bonds, provide a robust framework capable of addressing the threat of greenwashing. However, the credibility and integrity of Nigeria's green finance market will depend on consistent and effective enforcement by the relevant regulators.

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