

Carbon Credits as Capital Market Instruments: Structuring Green Securities Under Nigeria's Financial Regulations

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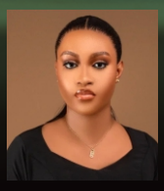

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Introduction

For years, carbon credits in Nigeria were treated as niche corporate social responsibility (CSR) assets or voluntary offset tools tucked away in sustainability reports. But as project developers scale solar mini-grids, industrial gas flare commercialization (NGFCP) and reforestation projects, a critical question faces corporate CFOs and dealmakers:

How do we transform verified carbon offsets into liquid, exchange-traded and bankable financial securities?

To build a robust climate finance ecosystem, carbon credits must evolve from static environmental assets into dynamic capital market instruments. Here is a legal breakdown of how Nigeria's regulatory framework supports this transition and what it takes to structure a compliant, bankable green security.

1. The Legal Jurisdictional Interplay: NCCC vs. SEC

Structuring exchange-traded carbon instruments requires navigating a dual-regulator environment where environmental validation meets capital market oversight:

Carbon Project & Abatement

National Council on Climate Change (NCCC) (Under the Climate Change Act 2021 & Carbon Market Activation Framework)

- Validates and registers underlying emission reductions (MRV).
- Issues No-Objection Letters and manages Article 6 Corresponding Adjustments.

Securities & Exchange Commission (SEC) Nigeria (Under the Investments & Securities Act)

- Regulates listing of Carbon Derivatives, Asset-Backed Securities (ABS) and ETFs under SEC Rules on Sustainable Financial Principles.

Capital Exchanges (NGX / FMDQ)

- Handles public trading, price discovery and market liquidity.

The Environmental Validator: National Council on Climate Change (NCCC)

Under the Climate Change Act (CCA) 2021 and the Nigerian Carbon Market Activation Policy, the NCCC holds the statutory mandate to oversee carbon budgeting, administer the National Carbon Registry and establish Monitoring, Reporting and Verification (MRV) protocols.

Before a carbon credit can be converted into a financial security, the NCCC must verify that the underlying greenhouse gas (GHG) reduction is real, additional and legally registered. Crucially, for credits traded on international exchanges or backed by institutional green funds, the NCCC issues the mandatory No-Objection Letter and manages Article 6.2/6.4 Corresponding Adjustments under the Paris Agreement to prevent double-counting.

The Financial Market Oversight: Securities and Exchange Commission (SEC)

Once a carbon asset is validly registered with the NCCC, bringing it to public trading floors like the Nigerian Exchange (NGX) or FMDQ Securities Exchange triggers the jurisdiction of the Securities and Exchange Commission (SEC) under the Investments and Securities Act (ISA).

Under SEC regulations, including the SEC Rules on Green Bond Issuances and SEC Guidelines on Sustainable Financial Principles, carbon offsets can be structured either as underlying assets for asset-backed securities (ABS), securitized collateral, or derivatives (futures and options contracts).

2. Legal Characterization: What Exactly Is a Carbon Credit Under Nigerian Law?

To structure an enforceable transaction, lawyers must properly categorize the asset. Under Nigerian commercial jurisprudence, a carbon credit functions as intangible personal property.

- As a Financial Security: When pooled into an Investment Vehicle or Special Purpose Vehicle (SPV) that issues tradable notes backed by future carbon credit cash flows, it becomes a security regulated under Section 315 of the ISA.
- As a Commodity/Derivative: When structured as a contract for forward delivery or price-hedging (e.g., buying 2027 carbon offsets at a fixed price today), it falls under SEC rules governing Commodity Derivatives traded on registered commodity exchanges.

3. Structuring Carbon Credits as Loan Security & Collateral

Beyond stock market listings, project developers can leverage carbon offsets to unlock debt financing. Structuring carbon credits as collateral requires two legal steps:

Step 1: Perfection Under the STMAA

Under the Secured Transactions in Movable Assets Act (STMAA) 2017, carbon credits qualify as intangible movable property. Lenders can take security over both existing carbon credits and future revenue streams generated from carbon sales. To perfect this security interest, the lender must register a fixed or floating charge at the National Collateral Registry (NCR) maintained by the Central Bank of Nigeria (CBN).

Step 2: Escrow and Tripartite Agreements

Because carbon credits reside in digital registries managed by the NCCC or international registries (like Verra or Gold Standard), lenders must execute a Tripartite Custody Agreement between the Borrower, the Lender and the Registry Account Custodian. This blocks the developer from selling or transferring the offsets without the lender's consent.

4. Structuring Exchange-Traded Carbon Instruments

For businesses, financial institutions and developers looking to turn environmental impact into tradable products, three primary structures stand out in Nigeria.

First, Carbon-Backed Green Bonds allow companies or dedicated project entities (SPVs) to raise capital specifically for renewable energy projects or gas-flare reduction. The money raised funds the green infrastructure, while the future revenue generated from selling the resulting carbon credits serves as extra security to guarantee repayment to investors under the SEC Green Bond Rules.

Second, Carbon Credit ETFs and Mutual Funds allow fund managers to pool diverse, high-integrity carbon credits into a single investment basket. Listed on public trading platforms like the NGX or FMDQ under standard investment scheme rules, these funds let everyday investors and institutions buy shares and gain exposure to rising carbon values without having to build or manage an energy project themselves.

Third, Carbon Forward and Futures Contracts give project developers and industrial companies a way to trade future carbon credits on commodity exchanges like AFEX or LCFE. Governed by SEC derivatives rules, these contracts allow energy companies to lock in guaranteed prices today for carbon offsets they will generate tomorrow, while helping big polluters hedge against future environmental compliance costs.

Key Risks and Strategic Safeguards

Bringing these financial instruments to market comes with real-world operational and regulatory risks that project owners and investors must navigate carefully.

A major concern is Double-Counting and Credit Invalidation, which occurs if an international registry cancels or rejects a credit over land rights issues or faulty measurement methods, effectively wiping out the asset backing the investment. To prevent this, contracts between developers and investors must include clear guarantees and protection clauses that mandate continuous compliance with the National Council on Climate Change (NCCC) and international carbon standards throughout the life of the project.

Another key hurdle involves Foreign Exchange (FX) Repatriation, as foreign investors financing Nigerian green projects require absolute certainty that their profits and capital can be moved back out of the country. By structuring investment inflows under Nigeria's Foreign Exchange Act and obtaining an electronic

Certificate of Capital Importation (eCCI) through licensed banks from day one, market participants can legally protect their right to convert and transfer funds abroad.

The Bottom Line: Moving Carbon Into the Mainstream

Turning carbon credits into liquid, exchange-traded financial assets is no longer a distant ideal for Nigeria. It is an active commercial opportunity. By combining the environmental approvals of the NCCC with the investor safeguards of the SEC and proper legal protections for asset security, project owners, executives and investors can unlock fresh institutional capital to power the nation's energy transition.

Is your organization or fund looking to structure carbon-backed financial products or perfect security over environmental assets? Reach out to our Energy & Infrastructure Practice Group to navigate the regulatory landscape.

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