



LEGAL AND INSTITUTIONAL FRAMEWORK FOR GREEN FINANCE AND SUSTAINABLE DEVELOPMENT IN NIGERIA

Vera Bidemi Monehin¹, Joy Oluchi Monehin², Sesan Fabamise³, Ifeoluwa Olubiya⁴

1. Department of Public and International Law, Afe Babalola University, Ado-Ekiti, Nigeria. Email: monehinvb@abuad.edu.ng.
2. Executive Trainee, Zenith Bank PLC, Nigeria. Email: joymonehin@yahoo.com.
3. Professor, Department of Public and International Law, Afe Babalola University, Ado-Ekiti, Nigeria. Email: fabamiset@abuad.edu.ng.
4. Professor, Department of Private and Business Law, Afe Babalola University, Ado-Ekiti, Nigeria. Email: olubiyaia@abuad.edu.ng.

Article Information:

Article Type:
Research Article

Manuscript Received:
23 January 2025

Final Revision Received:
15 September 2025

Accepted:
05 June 2025

Published Online:
15 October 2025

Keywords
Green Finance,
Sustainable
Development, Legal
Frameworks,
Institutional
Frameworks, Economic
Growth

Abstract:

Despite the growing recognition of green finance as an important tool for advancing sustainable development, there is a lack of a comprehensive legal provisions that mandates green financial practices in Nigeria, and existing policies lack the necessary enforcement mechanisms, incentives, and clarity to attract significant investment in environmentally sustainable projects. Also, the absence of standard definitions and taxonomies places a limit on effective mobilization and deployment of green finance. These shortcomings can significantly impede Nigeria's ability to transition to a low-carbon economy, meet its climate commitments, and achieve its sustainable development goals. Therefore, this article examines the legal and institutional frameworks that govern green finance in Nigeria, highlighting their role in advancing sustainable development. Using doctrinal methodology, it explores existing laws, policies, and institutional mechanisms, identifies regulatory gaps, and proposes actionable recommendations to strengthen Nigeria's green finance landscape. The study finds that there is still a need for strong legal and institutional frameworks that support green finance in Nigeria because the availability of these frameworks provides the regulatory structure, financial mechanisms, and policy direction needed to align Nigeria's economic growth with environmental sustainability. It is recommended amongst other things, that Nigeria should enact a Green Finance Act that mandates green finance practices across sectors, including financial institutions, corporations, and investors to ensure effective alignment with sustainability growth.

Cite this article: Vera Bidemi Monehin, Sesan T. Fabamise & Joy Oluchi Monehin (2026). Legal and Institutional Frameworks on Green Finance and Sustainable Development in Nigeria. The Journal of Sustainable Development, Law and Policy. Vol. 17:2. 413-444. DOI: 10.4314/jsdlp.v17i2.19.



© The Author(s)

Publisher: Institute for Oil, Energy, Environment and Sustainable Development (OGES Institute), Afe Babalola University, Ado Ekiti, Nigeria.

1.0 INTRODUCTION

Green finance is important in the global fight against environmental degradation, climate change issues, and unsustainable development practices. It is a means to generate and invest finances that can be used to promote environmentally sustainable projects and decrease the negative effects of human activities on the environment. The need for green finance is urgent in Nigeria due to our serious climate vulnerabilities and demanding environmental issues such as flooding, oil spillage, gas flaring, pollution, rising sea levels, and deforestation. Green finance can be used to pool adaptation and mitigation projects. Subsequently, there is an important need for effective and fully functional laws and institutions on green finance in Nigeria for it to have a solid foothold. Green finance refers to the mobilization of capital for projects with positive environmental or climate benefits.¹ It involves generating funds for the control of pollution, sustainable infrastructure, renewable energy, and other green technologies.² Green finance differs from conventional finance because it includes green financial instruments, such as green bonds or green credit lines, that provides for explicit environmental criteria like third-party verification, regular impact reporting, and dedicated use of proceeds for low-carbon projects.³ In contrast, conventional finance tends to be skeptical about environmental outcomes since ordinary loans, bonds, or equity investments do not require funds to be allocated for ecological or climate purposes.⁴ In simpler terms, green finance promotes investments

* Department of Public and International Law, Afe Babalola University, Ado-Ekiti, Nigeria. Email: monchinvb@abuad.edu.ng, ORCID ID: 0000-0002-0940-1535.

**Executive Trainee, Zenith Bank PLC, Nigeria. Email: joymonchin@yahoo.com, ORCID ID: 0009-0000-8692-9635.

***Professor, Department of Public and International Law, Afe Babalola University, Ado-Ekiti, Nigeria. Email: fabamises@abuad.edu.ng.

**** Professor, Department of Private and Business Law, Afe Babalola University, Ado-Ekiti, Nigeria. Email: olubiyia@abuad.edu.ng.

¹ Amighini, Alessia, Paolo Giudici, and Joël Ruet. "Green Finance: An Empirical Analysis of the Green Climate Fund Portfolio Structure." *Journal of Cleaner Production* (2022), 350

² 'What is Green and Sustainable Finance' (31 May 2023) <charteredbanker.com> accessed 20 June 2025

³ Steuer, Sebastian, and Tobias Tröger. "The Role of Disclosure in Green Finance." *Journal of Financial Regulation* (2022) 8(1), 1-50.

⁴ Sartzetakis, Eftichios. "Green Bonds as An Instrument to Finance Low Carbon Transition." *Economic Change and Restructuring* (2021) 53(4) 755-779.

towards sustainable development goals, while conventional finance focuses on returns without built-in sustainability mandates.

Looking at Nigeria as a whole, the scale of green finance in the country is grossly inadequate.⁵ Climate-related investment flows, which serve as the closest proxy for green finance, totaled only about USD 2.5 billion in 2021/2022 from both public and private sources.⁶ This amount represents barely 8% of the approximately USD 29.7 billion needed annually for mitigation and adaptation until 2030,⁷ implying an annual financing gap of around USD 27–28 billion.⁸ Moreover, most of Nigeria's limited climate funding originates from public channels; in 2021/2022, roughly 70% of the USD 2.5 billion was provided by public actors such as multilateral and bilateral agencies, including USD 1.2 billion from development banks.⁹ The private sector contributed only about 30% of the total, which is approximately USD 0.8 billion, primarily corporate investment.¹⁰ To put these figures in perspective, USD 2.5 billion is less than 1% of Nigeria's GDP and is dwarfed by the USD 9.3 billion the government paid in fossil fuel subsidies in 2022.¹¹ In short, Nigeria's current green finance, whether from public budgets or private investment, falls far short of the country's climate and sustainability needs.¹²

The shortfall, amongst other disadvantages, stems from institutional and policy gaps. Although Nigeria has taken initial steps, such as enacting a National Climate Change Act in 2021 and submitting updated Nationally

⁵ Otali, Monday, and Chukwuemeka Monye. "Implementation of Green Finance as A Catalyst for Green Infrastructure Development in Nigeria." *Journal of Contemporary Research in the Built Environment* (2023) 7(2), 60

⁶ Sean Stout, Ishrita Gupta, Anna Balm, and Chavi Meattle, 'Landscape of Climate Finance in Nigeria 2024 (October 2024) <climatepolicyinitiative.org> accessed 20 June 2025

⁷ *ibid*

⁸ *ibid*

⁹ Sean Stout, Ishrita Gupta, Anna Balm, and Chavi Meattle, 'Landscape of Climate Finance in Nigeria 2024 (October 2024) <climatepolicyinitiative.org> accessed 20 June 2025

¹⁰ *ibid*

¹¹ *ibid*

¹² Otali, Monday, and Chukwuemeka Monye. "Implementation of Green Finance as a Catalyst for Green Infrastructure Development in Nigeria." *Journal of Contemporary Research in the Built Environment* (2023) 7(2) 60

Determined Contributions (NDCs), ¹³there is no comprehensive law specifically addressing green finance. For example, the Climate Change Act mandates a carbon tax and trading scheme, but the carbon pricing policy is still only in planning stages. ¹⁴ Similarly, corporate sustainability disclosure was nearly non-existent, but only in 2024 did Nigeria announce a phased requirement that, between 2024 and 2027, companies report climate impacts and environmental, social, and governance (ESG) practices in line with International Financial Reporting Standards (IFRS). ¹⁵ Until then, Nigerian companies had no obligation to publish greenhouse-gas emissions or climate-risk data, a gap that delayed risk-aware lending and investment. Other legal gaps are evident in budgetary and fiscal policy. A recent analysis points out that Nigeria offers very limited green fiscal incentives while still rolling out new fossil-fuel subsidies. ¹⁶ Coupled with severe debt constraints, with over 80% of revenues going toward debt servicing, this means little public budget space is left for clean energy or resilience projects. ¹⁷

Nigeria also lacks comprehensive regulatory frameworks that many advanced economies now deploy. ¹⁸ While the Central Bank of Nigeria issued non-binding Sustainable Banking Principles in 2012 and the SEC issued Green Bond Guidelines in 2018, ¹⁹ these have had limited reach and do not constitute a unified green-finance regime. There is no national green taxonomy or mandatory climate-risk management rule to guide banks and insurers. In practice, experts cite chronic data and capacity barriers, Nigerian financial institutions often lack training in climate risk,

¹³ Climate Action Tracker, Policies and Action (11 March 2025) <climateactiontracker.org> accessed 20 June 2025

¹⁴ Agbasi, Ngozi Maureen. "Evaluating The Legal Framework for Sustainable Carbon Tax and Budgetary System in Nigeria." *Nnamdi Azikiwe University Journal of International Law and Jurisprudence* (2024) 15(2), 127-136

¹⁵ Isaac Anyaogu, Nigeria Give Business Four Years to Adopt Eco-friendly Reporting Standards' (Reuters, 22 March 2024) <reuters.com> accessed 20 June 2025

¹⁶ Sean Stout, Ishrita Gupta, Anna Balm, and Chavi Meattle, 'Landscape of Climate Finance in Nigeria 2024 (October 2024)' <climatepolicyinitiative.org> accessed 20 June 2025

¹⁷ *ibid*

¹⁸ Okonjo-Iweala, Ngozi, and Philip Osafo-Kwaako. "Nigeria's Economic Reforms: Progress and Challenges." Brookings Global Economy and Development Working Paper 6 (2007).

¹⁹ Oche, Jr., Alex, Comparative Analysis of the Legal Regime for Green Bonds in Nigeria, Philippines, and China (March 5, 2019). Available at SSRN: <https://ssrn.com/abstract=3467312> or <http://dx.doi.org/10.2139/ssrn.3467312>

and climate-related disclosure is rare. In sum, the legal/institutional landscape is fragmented. Climate programs and even a nascent green bond market exist, but the regulatory environment has not been engineered to scale up green investments or to redirect capital flows at the scale needed. Although several reports document Nigeria's huge climate finance needs²⁰ and there are legal initiatives like the Climate Change Act, there has been scant systematic analysis of how Nigeria's laws and institutions shape green finance flows. This paper fills that gap by examining the legal and institutional frameworks governing green finance in Nigeria, identifying specific shortcomings, and analyzing how these impediments hinder Nigeria's ability to mobilize sufficient capital for sustainable development.

The rest of this article is structured as follows. After this introduction, Section 2 examines the nature, instruments, and contours of green financing. It discusses how green finance can be used to advance sustainable development in Nigeria. Section 3 examines the legal and institutional framework on green finance in Nigeria with the aim of identifying gaps and challenges of gas. Section 4 proffers recommendations on the way forward. Section 5 is the concluding section.

2.0 NATURE, INSTRUMENTS AND CONTOURS OF GREEN FINANCE

2.1 Nature and Instruments

Green finance is the use and investment of money through means that support long-term environmental and climate goals²¹ such as environmental protection, renewable energy, and sustainable buildings.²² It is very important for achieving sustainable development goals and solving environmental challenges.²³ as Akerele noted that it is a functional

²⁰ Sean Stout, Ishrita Gupta, Anna Balm, and Chavi Meattle, 'Landscape of Climate Finance in Nigeria 2024 (October 2024) <climatepolicyinitiative.org> accessed 20 June 2025

²¹ Ozili Peterson, 'Theories of Sustainable Finance' *Managing Global Transitions* (2023) 21(1)

²² Muganyi, Tadiwanashe, Linnan Yan, and Hua-ping Sun, 'Green Finance, Fintech, and Environmental Protection: Evidence from China' *Environmental Science and Pollution Research* (2021) 28

²³ Goel, Rohit, Deepali Gautam, Fabio Natalucci, and Mr Fabio M. Natalucci, 'Sustainable Finance in Emerging Markets: Evolution, Challenges, and Policy Priorities' (2022) *IMF Working Paper* No. 2022/182

tool in blending environmental preservation with economic expansion.²⁴ Simply put, green finance is a loan or investment that promotes environmentally positive activities, such as the purchase of ecologically friendly goods and services or the construction of green infrastructure.²⁵ Green finance seeks to provide ways to achieve SDGs 6, 7, and 13, which are clean water and sanitation, affordable and clean energy, and climate action, respectively.²⁶

Green finance has numerous benefits that can give a competitive advantage to a country's economy when environmental regulations are strict, it increases the value of a business portfolio, which attracts investors, enhances the country's economic prospects, prevents scarcity of resources, and encourages the development of environmentally friendly structures.

²⁷It also enhances transparency and accountability, as investors and stakeholders demand more environmental performance reporting. Ultimately, green finance is vital for balancing economic development, environmental protection, and social well-being, ensuring a resilient and prosperous future for future generations.²⁸

Green finance includes a range of financial instruments and mechanisms designed to assist environmental sustainability and climate-resilient development. One of the most prominent instruments is the green bond, which is a fixed-income security where the proceeds are dedicated solely to environmentally positive projects, including renewable energy, clean

<<https://www.imf.org//media/files/publications/WP/2022/English/WPIEA2022182-Print-Pdf.Ashx>> accessed 20 June 2025

²⁴ Temitope, Akerele, Okeme Emmanuel, and S. N. Amadi., 'Impact of Green Finance on Sustainable Development in Nigeria' *Addaiyan Journal of Arts, Humanities and Social Sciences* (2024) 6(8), 1

²⁵ Osaretin EI, Omoghosa JA and Esoghene JI, 'Impact of Green Finance on Green Infrastructure Development in Nigeria (1995–2022)' (2023) *Proceedings of the 2nd UNIBEN Faculty of Management Sciences International Conference* 273

²⁶ Tavares, Fernanda Beatryz Rolim, Flávia Mendes de Almeida Collaço, and Marcelle Colares Oliveira. "Green Finance Instruments and The Sustainable Development Goals Achievement in Developing Countries: A Systematic Literature Review." *Boletim de Conjuntura (BOCA)* (2024) 17(23), 433-463.

²⁷ Osaretin EI, Omoghosa JA and Esoghene JI, 'Impact of Green Finance on Green Infrastructure Development in Nigeria (1995–2022)'

²⁸ Kumar P, Sharma L and Sharma N, 'Sustainable Economy Development Balancing Economic Viability, Environmental Protection, and Social Equity' (2024) *Sustainable Partnership and Investment Strategies for Startups and SMEs* 23

transportation, pollution control, biodiversity conservation, and sustainable land use. These projects must meet environmental eligibility standards established by frameworks like the Green Bond Principles or the EU taxonomy. Green bonds are used in mobilizing large-scale private and institutional capital for low-carbon infrastructure, thereby contributing to the achievement of Sustainable Development Goals (SDGs) such as SDG 7 (Affordable and Clean Energy), SDG 13 (Climate Action), and SDG 15 (Life on Land). Another instrument is green loans and sustainability-linked loans (SLLs), which are used to fund specific environmental projects, such as solar panel installations or building retrofits for energy efficiency. In contrast, SLLs adjust their pricing based on the borrower's achievement of environmental, social, and governance (ESG) targets, such as reducing emissions or conserving water. While green loans facilitate immediate investment in sustainable assets, SLLs create incentives for long-term performance improvement. These instruments support SDG 8 (Decent Work and Economic Growth), SDG 12 (Responsible Consumption and Production), and SDG 13.

Additionally, there is green equity and impact investing, which refers to investing in companies or funds engaged in environmentally beneficial activities like renewable energy or sustainable agriculture. By taking on early-stage or high-risk investments, green equity helps innovative green enterprises grow and scale. This contributes to technological advancement and sector-wide transformation, aligning with SDG 7, SDG 9 (Industry, Innovation and Infrastructure), and SDG 12. Moreover, green banks and green mortgages are institutional and retail channels for green finance. Green banks, typically public or semi-public institutions, leverage government capital to attract private investment into sustainable projects. They are especially valuable in markets with limited private sector participation. Meanwhile, green mortgages offer favorable terms for environmentally efficient housing. Together, they encourage sustainable urban development and expand financial access to green projects, supporting SDG 7 and SDG 11 (Sustainable Cities and Communities).

Grants, subsidies, and concessional finance are non-commercial financial instruments offered by governments, international institutions, or NGOs to support early-stage or high-risk green projects. They help pilot new technologies, create enabling environments, and build institutional capacity. Over time, these interventions make green sectors more

attractive to mainstream investors. This mechanism supports SDG 7, SDG 9, and SDG 11.

2.2 Overview of Green Finance in Nigeria

The concept of green finance in Nigeria has its roots in the increasing global awareness of environmental sustainability in the late 20th century. Like many other countries, Nigeria began recognizing the importance of addressing environmental issues due to the adverse effects of climate change and environmental degradation on its economy and populace. Nigeria's journey towards green finance was significantly influenced by its commitment to international environmental agreements, such as the Kyoto Protocol ²⁹ and the Paris Agreement. ³⁰ These agreements highlighted the need for developing countries to adopt sustainable practices and transition towards a low-carbon economy. In the early 2000s, Nigeria developed a National Policy on the Environment, ³¹ which laid the foundation for integrating environmental considerations into its economic planning and development processes. This policy emphasized the need for sustainable management of natural resources and the promotion of clean energy. In 2004, a comprehensive framework on the National Economic Empowerment and Development Strategy (NEEDS) was launched, and it aimed at promoting economic growth and reducing poverty. ³² It included components that emphasized environmental sustainability and set the stage for future green finance initiatives. The Central Bank of Nigeria (CBN) played a crucial role in developing green finance. In September 2012, CBN introduced guidelines for sustainable banking, encouraging banks to adopt environmentally friendly practices and finance green projects. ³³ In 2013, Nigeria adopted the National

²⁹ This Protocol was adopted in 1997 as an addendum to the UNFCCC 1992, and it aims to reduce greenhouse gas emissions contributing to global warming

³⁰ This Agreement was adopted in December 2015. It aims to reduce greenhouse gas emissions globally and it came into force on November 4, 2016, and has been signed by 195 countries and ratified by 190 countries

³¹ <<https://www.nesrea.gov.ng/wp-content/uploads/2017/09/national-policy-on-environment.pdf>> accessed 25 February 2025

³² <<https://www.cbn.gov.ng/out/publications/communique/guidelines/rd/2004/needs.pdf> >a accessed 25 February 2025

³³ <<https://www.cbn.gov.ng/out/2012/ccd/circular-nsbp.pdf>> accessed 25 February 2025

Climate Change Policy Response and Strategy,³⁴ which highlighted the importance of finance in achieving climate resilience. This policy marked a significant step towards incorporating green finance into the national agenda. The National Climate Change Policy (NCCP) 2021 is another policy meant to encourage sustainable socioeconomic growth that is low in carbon, climate-resilient, and gender-responsive.³⁵ In December 2017, Nigeria made a landmark move by issuing its first sovereign green bond.³⁶ This bond, worth ₦10.69 billion (approximately \$30 million), was the first of its kind in Africa. The proceeds were earmarked for financing renewable energy, afforestation, and other environmentally sustainable projects. The success of this bond issuance demonstrated Nigeria's commitment to green finance and provided a model for other African nations. Various initiatives aimed at promoting renewable energy also contributed to the growth of green finance. Programs like the Nigeria Renewable Energy and Energy Efficiency Project (REEEP)³⁷ and the Nigerian Electrification Project (NEP)³⁸ sought to enhance access to clean energy through public-private partnerships and international funding.

³⁴ The policy sets out Nigeria's response strategy to climate change for the period 2013-2020, as well as measures for the adoption of climate-smart practices aimed at fostering sustainable development

<<https://www.fao.org/faolex/results/details/fr/c/LEX-FAOC211212>> accessed 25 February 2025

³⁵ The National Climate Change Policy for Nigeria 2021-2030 assists the country in achieving its goal of meaningfully contributing to reducing greenhouse gas (GHG) emissions and reducing the socio-economic impacts of adverse effects of climate change

<<https://www.preventionweb.net/publication/nigeria-national-climate-change-policy-2021-2030>> accessed 25 February 2025

³⁶ Nigeria first nation to issue a Climate Bonds Certified Sovereign Green Bond

<<https://www.climatebonds.net/resources/press-releases/2017/12/nigeria-first-nation-issue-climate-bonds-certified-sovereign-green>> accessed 25 February 2025

³⁷ The project in Nigeria seeks to improve access to renewable energy (RE) technologies; improve access to finance for renewable energy technologies; and use renewable energy technologies to improve various sectors such as health and agriculture. The activity is designed to help mitigate climate change, reduce carbon emissions, increase economic opportunities, improve employment and, ultimately, sustain development in Nigeria

<https://pdf.usaid.gov/pdf_docs/PA00TD2W.pdf> accessed 25 February 2025

³⁸ The Nigeria Electrification Project (NEP) is a Federal Government (FG) initiative that is private sector-driven and seeks to bridge the energy access deficit by providing electricity to households, MSMEs, educational and healthcare facilities in unserved and underserved rural communities through the deployment of mini-grid, solar home systems (SHS), captive power plants, and productive use appliances to ensure the sustainability of these off-grid solutions

<<https://nep.rea.gov.ng/about-nep/>> accessed 25 February 2025

Nigeria's green finance initiatives have benefited from international support and collaboration. Organizations like the World Bank, the African Development Bank, and the United Nations Environment Programme have provided financial and technical assistance to Nigeria's green projects. These partnerships have helped build the capacity of local institutions and facilitated the transfer of knowledge and technology. Several donor agencies and development partners, including the Global Environment Facility (GEF) and the United Nations Development Programme (UNDP), have supported Nigeria's green finance efforts. These agencies have funded various projects aimed at enhancing climate resilience, promoting sustainable agriculture, and improving energy efficiency.

2.3 Literature Review

According to Azhgaliyeva, green finance supports projects with environmental benefits, such as renewable energy, energy efficiency, and pollution prevention, despite the lack of a unified definition for green projects.³⁹ Particularly, green bonds are commonly used to fund energy efficiency projects.⁴⁰ Desalegn & Tangl systematically analyzed green finance in all of its forms, instruments, and measurements.⁴¹ Their review indicates that the green financing gap often arises due to inadequate funding, poor management and selection of green projects, unfavorable risk-return trade-offs, and a lack of tools and expertise for assessing green project risks.⁴² Additionally, regulatory issues have been identified as the primary challenge in advancing green finance.⁴³ Duygu⁴⁴ investigated the role of green finance in achieving sustainable development goals, addressing issues related to sustainable funding and ESG (environmental, social, and governance) concerns. The study reviewed global green

³⁹ Azhgaliyeva D, Kapoor A and Liu Y, 'Green Bonds for Financing Renewable Energy and Energy Efficiency in South-East Asia: A Review of Policies' *Journal of Sustainable Finance & Investment* (2020) 10(2), 113

⁴⁰ *ibid*

⁴¹ Desalegn G and Tangl A, 'Enhancing Green Finance for Inclusive Green Growth: A Systematic Approach' *Sustainability* (2022) 14

⁴² *ibid*

⁴³ *ibid*

⁴⁴ Duygu H, 'Green Management and Sustainability: Risk Management, Stakeholder Relations, Finance and Innovation' (2021) *Global Agenda in Social Sciences, Environmental Science and Pollution Research*

financing practices, particularly the efforts of the G20, and concluded that aligning the financial system with sustainable development requires participation from all stakeholders, including banks, global financial organizations, institutional investors, rating institutions, and stock exchanges.⁴⁵ The recommendation is to standardize green finance practices to create uniform green monetary markets across regions.⁴⁶

Zakari & Khan studied the relationship between green finance (GF) and environmental sustainability (ES) in the top 10 countries investing in environmental protection.⁴⁷ They found a significant positive link between GF and ES, although energy use and urbanization negatively impacted ES.⁴⁸ Ronaldo & Suryanto examined green finance in Indonesia, concluding that it is crucial for achieving sustainable development goals (SDGs) by promoting green technologies and enterprises.⁴⁹ Muganyi et al. reported that green finance initiatives in China significantly reduced industrial gas emissions and sulfur dioxide levels, emphasizing the need for enhanced Green finance products and green loans.⁵⁰ Falcone also highlighted green finance role in mitigating environmental harm through investment and regulations.⁵¹ Moreover, Qin et al. argued that green finance positively impacts sustainable economic development, showing significant promotion in China which indicates that green finance plays a crucial role in driving green and sustainable economic growth.⁵² Conversely, the current energy structure negatively affects sustainable development, suggesting that optimizing the energy structure is beneficial. Moreover, combining green finance with energy structure optimization has an even greater impact, highlighting the

⁴⁵ *ibid*

⁴⁶ *ibid*

⁴⁷ Zakari A and Khan I, 'The Introduction of Green Finance: A Curse or a Benefit to Environmental Sustainability?' *Energy Research Letters* (2021) 3(3), 1

⁴⁸ *ibid*

⁴⁹ Ronaldo R and Suryanto T, 'Green Finance and Sustainability Development Goals in Indonesian Fund Village' *Resources Policy* (2022) 78

⁵⁰ Muganyi T, Yan LN and Sun HP, 'Green Finance, Fintech, and Environmental Protection: Evidence from China' (2021) (n 2)

⁵¹ Falcone PM, 'Environmental Regulation and Green Investments: The Role of Green Finance' *International Journal of Green Economics* (2020) 14(2), 159

⁵² Qin M, Xiujie W and Guo F, 'Blockchain Market and Green Finance: The Enablers of Carbon Neutrality in China' 118 *Energy Economics* (2023) 1

need for green finance policies in high-carbon areas to enhance energy structure optimization and boost sustainable economic development.⁵³

Ojo & Akinwale investigated the role of green loans in promoting sustainable economic development in Nigeria.⁵⁴ Through an econometric analysis of data from various financial institutions and sustainable projects, the authors demonstrate that green loans significantly contribute to economic growth and environmental sustainability.⁵⁵ The findings indicated that green loans not only support eco-friendly initiatives but also drive economic activities that lead to sustainable development.⁵⁶ Green loans facilitate financing for projects that adhere to environmental sustainability principles, such as renewable energy installations and sustainable agriculture. It was recommended that policymakers should encourage the issuance of green loans by providing incentives to banks and financial institutions, which in turn would enhance the availability of funding for sustainable projects.⁵⁷ Furthermore, Adeniyi & Omisore examined the impact of green bonds on sustainable economic development in Nigeria.⁵⁸ Using a combination of econometric modeling and case studies, the authors find that green bonds have a positive and significant effect on promoting economic growth and environmental sustainability in Nigeria.⁵⁹ The results suggested that green bonds are an effective tool for financing sustainable development projects, contributing to both economic and environmental objectives. The study found that green bonds significantly enhance sustainable economic development by providing necessary capital for green projects, which in turn stimulates economic growth. The findings suggested that policymakers should promote the issuance and utilization of green bonds to achieve sustainable economic growth and meet environmental targets.⁶⁰

⁵³ *ibid*

⁵⁴ Ojo M and Akinwale A, 'The Impact of Green Loans on Sustainable Economic Development in Nigeria' *Environmental Economics and Policy Studies* (2022) 24(2), 123

⁵⁵ *ibid*

⁵⁶ *ibid*

⁵⁷ *ibid*

⁵⁸ Adeniyi O and Omisore T, 'The Role of Green Bonds in Fostering Sustainable Economic Growth in Nigeria' *Journal of Sustainable Finance & Investment* (2020) 10(4), 35

⁵⁹ *ibid*

⁶⁰ *ibid*

Coskun & Unalmis explored the role of government policies in creating a robust framework for green digital finance aligned with the goals of the Paris Climate Agreement and sustainable development.⁶¹ Drawing on a literature review and case studies, the chapter emphasized the pivotal role of government actions in facilitating effective implementation at both national and global scales. The authors advocated directing digital finance initiatives towards green finance within a carefully crafted ecosystem. They proposed that governments can bolster green digital finance by enacting sound regulatory policies, offering incentives such as green data initiatives, tax reductions, and investments in technological infrastructure.⁶² Nwozor et al. studied on the prospective and evaluative transition to green energy and sustainable development in Nigeria and concluded that the projected policies for transitioning to green energy lack clear pathways to ensure their sustainable implementation.⁶³ This discrepancy between green energy transition goals and actual realization is attributed to insufficient private investment. Therefore, it was suggested that establishing a regulatory framework to instill confidence and commitment among investors is required. Olateju et al. stated that with the growing awareness of the importance of maintaining a healthy environment for people, the planet, and biodiversity, sustainable entrepreneurship has gained prominence.⁶⁴ To achieve sustainability in economic, social, and environmental terms, entrepreneurs in both developed and developing countries are encouraged to incorporate green practices into their business activities.⁶⁵ The need for sustainable development has led to the rise of sustainable entrepreneurship. It is important to note that, regardless of whether entrepreneurship is conventional, environmental, or social, the core and shared objective of any entrepreneurial venture is to generate profit.

⁶¹ Coskun Y and Unalmis I, 'Role of Governments in Enhancing Green Digital Finance for Meeting the SDGs' in *Economics, Law, and Institutions in Asia Pacific* (2022) 69–88

⁶² *ibid*

⁶³ Nwozor A and others, 'Transition to Green Energy and Sustainable Economy Development in Nigeria: A Prospective and Evaluative Analysis' *Earth and Environmental Science* (2021) 665

⁶⁴ Olateju O, Akinola A and Adewale F, 'The Rising Importance of Sustainable Entrepreneurship in Promoting Environmental Health and Biodiversity' *Journal of Sustainable Business and Development* (2020) 15(2), 85

⁶⁵ *ibid*

Appah et al. conducted a study that investigated the relationship between green banking practices and sources of green financing among listed deposit money banks in Nigeria.⁶⁶ Grounded in institutional theory, the study employed a cross-sectional survey research design focusing on a population comprising listed banks in Nigeria. The research utilized a stratified random sampling method to gather data from 750 bank employees through questionnaires, with 500 responses used for analysis. The findings from regression analysis revealed several significant relationships: employee-related green banking practices positively and significantly influenced sources of green financing; daily operations-related practices also had a positive and significant impact; customer-related practices showed a positive but significant influence; policy-related practices positively affected sources of green financing; and green investment-related practices positively impacted sources of green financing among deposit money banks in Nigeria. The study concluded that green banking practices exert a positive influence on the sources of green financing available to deposit money banks in Nigeria.⁶⁷ Consequently, the study recommends that Nigerian banks adopt contemporary eco-friendly banking practices to enhance the availability of green financing sources in the country.

The existing literature on green finance in Nigeria has primarily concentrated on the economic impacts and benefits of green financial instruments such as green bonds and loans, as well as the broader relationship between green finance and environmental sustainability. However, there is a noticeable gap in scholarly work that critically evaluates the legal and institutional frameworks that underpin the governance of green finance in Nigeria. Specifically, most studies do not sufficiently interrogate how existing laws, regulatory bodies, and policy instruments interact to either facilitate or hinder green finance flows.

This article aims to address a gap by providing a comprehensive legal and institutional analysis of green finance in Nigeria. It seeks to identify the specific weaknesses in Nigeria's legal frameworks and institutional structures that hinder the effective mobilization of green capital. In doing

⁶⁶ Appah E, Tebepah SF and Eburunobi EO, 'Green Banking Practices and Green Financing of Listed Deposit Money Banks in Nigeria' *British Journal of Multidisciplinary and Advanced Studies* (2024) 5(1), 41

⁶⁷ *ibid*

so, the article adds to the growing body of scholarship that highlights not only the financial viability of green finance but also the vital role of law and institutions in ensuring that green finance is coherent, transparent, enforceable, and aligned with both national and international sustainability standards.

2.4 Reasons Why Frameworks on Green Finance Can Promote Sustainable Development in Nigeria

The availability of strong legal and institutional framework for green finance is important for promoting sustainable development in Nigeria as it provides the regulatory structure, financial mechanisms, and policy direction needed to align economic growth with environmental sustainability. Where there is absence of clear laws and well-structured institutions, green finance initiatives may lack enforcement, consistency, and investor confidence. This section highlights reasons why legal and institutional frameworks is key for green finance and sustainable development in Nigeria.

The availability of clear legal and regulatory framework will help to attract local and international investors, because it will reduce uncertainty and set clear rules for green bonds, carbon markets, and climate-friendly investments. The provision of incentives such as tax breaks, grants, and guarantees, in the frameworks will make it easier for businesses and financial institutions to invest in renewable energy, waste management, and sustainable agriculture. Having strong institutions will also ensure that green finance flows to projects that genuinely support sustainability and reduce the risk of greenwashing.⁶⁸ Secondly, a strong legal framework can establish binding regulations that will require financial institutions, corporations, and industries to integrate environmental, social, and governance (ESG) criteria into their operations. For instance, Nigeria's Climate Change Act 2021 and the Nigerian Sustainable Banking Principles (NSBP) can guide banks and businesses in making climate-conscious financial decisions. Also, institutional oversight ensures that companies

⁶⁸Greenwashing is when a company or organization falsely claims to be environmentally friendly to attract eco-conscious consumers. This can involve misleading advertising, vague or exaggerated sustainability claims, or emphasizing minor green initiatives while ignoring larger environmental harms. The goal is often to improve the brand's image without making meaningful environmental changes.

adhere to emission reduction targets, pollution control laws, and responsible resource management.

Thirdly, a well-structured institutional framework will ensure that key regulatory bodies such as the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), and the National Council on Climate Change (NCCC) work together to drive green finance. Also, solid institutions can help streamline policies, reduce bureaucratic inefficiencies, and align Nigeria's climate finance goals with international standards. The absence of effective institutions can create risk of policy fragmentation, weak enforcement, and duplication of roles, which could slow down green finance implementation. Moreover, clear legal frameworks require financial institutions to disclose environmental risks and sustainability strategies. For example, mandatory ESG reporting will ensure that banks and investors assess climate risks before financing projects. Also, transparency in green finance reduces financial risks associated with climate change, environmental degradation, and stranded assets in fossil fuel industries. By enforcing climate-related financial disclosures, Nigeria can improve investor confidence and align with global sustainable finance trends.

Many international climate finance mechanisms such as the Green Climate Fund (GCF), the Climate Bonds Initiative, and the World Bank's sustainable finance programs require recipient countries to have robust legal and institutional structures before receiving funding. A well-established green finance framework will enable Nigeria to access grants, concessional loans, and technical assistance to support climate mitigation and adaptation projects. Without clear policies and institutional structures, Nigeria will risk missing out on critical funding for its renewable energy transition and climate resilience programs. Green finance frameworks can also stimulate economic growth by encouraging investments in clean energy, energy-efficient technologies, and climate-resilient infrastructure. By supporting green entrepreneurship and sustainable industries, legal and institutional structures can help create green jobs in sectors such as solar energy, electric mobility, and environmental conservation. A well-regulated green finance market also ensures that climate investments contribute to poverty reduction, rural development, and long-term economic stability.

Finally, it is well known that Nigeria is a signatory to international climate agreements, including the Paris Agreement,⁶⁹ the United Nations Sustainable Development Goals (SDGs),⁷⁰ and the African Union's Agenda 2063.⁷¹ To fulfill these commitments, Nigeria needs strong legal and institutional frameworks that support climate finance, emission reductions, and sustainable development policies. Without well-defined green finance regulations, Nigeria risks falling behind on global climate action targets and losing opportunities for international collaboration on sustainability initiatives.

3.0 EVALUATIONS OF THE LEGAL AND INSTITUTIONAL FRAMEWORKS FOR GREEN FINANCE IN NIGERIA

3.1 Legal Framework

The Nigeria 2021 Climate Change Act establishes a comprehensive framework for addressing climate change through mitigation, adaptation, and sustainable development measures.⁷² It was signed into law on November 17, 2021, and the Act institutionalizes climate action by creating the National Council on Climate Change (NCCC)⁷³ and providing legal backing for policies to achieve net-zero emissions between 2050 and 2070.⁷⁴ The Act aligns Nigeria's climate response with international commitments such as the Paris Agreement and seeks to integrate climate considerations into national and subnational governance. Additionally, it aims to mobilize resources and facilitate investments in climate-related projects to support a transition to a low-carbon economy.⁷⁵ A key component of the Act related to green finance is the

⁶⁹ The Paris Agreement was designed to supplement and replace the Kyoto Protocol. It was adopted in December 2015, and it aims to reduce greenhouse gas emissions globally. It came into force on November 4, 2016, and has been signed by 195 countries and ratified by 190 countries

⁷⁰ The Sustainable Development Goals (SDGs) are a collection of 17 global objectives established by the United Nations in 2015 as part of the 2030 Agenda for Sustainable Development.

⁷¹ The African Union's Agenda 2063 is a long-term development blueprint for transforming Africa into a global powerhouse. It was adopted in 2013, and it focuses on inclusive economic growth, sustainable development, political unity and regional integration.

⁷² Climate Change Act 2021, s1

⁷³ Climate Change Act 2021, s 3

⁷⁴ Climate Change Act 2021, s 1(f)

⁷⁵ Climate Change Act 2021, s 15(2)

establishment of a Climate Change Fund, administered by the NCCC. ⁷⁶ Sections 15 and 17 outline the financing sources, including budgetary allocations, international climate funding, proceeds from carbon taxes, and the issuance of green bonds. ⁷⁷ Section 4(j) mandates the Council to develop a national carbon emissions trading system, while Section 4(i) calls for a mechanism to introduce a carbon tax in collaboration with the Federal Inland Revenue Service. ⁷⁸ Additionally, Section 4(p) highlights the importance of sovereign green bonds in achieving Nigeria's Nationally Determined Contributions (NDCs). ⁷⁹ These provisions signal a structured approach to financing climate initiatives and incentivizing investments in clean energy and sustainability projects.

One concern with the Act is the potential duplication of roles between the newly created NCCC and existing institutions, such as the Department of Climate Change within the Federal Ministry of Environment. The effectiveness of carbon pricing mechanisms also remains uncertain, as successful implementation requires strong regulatory oversight and market readiness. Furthermore, the Act does not specify how revenues from carbon taxes and emissions trading will be reinvested into green projects, raising concerns about transparency and accountability in fund management.

Secondly, there is the NESREA Act, 2007, which establishes the National Environmental Standards and Regulations Enforcement Agency as the primary body responsible for enforcing environmental laws, regulations, and standards in Nigeria. ⁸⁰ The Act mandates NESREA to ensure environmental protection, promote sustainable development, and enforce compliance with international environmental agreements to which Nigeria is a signatory. ⁸¹ The agency is tasked with overseeing air and water quality, waste management, pollution control, and environmental health standards across various sectors. ⁸² Through its regulatory framework, NESREA aims to create an environmentally sustainable economy while

⁷⁶ Climate Change Act 2021, s 15

⁷⁷ Climate Change Act 2021

⁷⁸ *ibid*

⁷⁹ *ibid*

⁸⁰ NESREA Act 2007, s 1

⁸¹ NESREA Act 2007, s 2

⁸² NESREA Act, 2007, s 8(k)

ensuring industries and businesses adhere to environmental best practices. The NESREA Act includes certain provisions that relate to green finance, particularly in its financial provisions and investment.⁸³ Section 13 establishes a fund to support NESREA's activities, financed through government allocations, grants, loans, and internally generated revenues. Section 19 allows NESREA to invest in securities, which, if structured effectively, could promote green investments and environmental sustainability projects. Additionally, Section 7(i) mandates NESREA to ensure that environmental projects funded by donor organizations and external agencies comply with environmental regulations, indirectly linking international climate finance to environmental enforcement.⁸⁴ Furthermore, Section 8(j) permits NESREA to accept financial gifts and donations from individuals and organizations, which could serve as a funding mechanism for green initiatives.⁸⁵ These provisions highlight the Act's potential role in mobilizing financial resources for sustainable projects in Nigeria.

However, the Act does not explicitly define green finance mechanisms, such as carbon credits, green bonds, or environmental taxation. Unlike the Climate Change Act, which introduces carbon pricing mechanisms (e.g., carbon tax and emissions trading),⁸⁶ the NESREA Act lacks a direct strategy for leveraging financial instruments to drive environmental sustainability. Additionally, while the Act gives NESREA the authority to impose fines and penalties,⁸⁷ it does not specify how these funds could be reinvested into green projects. The absence of a dedicated environmental finance framework limits NESREA's ability to support green investments systematically. Moreover, NESREA's exclusion from regulating the oil and gas sector, one of Nigeria's biggest contributors to pollution, significantly reduces its impact on green finance efforts.

Additionally, there's the Nigerian Finance Act 2023,⁸⁸ enacted on May 28, 2023, it introduces several amendments aimed at enhancing the nation's

⁸³ NESREA Act 2007, s 19

⁸⁴ NESREA Act 2007

⁸⁵ *ibid*

⁸⁶ Climate Change Act 2021, s 19

⁸⁷ NESREA Act 2007, s 31

⁸⁸ Nigerian Finance Act 2023, <<https://www.pwc.com/ng/en/assets/pdf/nigeria-finance-act-2023.pdf>> accessed 23 July 2025

fiscal landscape. Key changes include the taxation of digital assets,⁸⁹ adjustments to capital gains tax provisions,⁹⁰ the imposition of new levies on imports, and modifications to existing tax incentives.⁹¹ These reforms are designed to boost revenue generation, improve tax administration, and align Nigeria's tax policies with evolving global economic trends. Notably, the Act introduces a 0.5% import levy on goods imported into Nigeria from outside Africa.⁹² This measure encourages intra-African trade and supports domestic industries by making non-African imports slightly more expensive. While this provision is not explicitly labeled under green finance, it indirectly promotes environmental sustainability by potentially reducing the carbon footprint associated with long-distance imports. However, the Act does not contain specific sections dedicated to green finance initiatives or incentives for environmentally sustainable projects. The absence of explicit green finance provisions in the Finance Act 2023 highlights a significant gap in Nigeria's legislative framework concerning environmental sustainability. As global attention increasingly focuses on climate change and sustainable development, Nigeria's lack of targeted tax incentives or financial mechanisms to support green projects may hinder the country's ability to attract investments in renewable energy, sustainable agriculture, and other eco-friendly sectors.

There is also the Companies and Allied Matters Act (CAMA), 2020, which is Nigeria's primary legislation governing corporate entities, business names, and incorporated trustees.⁹³ The Act establishes the Corporate Affairs Commission (CAC) and provides a legal framework for corporate governance, registration, and regulation of companies.⁹⁴ The 2020 amendment introduced significant reforms to enhance ease of doing business, transparency, and accountability. CAMA also provides the foundation for corporate entities in Nigeria and influences how businesses engage in financial transactions, including investments in sustainability and green finance initiatives. While the Act does not explicitly focus on green finance, some of its provisions create opportunities for sustainable corporate practices and investment in environmentally responsible

⁸⁹ Nigerian Finance Act 2023, part II

⁹⁰ *ibid*, part II

⁹¹ *ibid*, part III

⁹² Finance Act 2023, part IV, s 2

⁹³ part II of CAMA 2020

⁹⁴ CAMA 2020, s1

projects. The green finance relevance in CAMA can be found in provisions related to corporate governance, financial transparency, and investment regulations. Section 26 provides for companies limited by guarantee, which can be structured to fund sustainability initiatives and climate projects.⁹⁵ Section 27 requires that companies state their objectives in their Memorandum of Association, allowing firms to integrate environmental and sustainability goals.⁹⁶ The financial provisions in Parts XI and XIII ensure that corporate financial statements and reporting adhere to transparency standards, which is crucial for attracting green investments.⁹⁷ Additionally, Section 342, which mandates a Directors' Report, could be expanded to require reporting on Environmental, Social, and Governance (ESG) impacts, making it easier to track and promote corporate green investments.

It should be noted that CAMA does not explicitly include incentives for green finance or provisions encouraging businesses to adopt sustainable finance mechanisms. Unlike global best practices, the Act does not mandate ESG disclosures, carbon footprint reporting, or sustainable investment commitments.⁹⁸ Moreover, there is no provision for companies to allocate a percentage of their investments or capital towards green projects. The absence of clear guidelines on sustainable financial instruments, such as green bonds or carbon trading mechanisms limits the Act's ability to drive climate finance in Nigeria. Without explicit legal mandates, businesses may not prioritize environmental sustainability in their financial planning and corporate governance.

Finally, there is the Nigerian Sustainable Banking Principles (NSBP), which was introduced in July 2012 and was developed by the Bankers' Committee in collaboration with financial regulators to integrate environmental, social, and governance (ESG) considerations into Nigeria's banking sector.⁹⁹ The principles recognize the role of banks in supporting

⁹⁵ CAMA 2020

⁹⁶ *ibid*

⁹⁷ *ibid*

⁹⁸ Singhania, Monica, and Neha Saini. "Institutional Framework of ESG Disclosures: Comparative Analysis of Developed and Developing Countries." *Journal of Sustainable Finance & Investment* (2023) 13(1), 516-559.

⁹⁹ Oyegunle Adeboye and Olaf Weber, 'Development of Sustainability and Green Banking Regulations: Existing Codes and Practices' (2015)

economic development while ensuring sustainability and environmental responsibility. The NSBP applies to all banks, discount houses, and development finance institutions in Nigeria and provides sector-specific guidelines for agriculture, power, and oil & gas. By promoting sustainable banking practices, the NSBP aims to enhance risk management, improve economic stability, and drive long-term financial inclusion.

One of the key areas where the NSBP intersects with green finance is in Principle 1, which mandates banks to integrate environmental and social (E&S) risk management into their business activities.¹⁰⁰ This principle ensures that financial institutions assess the environmental impact of projects before granting funding, thereby promoting responsible investment in green and sustainable projects. Principle 2 focuses on minimizing the environmental footprint of banks' operations,¹⁰¹ while Principle 6 emphasizes the need for strong environmental governance and oversight.¹⁰² Additionally, Principle 9 requires regular reporting on ESG progress, which can help track green finance initiatives and ensure transparency in sustainable banking commitments.¹⁰³ A challenge with the principles is that they are voluntary, meaning banks are not legally required to implement them, reducing enforcement and compliance levels.¹⁰⁴

3.2 Institutional Framework

Several institutions are involved in regulating and promoting green finance in Nigeria. The Central Bank of Nigeria (CBN) has its own way of promoting green finance by integrating environmental and social considerations into the nation's financial system. In 2012, the CBN, in collaboration with the Bankers' Committee, introduced the Nigerian Sustainable Banking Principles (NSBP), a set of nine guidelines designed to embed sustainability into banking operations.¹⁰⁵ These principles cover areas such as environmental and social risk management, environmental and social footprint, and reporting, aiming to ensure that

¹⁰⁰ Nigerian Sustainable Banking Principles (NSBP)

¹⁰¹ *ibid*

¹⁰² *ibid*

¹⁰³ *ibid*

¹⁰⁴ Oyegunle Adeboye and Olaf Weber (n 99)

¹⁰⁵ *ibid*

financial institutions operate responsibly and contribute positively to society and the environment.¹⁰⁶ To facilitate the effective implementation of the NSBP, CBN has undertaken several initiatives. It has organized training sessions and workshops to educate board members and executives of financial institutions on the importance and application of sustainable banking practices.¹⁰⁷

Additionally, CBN has established a dedicated Sustainability Department responsible for overseeing the adoption of these principles and ensuring compliance across the sector. This department collaborates with other financial regulators to promote a unified approach to sustainability within Nigeria's financial landscape.¹⁰⁸ Beyond policy formulation and capacity building, the CBN emphasizes transparency and accountability in sustainable finance.¹⁰⁹ It requires financial institutions to regularly report their progress in implementing the NSBP, thereby encouraging a culture of openness and continuous improvement. Furthermore, CBN encourages innovation by proposing the establishment of green finance labs and exploring the creation of a green bank.¹¹⁰ These initiatives aim to develop financial products that incorporate environmental, social, and governance factors, ultimately leading to sustainable economic growth and environmental preservation.

The Securities and Exchange Commission (SEC) of Nigeria is another institution that helps in regulating and promoting green finance within the country's capital markets. In 2018, the SEC introduced the Green Bond

¹⁰⁶ Central Bank of Nigeria <https://www.cbn.gov.ng/out/2012/ccd/circular-nsbp.pdf?utm_source> accessed 26 February 2025

¹⁰⁷ High-Level Training on The Nigerian Sustainable Banking Principles <<https://www.unepfi.org/regions/africa-middle-east/high-level-training-on-the-nigeria-sustainable-banking-principles/>> accessed 26 February 2025

¹⁰⁸ Implementation of The Nigerian Sustainable Banking Principles By The Bank <https://www.unepfi.org/regions/africa-middle-east/unep-fi-leads-the-way-on-sustainability-issues-among-nigeria-financial-sector/?utm_source> accessed 26 February 2025

¹⁰⁹ Lincoln A, Adedoyin O and Croad J, 'Sustainability in the Nigerian Banking Sector' in *The Future of the UN Sustainable Development Goals: Business Perspectives for Global Development in 2030* (2019) 99

¹¹⁰ Owotemu AE and Kale Y, 'The Crowding-Out Effect: Modelling the Impact of Government Borrowing, Inflation & Monetary Policy on Access to Sustainable Finance for Affordable Housing & Social Infrastructure Development' (2025) 16(1) *Modern Economy* 201

Issuance Rules, establishing a framework for the issuance of green bonds aimed at financing environmentally sustainable projects.¹¹¹ These rules delineate the criteria for projects eligible for green bond financing, encompassing areas such as renewable energy, clean transportation, and sustainable water management. By setting these standards, the SEC ensures that funds raised through green bonds are allocated to projects that contribute meaningfully to environmental sustainability.¹¹²

To further embed sustainability into the financial ecosystem, the SEC released the Guidelines on Sustainable Financial Principles for the Nigerian Capital Market in 2021.¹¹³ These guidelines mandate that regulated entities incorporate Environmental, Social, and Governance (ESG) considerations into their operations and decision-making processes. The principles advocate for resource efficiency, environmental protection, and social development, aiming to balance economic growth with sustainability. By enforcing these guidelines, the SEC promotes transparency and accountability, requiring entities to regularly report on their ESG initiatives and performance. In its commitment to fostering a robust green finance market, the SEC collaborates with various stakeholders, including international organizations and financial institutions. Notably, the SEC has partnered with the Climate Bonds Initiative and the Financial Sector Deepening Africa (FSD Africa) to support the development of a non-sovereign green bond market in Nigeria.¹¹⁴ These collaborations focus on capacity building, providing training for regulators and investors.

Additionally, the National Council on Climate Change (NCCC) serves as the central coordinating body for climate action and sustainable economic development in Nigeria.¹¹⁵ It is established under the Climate Change

¹¹¹ Climate Bond Initiatives < https://www.climatebonds.net/files/releases/media_release-nigeria_sec-launches-green_bond_rules-031218_0.pdf?utm_source > accessed 26 February 2025

¹¹² Ibid

¹¹³ Securities and Exchange Commission Nigeria <file:///C:/Users/Administrator/Downloads/SEC-Guidelines-on-Sustainable-Financial-Principles-for-the-Capital-Market_Final.pdf > accessed 26 February 2025

¹¹⁴ Oshiomah, Asekhamhe, Towards Net Zero: Understanding Nigeria's Green Bond Policy Framework (December 28, 2021). Available at SSRN: <https://ssrn.com/abstract=4000044> or <http://dx.doi.org/10.2139/ssrn.4000044>

¹¹⁵ Climate Change Act 2021, s 4

Act, 2021, that the NCCC is responsible for overseeing Nigeria's transition to a low-carbon economy and ensuring alignment with international climate commitments such as the Paris Agreement.¹¹⁶ One of its primary functions is to develop and implement climate finance policies, ensuring that public and private investments support climate adaptation and mitigation projects.¹¹⁷ By setting regulatory standards for green finance, the NCCC ensures that financial flows are directed toward sustainable initiatives that reduce carbon emissions and enhance climate resilience. To facilitate green finance, the NCCC administers the Climate Change Fund, as outlined in the Climate Change Act.¹¹⁸ The Council also collaborates with financial institutions, including the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC), to integrate Environmental, Social, and Governance (ESG) principles into Nigeria's financial markets, further enhancing the country's sustainable investment landscape.¹¹⁹ Despite these efforts, challenges remain in mobilizing private sector participation, ensuring transparency, and enforcing compliance with climate finance regulations.

The Federal Ministry of Environment is another institution that formulates and implements policies that integrate environmental sustainability into economic development. The Ministry has been instrumental in developing frameworks that facilitate the financing of eco-friendly projects. A notable initiative is the issuance of green bonds, which serve as innovative financial instruments designed to raise capital for projects aimed at environmental conservation and climate change mitigation.¹²⁰ These bonds have been tailored to align with Nigeria's specific environmental and economic contexts, ensuring that the funds mobilized are effectively channeled toward sustainable development goals. In its efforts to mainstream green finance, the Ministry has established the Green Bond Advisory Group in partnership with the Nigerian Exchange

¹¹⁶ Climate Change Act 2021, s 3

¹¹⁷ Climate Change Act 2021 (n 104)

¹¹⁸ Climate Change Act 2021, s 17

¹¹⁹ Part VI, Climate Change Act 2021

¹²⁰ Oguntuase OJ and Windapo A, 'Green Bonds and Green Buildings: New Options for Achieving Sustainable Development in Nigeria' in *Housing and SDGs in Urban Africa* (2021) 193

Group (NGX) and other stakeholders.¹²¹ This group was key in the successful issuance of Nigeria's inaugural sovereign green bond, amounting to approximately ₦10.69 billion (~US\$26 million) in 2017.¹²² The bond was earmarked for financing projects in renewable energy, afforestation, and other environmentally friendly ventures.¹²³ This collaborative approach reveals the Ministry's commitment to environmental sustainability, and it can enhance investor confidence in Nigeria's green finance initiatives. Furthermore, the Federal Ministry of Environment oversees various programs that align with green finance objectives, such as the Nigeria Erosion and Watershed Management Project (NEWMAP).¹²⁴ This World Bank-assisted project addresses severe gully erosion and land degradation issues, particularly in the southeastern regions of Nigeria.¹²⁵ By securing funding and implementing sustainable land management practices, the Ministry demonstrates how green finance can be effectively utilized to tackle pressing environmental challenges. Through these multifaceted efforts, the Ministry not only regulates but actively promotes the integration of green finance into Nigeria's broader economic and environmental strategies. Finally, there is the Nigeria Sovereign Investment Authority (NSIA) which integrates Environmental, Social, and Governance (ESG) considerations into its investment strategies. As the manager of Nigeria's sovereign wealth fund, NSIA is committed to sustainability and responsible investing, ensuring that its operations and investments contribute to environmental stewardship and economic prosperity.¹²⁶ This commitment is reflected in their robust ESG framework, which guides both new investments and the management of existing portfolios.¹²⁷ In collaboration with international partners, NSIA actively mobilizes capital for clean energy projects. A notable example is their

¹²¹ Jude Chiemeka, Focus: Nigeria's Green Bonds are a Key Step in our Sustainable Finance Agenda <https://focus.world-exchanges.org/articles/nigeria-green-bonds?utm_source=> accessed 26 February 2025

¹²² *ibid*

¹²³ *Ibid*

¹²⁴ Osagioduwa LO and others, 'History of Sustainability Reporting' *ESUT Journal of Social Sciences*(2023) 8(1)

¹²⁵ *Ibid*

¹²⁶ Operationalizing Sustainability <<https://nsia.com.ng/approach/>> accessed 26 February 2025

¹²⁷ Okwuosa I and Amaeshi K, 'Responsible Investment in Nigeria' in *The Routledge Handbook of Responsible Investment* (Routledge 2015) 115

partnership with RMI, established in June 2024, aimed at accelerating climate finance and the development of renewable energy infrastructure in Nigeria.¹²⁸ This alliance focuses on scaling private sector-led initiatives, including solar mini-grids, battery energy storage systems, and e-mobility projects, thereby enhancing the nation's sustainable energy landscape. Furthermore, NSIA is involved in innovative projects that address environmental challenges while promoting sustainable economic growth. One such initiative is the Ile Dotun agroforestry project, which aims to rehabilitate 108,000 hectares of degraded land in Nigeria.¹²⁹ This project is designed to generate carbon offset credits and provide co-benefits related to climate action, biodiversity, and food security. By attracting diverse funding partners and carbon credit buyers, NSIA ensures the financial viability and environmental impact of such transformative projects.

3.3 Gaps and Challenges in Nigeria's Green Finance Legal and Institutional Framework

Nigeria's green finance legal and institutional framework faces significant gaps that hinder the mobilization of climate finance, the implementation of sustainability policies, and the country's transition to a low-carbon economy. One of the key issues is the absence of a comprehensive and enforceable legal framework that mandates green finance practices across sectors. Having evaluated the laws on green finance in Nigeria, it is very obvious that there is an absence of a legally binding green finance framework. Nigeria currently lacks a unified, enforceable legal structure to guide green finance. While Nigeria has several laws and policies related to sustainability, such as the Climate Change Act 2021, and the Nigerian Sustainable Banking Principles (NSBP), these frameworks often lack strict enforcement mechanisms. Many green finance initiatives are voluntary rather than mandatory, leading to inconsistent adoption across financial institutions, businesses, and government agencies. Without clear legally binding regulations requiring banks, corporations, and investors to

¹²⁸ RMI < https://rmi.org/press-release/rmi-joins-forces-with-nigeria-sovereign-investment-authority-to-accelerate-climate-finance-and-clean-energy-projects/?utm_source= > accessed 26 February 2025

¹²⁹ World Agroforestry <<https://worldagroforestry.org/news/major-landscape-restoration-project-planned-nigeria> > accessed 26 February 2025

integrate Environmental, Social, and Governance (ESG) principles, green finance remains largely underdeveloped in Nigeria.

Another major challenge is the lack of financial incentives and funding mechanisms to attract private-sector participation in green investments. Nigeria faces an estimated climate financing gap of over \$20 billion annually,¹³⁰ needed for investments in renewable energy, climate-smart agriculture, and sustainable infrastructure. However, the high cost of capital, macroeconomic instability, and currency fluctuations deter both domestic and international investors from committing funds to green projects. Additionally, Nigeria's financial sector lacks structured mechanisms such as green credit lines, risk guarantees, and blended finance instruments that could help de-risk green investments.¹³¹ The dominance of fossil fuel financing further limits capital availability for green projects, as many financial institutions still prioritize funding for oil and gas activities due to profitability concerns and weak policy restrictions on high-carbon industries.¹³²

Institutional weaknesses also pose significant challenges, particularly in the coordination and oversight of green finance initiatives. Multiple agencies including the Federal Ministry of Environment, the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), and the National Council on Climate Change (NCCC), have overlapping responsibilities for regulating and promoting green finance. However, the lack of coordination among these bodies leads to policy inconsistencies, bureaucratic inefficiencies, and slow implementation of green finance policies. Additionally, Nigeria lacks a national green finance taxonomy, which means there is no standardized definition of what qualifies as a green investment.¹³³ This creates ambiguity for investors and increases

¹³⁰Anozie C, 'Left Behind: Funding Climate Action in the Global South' (2023) 11 *Tex A&M L Rev* 333

¹³¹ Ogunsola OY and others, 'Strategic Framework for Integrating Green Bonds and Other Financial Instruments in Renewable Energy Financing' (2024) 2(6) *Gulf Journal of Advance Business Research* 461

¹³² Kaminker C and Stewart F, 'The Role of Institutional Investors in Financing Clean Energy' (2012) *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 23 OECD Publishing, Paris

¹³³ Eyo-Udo NL and others, 'Advances in Green Finance Solutions for Combating Climate Change and Ensuring Sustainability' *Gulf Journal of Advance Business Research* (2024) 2(6), 338

the risk of greenwashing, where projects are falsely labeled as sustainable without delivering real environmental benefits.

Furthermore, Nigeria's green finance landscape is constrained by limited capacity and technical expertise within financial institutions and regulatory agencies.¹³⁴ Many banks, investment firms, and policymakers lack the necessary knowledge and tools to assess and manage climate-related financial risks, carbon pricing mechanisms, and ESG compliance frameworks. This knowledge gap prevents the development of innovative financial products, such as green bonds, carbon trading schemes, and sustainability-linked loans, which are key for driving climate finance. Additionally, public awareness of green finance opportunities remains low, limiting the ability of businesses and individuals to access climate funding and participate in sustainable economic activities.¹³⁵

To bridge these gaps, Nigeria must adopt a comprehensive and enforceable green finance strategy that integrates clear regulations, financial incentives, institutional reforms, and capacity-building programs. Advancing legal enforcement of ESG practices, developing a national green taxonomy, and enhancing public-private partnerships will be significant to unlocking climate finance and accelerating Nigeria's transition to a sustainable economy. By addressing these challenges, Nigeria can position itself as a leader in green finance within Africa, attracting international investments and ensuring long-term economic and environmental resilience.

4.0 POLICY RECOMMENDATIONS AND GLOBAL BEST PRACTICES TO STRENGTHEN NIGERIA'S GREEN FINANCE FRAMEWORK

To improve the effectiveness of green finance mechanisms, policymakers should enhance coordination between the NCCC and existing institutions to prevent overlaps and ensure efficient resource allocation. There should be clear guidelines established for the use of funds generated through carbon pricing to guarantee reinvestment into climate mitigation and adaptation projects. Also, to improve its role in green finance, the

¹³⁴ Ozili PK, 'Green Finance Research Around the World: A Review of Literature' *International Journal of Green Economics* 5(2022) 16(1), 6

¹³⁵ *ibid*

NESREA Act should be amended to include provisions for environmental taxation, carbon pricing, and green investment incentives. Section 19 on investment could be expanded to allow NESREA to establish a dedicated green investment fund, focusing on renewable energy, climate adaptation projects, and pollution control initiatives. Additionally, penalties collected under Section 31 should be earmarked for financing sustainability projects rather than being absorbed into general government revenue.

To ensure effective alignment with sustainability goals, Nigeria should enact a Green Finance Act that mandates green finance practices across sectors, including financial institutions, corporations, and investors. This law should formalize ESG reporting requirements, incorporate climate risk disclosure, and establish enforcement penalties for non-compliance. Although the Climate Change Act 2021 provides important groundwork, it lacks operational strength and clear enforcement mechanisms. A standalone law can structurally integrate ESG compliance into the Companies and Allied Matters Act as well as CBN/SEC regulatory mandates.

Secondly, Nigeria should establish an officially recognized national green finance taxonomy, jointly managed by the National Council on Climate Change (NCCC) and the Securities and Exchange Commission (SEC). This taxonomy would offer clear definitions and criteria for qualifying green investments, helping to prevent greenwashing and boosting investor confidence, similar to the frameworks used in the EU and China. This standardized approach would enhance product integrity and regulatory transparency.

Thirdly, it is recommended that there should be an establishment of a dedicated green finance task force or regulatory unit within the NCCC in collaboration with the CBN, SEC, and Ministry of Environment. This body would coordinate policy, approve taxonomy updates, oversee compliance, and administer incentives. Similar models in South Africa and the EU demonstrate how central coordination enhances coherence, avoids institutional fragmentation, and enables streamlined enforcement.

Moreover, to tackle the underdeveloped capital market and high-risk perception of green projects, Nigeria must introduce various financial incentives, including tax credits, risk guarantees, dedicated green credit

lines, and blended finance facilities. These instruments should encourage private-sector involvement in renewable energy, climate-smart agriculture, and sustainable infrastructure, helping to bridge Nigeria's estimated \$20 billion annual climate financing shortfall. Such incentives can help correct the imbalance where fossil fuel funding dominates the financial sector.

Finally, given the institutional and technical capacity gaps, the government should significantly increase budgetary allocations toward green finance awareness, training, and enforcement mechanisms. There should be provisions of funding to support technical training for banks, regulators, and firms on ESG integration and climate risk assessment; a national knowledge hub or research center on green finance innovation and best practices, and public awareness campaigns to inform businesses and communities about green finance tools and opportunities.

5.0 CONCLUSION

Nigeria's ability to address its legal and institutional deficiencies in the green finance framework is imperative for the country to realize its sustainable development objectives and meet its climate obligations. While various initiatives have been launched to promote environmental sustainability, the absence of a unified and enforceable legal structure, coupled with institutional fragmentation and limited capacity, will continue to dampen their effectiveness. The gaps in the laws, create uncertainty for investors, it prevents the mainstreaming of green finance principles, and reduces the attractiveness of Nigeria's financial market to climate-conscious stakeholders.

A forward-looking approach that emphasizes legal clarity, institutional synergy, and stakeholder engagement is essential to reposition Nigeria's green finance sector. By integrating climate considerations into financial regulation, establishing standard definitions for green investments, and building the technical expertise of institutions and actors, Nigeria can create an enabling environment that facilitates the growth of green investments. The ability to strengthen coordination among relevant agencies and improve awareness among financial actors and the public will further reinforce this transformation. Ultimately, a strategic rethinking of Nigeria's green finance architecture will support a just transition to a low-

carbon economy, unlock new sources of capital, and ensure that sustainability becomes a central pillar of national development.