



DUALE, OVIA &
ALEX-ADEDIPE

Financing Renewable Energy Projects: ESG-Driven Investment Trends

#ETTbyDOA

Energy and Natural Resources

doa-law.com

Introduction

As the global economy accelerates toward decarbonisation, the intersection between finance and sustainability has become increasingly strategic. Across Africa, and notably in Nigeria, renewable energy projects are no longer viewed solely through a technical or infrastructural lens but as a nexus of environmental responsibility, financial innovation, and governance integrity. The infusion of Environmental, Social and Governance (“ESG”) principles into investment decisions is transforming how renewable energy projects are structured, financed, and monitored.



The Evolving Context of ESG-Based Financing

Historically, energy infrastructure financing was driven by creditworthiness, collateral, and projected returns, but the global sustainability agenda, anchored by the Paris Agreement, the UN Sustainable Development Goals (“SDGs”), and national net-zero commitments, has transformed this approach. Investors, lenders, and development finance institutions (“DFIs”) now apply environmental, social, and governance (“ESG”) criteria as mandatory filters for capital allocation.

In Nigeria, where renewable energy development is a strategic priority under the Electricity Act 2023 (“EA 2023”) and the Energy Transition Plan (“ETP”), this shift presents both opportunities and challenges: while ESG compliance strengthens investor confidence, it also introduces heightened requirements for due diligence, disclosure, and governance that many local developers are still working to meet.



ESG as a Catalyst for Capital Flow

1. **Investor Confidence and the ESG Premium:** ESG-driven investing now plays a central role in risk management and long-term value creation. Investors view projects with strong ESG standards as less vulnerable to reputational, regulatory, and operational risks and this has redirected capital toward renewable energy initiatives with measurable sustainability outcomes. Key focus areas include carbon reduction, community inclusion, transparent governance, and gender-sensitive practices. Green and sustainability-linked instruments are driving this global capital shift. The Climate Bonds Initiative reports that green bond issuance surpassed USD 1 trillion in 2023. Africa is gradually increasing its participation in this market Nigeria leads the region, having issued Africa's first sovereign green bond in 2017 and a second in 2019.

2. **Green Instruments Driving Market Growth:** Financiers are deploying increasingly sophisticated ESG-aligned instruments to fund renewable energy ventures. Notably:

- **Green Bonds and Sukuk** enable institutional investors to channel funds into verified low-carbon infrastructure, including solar farms, mini-grids, and hydro projects.
- **Sustainability-Linked Loans ("SLLs")** tie loan pricing to the borrower's ESG performance metrics, such as emission reduction targets or gender inclusion benchmarks.
- **Blended Finance Structures** combine concessional capital from DFIs with private equity to de-risk early-stage renewable projects.
- **Carbon Finance Mechanisms** monetise verified emission reductions to generate additional cash flows for renewable developers.



3. **Regulatory and Policy Catalysts:** Nigeria's regulatory landscape is increasingly aligning finance with ESG principles. The Central Bank's Sustainable Banking Principles mandate banks to integrate environmental and social risks into their decision-making. The Securities and Exchange Commission's Green Bond Framework sets clear disclosure and verification standards for issuers, while the Nigerian Exchange Group ("NGX") now requires ESG reporting from listed companies. The EA 2023 further empowers states and private investors to expand renewable and off-grid generation. This framework creates avenues for ESG-focused investments that enhance energy access, affordability, and sustainability. Collectively, these measures position Nigeria to attract responsible and climate-aligned capital.

4. **Legal and Transactional Implications:** From a transactional standpoint, the rise of ESG finance requires a more rigorous approach to contract structuring and disclosure. Sustainability covenants are now being embedded into financing agreements, some of which include representations and warranties incorporating performance-based covenants tied to sustainability targets, ensuring compliance with local environmental regulations and international reporting standards, structuring robust governance mechanisms for ESG monitoring throughout the project lifecycle. The foregoing are essential in aligning transactions with lender ESG policies, and mitigating compliance risks.

5. **The Role of Domestic Capital and DFIs:** While global investors have led the ESG movement, domestic capital mobilisation is increasingly vital. Nigerian pension funds, insurance companies, and banks are beginning to align investment strategies with sustainability objectives, particularly through infrastructure funds and renewable energy special purpose vehicles ("SPVs"). DFIs such as the African Development Bank ("AfDB") and the International Finance Corporation ("IFC"), continue to provide catalytic funding and technical assistance for projects that meet both financial and ESG thresholds.



Conclusion

ESG-driven investment is redefining the contours of renewable energy financing in Nigeria. What began as a compliance requirement has evolved into a competitive advantage that determines access to capital, investor confidence, and long-term project viability. For developers, investors, and advisors alike, the message is clear: embedding ESG principles from project conception through execution is no longer optional, it is the currency of credibility in the energy transition era.

As Nigeria advances toward its 2060 net-zero ambition, financing models that integrate ESG accountability will remain central to unlocking the scale and depth of investment required for a sustainable energy future.

