

FINANCING GREENER SHIPPING IN AFRICA: THE CASE OF GREEN LOAN AND BOND



Adedamola Kikiowo

INTRODUCTION

The environment is crucial to human existence, and it must be protected from pollution caused by human activities. Global warming and climate change are the consequences of human activities, and if not controlled, they could lead to the extinction of humanity.

Fossil fuel use is a significant contributor to global warming and climate change, particularly in transportation, including marine transport. Over 80% of international trade in goods is transported by sea. Therefore, it is crucial to focus on eco-friendly solutions in the maritime industry[1].

In tackling the adverse effects of the use of fossil fuel, the world leaders at the UN Climate Change Conference (COP21) in Paris reached a breakthrough on 12 December 2015 and entered into a treaty known as the “Paris Agreement”[2]. The main objective of the Paris Agreement is to enhance the world's reaction to the danger of climate change by limiting the global temperature rise to below 2 degrees Celsius above pre-industrial levels this century. Moreover, efforts are being made to further restrict the temperature increase to 1.5 degrees Celsius[3].

[1] Review of Maritime Transport 2021 (UNCTAD, 18 November 2021) Accessed 12 May 2023

[2] United nations climate change, 'The Paris Agreement' (United Nations Climate Change, nil) <<https://unfccc.int/process-and-meetings/the-paris-agreement>> Accessed 1 May 2023

[3] Key aspects of the Paris Agreement. [online] United Nations Climate Change. Available at: <https://unfccc.int/most-requested/key-aspects-of-the-paris-agreement>. Accessed 11 May 2023. Accessed 11 May 2023

Some African countries including Nigeria, Angola, Cameroon, Kenya, Gambia etc are signatories to the Paris Agreement and have ratified the same[4]. In fact, while signing the Paris Agreement, President Muhammadu Buhari expressed Nigeria's commitment towards ensuring that there is significant reduction in greenhouse gas emissions in the country[5].

To achieve this commitment, the International Maritime Organization (IMO) has set a strategic plan to reduce carbon emissions by at least 40% by 2030 and total annual GHG emissions from international shipping by at least 50% by 2050[6]. This goal necessitates investment in eco-friendly ships and technology that use renewable energy sources.

Given that greenhouse gas emission from ships being propelled by fossil fuel is high, there is therefore an urgent need for shipowners and shipbuilding companies in the African maritime space to consider investing in new acquisition of eco-friendly ships and technology which enable ships to be powered by renewable energy so as to meet the environmental, social and sustainable

goals. Of course, this will require extensive capital to actualize and the assistance from financial institutions in Africa in this regard will therefore be necessary.

It has been observed that foreign financial institutions and investors are now keen to provide financial facilities for the actualization of projects that are eco-friendly which will meet their Environment, Social and Governance (ESG) goals. Also, financial institutions in Africa have started to strongly consider the effect that the projects being financed by them would have on the environment. It is against this backdrop that green finance was initiated abroad to facilitate green projects and this type of finance has begun to gradually gain ground in Africa.

This article therefore considers the ways through which green shipping can be financed in Africa for the realization of the objectives of the Paris Agreement and IMO by African nations.

[4] United Nations. "List of Parties That Signed the Paris Agreement on 22 April." United Nations Sustainable Development, 3 May 2016, www.un.org/sustainabledevelopment/blog/2016/04/parisagreementsignatures/. Accessed 11 May 2023.

[5] Premium Times (2023). Buhari signs Paris Agreement, pledges to help tackle climate change. Available at: <https://www.premiumtimesng.com/news/top-news/211034-buhari-signs-paris-agreement-pledges-help-tackle-climate-change.html?tztc=1> [Accessed 14 May 2023].

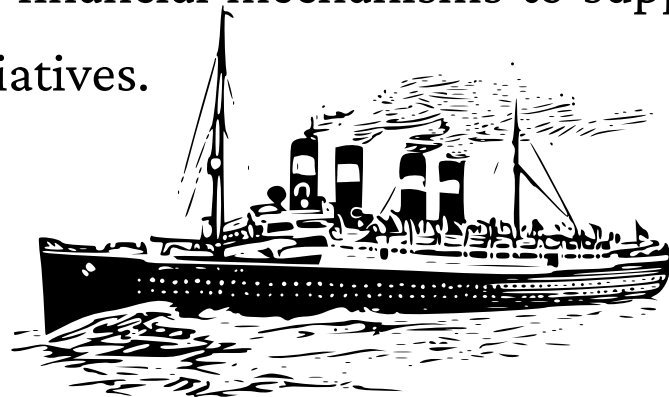
[6] International Maritime Organisation (n.d.). IMO's work to cut GHG emissions from ships. Available at: <https://www.imo.org/en/MediaCentre/HotTopics/Pages/Cutting-GHG-emissions.aspx> . Accessed 13 May 2023.



GREEN SHIPPING AND ITS BENEFITS

Green shipping refers to the practice of transporting people or goods by ships while using minimal resources and energy to reduce the impact of ship pollutants on the environment[7]. However, shipping has contributed to high emissions of noxious substances, which has caused harm to human health, crops, and ocean species[8]. To address this issue, green shipping promotes cleaner practices, such as emission control, efficient port management, and equipment management. Achieving this requires a collective effort from every element of the industry, including regulators, port authorities, and communities.[9]

Apart from the environmental benefits, green shipping can also boost job opportunities and technological advancement[10]. In the United States, for example, green ship building and operation provide approximately 2,200 estimated jobs annually. Investing in green shipping can also attract tax breaks and incentives for stakeholders. In Nigeria, the Nigerian Maritime Administration and Safety Agency (NIMASA) is providing incentives and financial mechanisms to shipping companies, port operators, and other stakeholders to invest in innovative solutions. NIMASA plans to mobilize and facilitate fiscal policies and financial mechanisms to support energy efficiency and emission reduction initiatives.



This was announced by the Director- General of the Nigerian Maritime Administration and Safety Agency (NIMASA), Dr. Bashir Jamoh, at the 2022 World Maritime Day in Lagos State, who stated that there would be provision of incentives and financial mechanisms to shipping companies, port operators, and others in the maritime value chain to invest in new enterprise and innovative solutions[11].

Even though the transitioning to green shipping appears plausible and advantageous, it is important to take cognizance of the fact that transitioning is capital intensive, and this is a major challenge which could impede the actualization of green shipping particularly in Africa. It is against this backdrop that it is imperative to consider how green shipping can be financed in Africa.

[7] Shaini (2019). Want green shipping? Here are 5 controversial initiatives [2022]. Container xChange. Available at: <https://www.container-xchange.com/blog/5-green-shipping-initiatives-reduce-ghg/#:~:text=Green%20shipping%20is%20when%20people>. Accessed 11 May 2023.

[8] Marine Digital.com. (n.d.). Maritime Supply Chains: What Is the Impact on Climate Change. Available at: https://marine-digital.com/article_maritime_supply_chains. Accessed 7 May 2023.

[9] Shaini (2019). Want green shipping? Here are 5 controversial initiatives [2022]. Container xChange. Available at: <https://www.container-xchange.com/blog/5-green-shipping-initiatives-reduce-ghg/>. Accessed 8 May 2023

[10] UNCTAD. (n.d.). Decarbonizing the maritime sector: Mobilizing coordinated action in the industry using an ecosystems approach. [online] Available at: <https://unctad.org/news/decarbonizing-maritime-sector-mobilizing-coordinated-action-industry-using-ecosystems-approach>. Accessed 7 May 2023

[11] Anon, (2022). Greener Shipping: FG Seeks Private Sector Partnership in Acquiring Modern Platforms, Assets. Available at: <https://dailytrend.com.ng/2022/09/30/greener-shipping-fg-seeks-private-sector-partnership-in-acquiring-modern-platforms-assets/>. Accessed 12 May 2023.

GREEN FINANCE

Green finance is a financial initiative, process, product or service that prioritizes environmental protection over financial reward or gains that may be realized therefrom. It supports the allocation of capital to green projects, investments, or activities, in preference to non-green alternatives.

Green financing expands access to environmentally friendly goods and services, especially for vulnerable and marginalized individuals and businesses. This helps create a socially inclusive and low carbon society. Businesses can grow, jobs can be created, and the economy can be stimulated, leading to continuous benefits for both the environment and the economy[12].

Since the advent of the Paris Agreement and IMO's strategic plan, financial institutions have aligned their investments in maritime industry to meet their environmental, social and governance plans. To this end, they are quite reluctant to grant financial facilities to maritime stakeholders for the acquisition or building of vessels with high carbon emission. However, with the emergence and growth of green finance in Africa, shipowners as well as shipbuilding companies can now easily have access to financial instruments, in form of green loans and green bonds,

for the acquisition and building of green vessels to enable the actualization of global environmental sustainability goals.

Therefore, in this article, we will consider two financial instruments available to stakeholders in the African maritime industry: green loan and green bond



12] Wire, S. (2021). What is green finance? [online] www.lloydsbankinggroup.com. Available at: <https://www.lloydsbankinggroup.com/insights/green-finance.html>. Accessed 5 May 2023

GREEN LOAN

The green loan market aims to enable environmentally sustainable economic activity[13] by providing loan instruments exclusively for financing or refinancing in whole or in part, new and/or existing eligible green projects[14]. In granting green loans, principles are considered which establish a framework to ensure that all market participants understand the characteristics of a green loan, focusing on four core components: the use of proceeds, project evaluation and selection process, proceeds management, and reporting[15].

The fundamental determinant of a green loan is the utilisation of the loan proceeds for green projects which should be appropriately described in the finance documents and, if applicable, marketing materials[16]. All designated green projects should provide clear environmental benefits, which will be assessed, and where feasible, quantified, measured and reported by the borrower[17]. Additionally, the borrower of a green loan should clearly communicate to its lenders, its objectives in environmental sustainability[18].

[13] LSTA. (n.d.). Green Loan Principles. Available at: <https://www.lsta.org/content/green-loan-principles/>. Accessed 14 May 2023

[14] World Bank. (n.d.). Climate Explainer: Green Loans. Available at: <https://www.worldbank.org/en/news/feature/2021/10/04/what-you-need-to-know-about-green-loans>. Accessed 13 May 2023

[15] The Green Bond Principles (2021) Voluntary Process Guidelines for Issuing Green Bonds. Available at: <https://www.ifc.org/wps/wcm/connect/89b2d6f4-0f2a-44e7-b050-912867b3791b/Green+Bond+Principles+June+2022.pdf?MOD=AJPERES&CVID=o6Liakl>. Accessed 14 May 2023

[16] Open Risk Manual.org. (n.d.). Green Loan Principles. Available at: https://www.openriskmanual.org/wiki/Green_Loan_Principles. Accessed 12 May 2023.

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GREEN BONDS

Green bonds are a financial tool that allow for the raising of capital and investment in both new and existing projects that have a positive environmental impact. The Green Bond Principles (GBP) were established to aid issuers in financing projects that are environmentally sustainable and promote a net-zero emissions economy, while also preserving the environment. The GBP serve as a framework for green bonds and are aimed at encouraging market participants to prioritize the development of projects that contribute to environmental sustainability.

One of the drivers for banks and financial institutions to extend green/sustainable loans is the potential ability to access a new type of investor base through the capital markets. Green or sustainable bonds can be issued, which differ from conventional bonds in that the issuer provides a set of green or sustainable criteria and undertakes to use the capital raised for projects that meet those criteria. As a result, banks, financial institutions as well as shipping companies may have capital earmarked solely for green or sustainable projects which include acquisition or building of ships powered by renewable energy.



RECOGNITION OF GREEN FINANCE IN AFRICA



Although the green bonds and loans market in Africa is relatively new and developing compared to other emerging markets, there has been significant growth in the green finance sector. Furthermore, stakeholders in Africa are showing increased interest, specifically in green bonds. The market has expanded since the first African green bond was issued in South Africa, with bond issues from five further countries. South Africa, Morocco and Nigeria have been taking the lead in this drive and are at an advanced stage of developing their national frameworks. They are also taking bold initiatives to develop the green bonds market.

The African Development Bank (AfDB), the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), are among the small number of important players in the green bonds market in Africa.

These multilateral development banks and development finance institutions have: (a) directly invested in green bonds issued by other African entities; (b) issued green bonds themselves and used the proceeds to finance climate friendly projects and other projects with positive environmental impacts; (c) supported issuers from Africa to issue bonds; or (d) assisted with capacity building.

Shipping companies in Africa can therefore approach these financial institutions for necessary facilities for acquisition or building of their green vessels

ESG AND NIGERIAN FINANCIAL INSTITUTIONS

The term sustainability has developed through the years to become an indisputable tool that financial institutions now use to examine their business operations and activities. Nigerian financial institutions began their journey into promoting a sustainable economy through sustainable banking almost a decade ago.

In Nigeria, there was a collaboration between the Central Bank of Nigeria (CBN) and the Bankers Committee to establish a sustainable banking framework that will drive innovation, market resilience and sustainable economy.

[19] PriceWaterhouseCoopers (n.d.). ESG and Nigerian Financial Institutions. PwC. Available at: <https://www.pwc.com/ng/en/publications/esg-and-nigerian-financial-institutions.html>. Accessed 12 May 2023.

[20] Central Bank of Nigeria, (2012). Implementation of Sustainable Banking Principles by Banks, Discount Houses and Development Finance Institutions in Nigeria. Available at: <https://www.cbn.gov.ng/out/2012/ccd/circular-nsbp.pdf>. Accessed 13 May 2023

This collaboration resulted in the establishment of The Nigerian Sustainable Banking Principles (NSBPs) in 2012[19]. Some of these principles which specifically speak to the sustainability goal of financial institutions are as follows[20]:

- To integrate environmental and social considerations into decision-making processes relating to our Business Activities to avoid, minimise or offset negatives impacts.
- To avoid, minimise or offset the negative impacts of our Business Operations on the environment and local communities in which we operate and, where possible, promote positive impacts.
- To implement robust and transparent E&S governance practices in our respective institutions and assess the E&S governance practices of our clients.
- To develop individuals institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our Business Activities and Business Operations.

Financial institutions in Nigeria have demonstrated a strong commitment to achieving their environmental, social, and governance (ESG) goals. As a result, it

is likely that banks and other financial institutions across Africa will be willing to offer green financial facilities to shipping and shipbuilding companies for the acquisition or construction of green ships. This trend supports the global goal of achieving net-zero carbon emissions by 2050 in the maritime industry.



[19] PriceWaterhouseCoopers (n.d.). ESG and Nigerian Financial Institutions. PwC. Available at: <https://www.pwc.com/ng/en/publications/esg-and-nigerian-financial-institutions.html>. Accessed 12 May 2023.

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CONCLUSION

Given the global movement towards achieving net-zero carbon emissions by 2050, which is strongly supported by both foreign and African financial institutions, it is crucial for shipping companies in Africa to explore ways to raise capital for acquiring or building vessels that comply with environmental goals outlined in the Paris Agreement.

This article has identified green loans and green bonds as potential financial instruments that shipping companies can use to raise capital. Although these instruments are relatively new in Africa, they are growing, and financial institutions are likely to provide them to shipping companies to meet their environmental, sustainability, and governance goals.

It is therefore advised that more sensitizations be given to financial institutions in Africa to invest in green projects in African maritime industry to ensure the sustenance of the industry for the benefit of continental economy and sustainability of the environment in line with the Paris Agreement and IMO's strategic plan.

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CONTACT US

 www.foundationchambers.com

 info@foundationchambers.com

016306724

 08133447698
09036019864

 **Main Office:**
7th Floor Architects Place
2 Idowu Taylor Street
Victoria Island
Lagos, Nigeria.

Associate Offices

Abuja:

Suite 332

Transcorp Hilton Hotel

Abuja, Nigeria.

0810 369 8795

Port Harcourt:

Old Brooklyn Hotel Building

22 Peremabiri Street

D Line, Port Harcourt

Rivers State, Nigeria.

