Case Study:

# Access Bank Green Bond: BANKING ON IN-HOUSE COMPETENCE AND INTERNATIONAL FRAMEWORKS

## Abstract

When Access Bank listed its Green Bond on the Nigerian Stock Exchange in March, 2019, it was a major milestone for the country's financial and capital markets. At that time, the Nigerian green bond market was still in its nascent stages, with the only issuer prior to this being the Federal Government of Nigeria (FGN). The Access Bank Green Bond was thus the first such issue by the private sector in that country.

The Access Bank Green Bond is a 15 Billion Naira (about $41 million), five-year, 15.5 percent fixed rate Senior Unsecured Green Bond, due in 2024. The issue, which was oversubscribed, is to finance projects largely in water infrastructure, solar power generation and flood mitigation. The projects' eligibility for funding was evaluated and determined through standards developed by the globally recognized certifier Climate Bonds Initiative (CBI) and the bank's own Green Bond Framework. This process of evaluation identified some 11 sectors that benefited from funding. These include renewable energy, energy efficiency, efficient green buildings, sustainable waste management, sustainable land use and clean transportation. Other sectors are sustainable water management, climate change adaptation, green trade, climate-smart agriculture and non-energy GHG emission reduction.

Being the country's first corporate Green Bond, this issue was crafted without the benefit of prior experience to benchmark with. Naturally, there was a paucity of extant governing regulations and the issue presented regulatory bodies with a steep learning curve. This was also the experience of the consultants who worked on the project. As happens in most emerging markets where Green Bonds have been issued, regulations had to follow the product, when it came to some aspects. As a workaround, Access Bank relied heavily on global frameworks and its own internally-developed governance infrastructure to guide the issuance.

## Background

Formed in 1984, Access Bank is one of the largest financial institutions in Nigeria, Africa's most populous market with a population of over 200 million people. Like most of the big Nigerian banks, it was born out of a massive, landmark consolidation in the Nigerian banking sector in the 1990s and 2000s, presided over by the then leadership of the Central Bank of Nigeria (CBN). By the time the regulator-driven process, largely executed through higher capitalization requirements within tight deadlines was over, the number of banks in Africa's biggest market had been compressed, through a slew of mergers and acquisitions, from about 100 to just over 21 relatively stronger outfits. Access Bank was among the pick of that crop.

Today, following its April 2019 acquisition of Diamond Bank PLC., NSE (Nigerian Stock Exchange)-listed Access Bank has grown to become the biggest lender in Nigeria. That takeover grew its asset base by over 30 per cent to $18 billion. It is a statement on the bank's solid financials and ambition that it among about a dozen Nigerian banks that have ventured outside Nigeria into the rest of Africa the world in the last decade. Last October, the Central Bank of Kenya (CBK) and Competition Authority of Kenya (CAK) approved a plan by Access Bank to acquire 93.5 percent of Kenyan lender Transnational Bank. This will make it the third Nigerian bank with a presence in Kenya, the others being United Bank of Africa (UBA) PLC and Guaranty Trust Bank.

At the start of the decade, the bank set out to put in place a competent internal infrastructure to enable it better evaluate the social and environmental risks inherent in its loan book. The result of this conscious strategic push was the Environmental and Social Risk Management (ESRM) function at the bank. This new unit was tasked with the job of minimizing Access Bank's exposure to environmental and social risk as well as achieving compliance with the global frameworks it had voluntarily adopted.

As its ESRM function became more entrenched, the bank realized that it was not enough to wait for funding opportunities in the growing environmental, social and governance (ESG)-sensitive investments space to get through its doors and put them through the process of evaluation; it also needed to capitalize on the nascent opportunities in this realm. Among the opportunities it identified in the field of environmental and social risks included those in the fast-growing low carbon economy. The bank mapped climate change adaptive technologies and infrastructure for resource management and optimization, among others.

"We are resolute, in line with the Sustainable Development Goals (SDGs) to deepen the level of awareness and responses towards the debilitating impact of climate change on the environment by dedicating a portion of our asset portfolio for this purpose to support our clients, whilst helping environmentally friendly investors meet their objectives. We are focused on providing more green innovative lending instruments and a wide array of green products and services to support our clients in the implementation of projects targeted at addressing gaps in environmental sustainability," says Access Bank in a briefing document.

The bank led in the development of the Nigerian Sustainable Banking Principles (NSBP) in 2012, in partnership with the Central Bank of Nigeria (CBN), International Finance Corporation (IFC), and a number of DFIs (Development Finance Institutions). Besides, Access Bank chairs the NSBP Steering Committee, where it has a wider mandate of advocating for sustainable business practices in Nigeria.

### The Access Bank Green Bond

The process of conceptualizing, structuring and bringing the Access Bank Green Bond was relatively quick. The project started with the obtainment of board approval in September 2018. From this point, the project proceeded to the certification and verification of eligible projects, book building, approval from the regulators (principally the SEC-Securities and Equities Commission), listing of the bond on the Nigerian Stock Exchange (NSE) and finally, the signing ceremony which happened in March 2019.

The funds raised through the bond issuance were targeted at financing or re-financing flood defense structures, solar power generation and agricultural irrigation projects. All the projects targeted had received prior certification from the Climate Bonds Initiative (CBI), a not-for-profit operating out of the United Kingdom (UK), which had been tapped for that purpose. This process was then subjected to verification by PricewaterhouseCoopers (PwC) of the UK, in line with Access Bank's own Green Bond Framework.

Out of this process, some 11 eligible sectors were identified, together with the details of the project types: renewable energy, energy efficiency, efficient green buildings, sustainable waste management, sustainable land use, clean transportation and sustainable water management. Others were climate change adaptation, green trade, climate smart agriculture and non-energy GHG emission reduction.

The Access Bank Green Bond issue, the first out of a pipeline of other sustainability-focused bonds that the bank plans to issue, was focused primarily on re-financing portfolio projects and financing already approved or yet to be disbursed projects.

While this particular bond supported already existing portfolio projects, subsequent bonds will be aimed at financing new and innovative external projects.

### Project Implementation

The project was executed by a number of different teams with varying mandates, working together and in tandem within the bank. The Board of Directors approved the bank's green finance drive and created the Green Bond Committee. Executive Management provided leadership and offered active support to the Green Bond Team. The Executive Director for Risk Management served as Project Sponsor and Chairman of the Green Bond Committee, providing oversight. The Green Bond Committee (GBC) included members from relevant units within the bank; sustainability, business, risk and legal functions. The GBC was responsible for governing the Access Bank Green Bond Framework, allocating the Green Bond proceeds and environmental impact reporting on the Green Bond Portfolio.

A number of Strategic Business Units (SBUs) also had to be mobilized to support the Green Bond project and handle its various aspects, based on their expertise. Business Relationship Managers served as customer engagement officers, working with clients to originate transactions and structure qualified projects. Conduct and Compliance was tasked with reviewing all documentation and procedures to ensure alignment with regulatory strictures. Corporate Communication handled all external communication, public and media relations as well as events related to the launch. Others were:

1. **Corporate Counsel:** Reviewed and approved documentation, contracts, Memoranda of Understanding (MoU) and all other agreements with external parties.
2. **Credit Risk Management:** Reviewed intended projects for inherent risks in line with the bank's credit criteria and advised on whether transaction met the requirements. It also assisted with loan documentation and monitoring.
3. **Environmental and Social Risk Management:** Ensured that projects which qualified for the GB funding met the eligibility criteria and were aligned with the GB taxonomy. Based on this, the team presented the requests to the GBC for approval. It also handled technical data verification, impact reporting and regulator returns.
4. **Financial Reporting:** Prepared all the bank's external financial reports.
5. **Investor Relations:** Facilitated the bank's relationships with consultants, investors and the general public.
6. **Project and Structure Finance:** Was in charge of tracking all funds and marketing the fund.

7. **Sustainability:** Initiated the process, facilitated engagements with other key stakeholders and provided research and strategy support for key documentation.
8. **Treasury:** Handled bond structuring and pricing.

### Opportunities and Limitations

Like in most emerging Green Bond markets, one of the most intractable challenges Access Bank faced was the fact that it was going into uncharted territory. There was no precedent to benchmark with, at least not in the Nigerian market. The only issuer of a GB in that market till then had been the Federal Government of Nigeria (FGN). Access Bank's Green Bond was that the first one ever issued in that market by a corporate entity, presenting a completely different set of dynamics.

The above scenario brought about two major challenges; the absence of a tested regulatory environment for corporate Green Bonds and a paucity of demonstrable expertise to handle such an issue within the Nigerian private and public sectors.

For starters, the bank had set out to build its own in-house expertise at the start of the decade. This internal infrastructure was initially intended to enable it better evaluate the social and environmental risks inherent in its growing loan book. The result of this conscious strategic push was the Environmental and Social Risk Management (ESRM) function at the bank. This unit was tasked with the job of minimizing Access Bank's exposure to environmental and social risk, while achieving compliance with voluntarily adopted global frameworks.

As the unit grew, the bank realized that there were opportunities to be mined in the environmental, social and governance (ESG)-sensitive investments space, through the formulation of products that could allow it to support its clients in the implementation of projects intended to address gaps in environmental sustainability, while helping environmentally conscious investors meet their objectives (mandates). This awareness birthed the Access Bank Green Bond. The bank had also been active in the development of the sustainable finance space in Nigeria.

On the regulatory and governance front, the bank tapped heavily into global frameworks and conventions. Foreign consultants were also engaged to bring the issue to the market successfully. The CBI was brought in as the GB certifier, working together with PwC UK. Other consultants that worked on the issuance include Chapel Hill Denham Advisory (financial advisor, lead issuing house and bookrunner); Moody's, Agusto & Co Ltd. (rating agency); KPMG (reporting accountants); Stanbic (custodian) and Coronation Merchant Bank (joint issuing house and bookrunner).

To ensure demand for the GB in an untested market, Access Bank worked with keen investors to book build as a way of sampling appetite for the Access Bank Green Bond. The instrument's status as the first Corporate Green Bond from sub-Saharan Africa also attracted organic interest from fund managers and a number of deal hunters in the capital market.

### Outcomes

The Access Bank Green Bond, a 15 Billion Naira (about $41 million), five-year, 15.5 percent fixed rate Senior Unsecured Green Bond due in 2024, was issued on schedule and oversubscribed, with the main takers being institutional investors; pension fund administrators, insurance houses and merchant banks.

The funds generated from the bond issuance are to be used to finance projects largely in water infrastructure, solar power generation and flood mitigation.

The additional due diligence on the assets to be financed provided both a comfort and focus for investors who were seeking to invest in a green financial product. Eventually, the issuance attracted 100 percent local investment in Nigerian currency (Naira), largely from institutional investors.

Through the issuance, Access Bank effectively launched the green finance market in Nigeria and created demand for green finance products among project developers and the investing public. The bank's pioneering and first-mover role is expected to inspire other corporates to take up the challenge to help raise funds for socio-economic transformation, while addressing the problems associated with climate change in Africa.

### Lessons Learnt

Through the unprecedented success of the Access Bank Green Bond issue, issuers and other consultants planning to initiate and bring to market such instruments can learn a number of lessons.

- **Building in-house expertise:** A key factor in this issuance was the existence of extant in-house expertise in managing ESG (environmental, social and governance) risk in the bank's lending portfolio. This effort, that had been about 10 years in the making, had resulted in the bank's Environmental and Social Risk Management (ESRM) function. For the Access Bank GB project, all this unit needed was a reorientation from its previous role as an evaluator of ESG risk in the bank's loan book into the brain bank behind its creation of ESG-sensitive investment instruments that could meet the demands of investors with ESG mandates, while entrenching the concept of sustainable development in Nigeria.

- **Building industry expertise:** The bank had led in the development of the Nigerian Sustainable Banking Principles in 2012, in partnership with the Central Bank of Nigeria (CBN), International Finance Corporation (IFC), and a number of DFIs (Development Finance Institutions). Besides, Access Bank chairs the NSBP Steering Committee, where it has a bigger mandate of advocating for sustainable business practices in Nigeria. Taking to market Nigeria's and sub-Saharan Africa's first Corporate Green Bond was thus the culmination of a conscious, strategic effort to build knowledge and the right climate for sustainable finance.
- **The primacy of an internal pipeline:** The Access Bank Green Bond issue, was focused primarily on re-financing portfolio projects and financing already approved or yet to be disbursed projects. This helped to ensure that the qualifying projects met the strictures set by the bank and its certifiers (CBI and PwC UK). This also reduced compliance costs.
- **Asset eligibility:** The bank had to invest a lot in the certification of qualifying assets. This was a tough brief due to lack of baseline data. Also, ESG credentials had not been a factor during loan initiation, considering that the targeted projects were part of the existing portfolio. The bank had to get this right, given its centrality to the whole GB project.
- **Book running:** In the absence of a precedent or data on GB demand, pre-issuance, the bank deployed a two-week book building process to gauge the likely appetite for the Access Bank Green Bond in the market. This "test-run" was critical in determining the eventual viability of the issuance.