

BRIEFING

Climate Finance for Development Priorities

Climate change is a risk to, and an opportunity for development priorities such as creating economic activity and more secure livelihoods. It is a complex and cross-cutting issue that cannot be treated in isolation as a 'sector' – climate challenges are best addressed when they are seen through the lens of development priorities rather than as a goal in and of themselves. Through highlighting emerging experience in States in Nigeria, this briefing aims to catalyse discussion on what this looks like in practice, and how this might help States access climate finance to achieve social and development goals like economic growth, poverty reduction, and infrastructure development.

Reframing climate change

Nigeria's states are diverse in nature and their differing priorities. However there are some common themes – an analysis of state government manifestos, public pronouncements, and budgets highlights several priority policy areas across 19 states:

- **Improved Infrastructure:** This includes transportation networks (roads, bridges), reliable electricity, and affordable internet access.
- **Agriculture and Forestry:** Improved productivity through modern farming techniques, fertilisers, and irrigation systems, with a variety of proposed interventions.
- **Diversification of the Economy:** As oil dependence weakens, states emphasize diversifying revenue bases through investments in manufacturing, tourism, and information technology.
- **Education and Skills Development:** All states prioritise education, with some emphasising vocational skills acquisition and STEM subjects.
- **Healthcare Strengthening:** Strengthening healthcare, investing in primary infrastructure, and ensuring access to essential medicines is crucial for all states.

There are also some regional / thematic groupings:

- Northern States: These states prioritise security, drought-resistant crops, irrigation systems, and social safety nets.
- Southern States: These states emphasise urban infrastructure development, skills training for industrial jobs, and attracting foreign direct investment.
- Coastal States: These states have higher levels of experience accessing climate interventions to mitigate coastal challenges.
- Oil-Producing States: These states emphasize economic diversification and transition assistance but rely heavily on federal institutions like HYPREP and NDDC.





Further discussion and engagement highlighted the ongoing activity and approaches at State level that illustrate potential ways of approaching climate change through the lens of development priorities, which are set out below. Some of the states surveyed have established programmatic and project pipelines that integrate climate aspects.

Innovative Finance

Climate finance can be a new source of finance for States – it takes many forms, some of which are relatively novel in Nigeria.

Nigeria has issued two sovereign green bonds (and is developing a third) and at least four corporate green bonds. States are also beginning to explore state green bonds – Lagos state embarked upon the issuance of a N25 billion green bonds and Gombe State government plan to raise N30 billion green bond to invest in the State's agriculture and infrastructure development. These moves have been positive received by Nigerian capital market stakeholders – and demonstrate the potential 'crowding-in' effect of successful issuances.

Carbon market finance is also of growing interest. Here, up-front financing can help deliver development projects that have climate mitigation co-benefits. In Jigawa, the Living Carbon Jigawa (LCJ) project uses regenerative agriculture techniques to reduce GHG emission, increase yields and improve smallholder livelihoods. Through the CarbonVista fund, NSIA and Vitol Foundation have provided up-front financing to enable implementation of the project. There has also been interest in carbon market finance in Bayelsa (for gas flaring), Kano (for electric kekes) and Ekiti (for forestry projects) amongst other States.

Security and Climate

Security is among the highest priorities of all state governments. Interventions range from Joint Task Forces to local and regional networks of vigilantes. Lagos state pioneered converting federal security funds into an institutionalized Security Trust Fund – that moves away from the opaque and discretionary allocation of Security Votes. A number of states have followed this model – Kano state announced that it was creating a security trust fund; Katsina state established a Security Trust Fund Committee and has made security a primary policy objective of the administration of Governor Radda. While Jigawa state has established a Disaster Management Trust Fund. All these trust funds involve ameliorating conditions and integrating climate drivers into bespoke interventions.

The intersection of security and finance and disaster management and finance creates opportunities to align financial instruments with federal and state environmental goals and introduce measurable climate and finance metrics into state government development discourse.

Energy Transition and Electricity

The new Electricity Act has incited many states to actively pursue regulating electricity within their boundaries, yet few have enacted laws or set up regulatory structures to take advantage of the Act. The impact of this act on the existing market design, alongside other interventions, seeks to boost liquidity in the electricity supply industry with critical solvency challenges. This situation presents both opportunities and challenges for states seeking to expand electricity access leveraging clean or



renewable energy sources. Clean energy finance is a valuable potential source of finance for responding to these opportunities.

Lagos state has been among the first to enact its own Electricity law. However, it has yet to conclude the studies and interventions required to establish its own electricity market design and regulatory framework under the new Electricity Act 2023. It has conducted energy audits and is determining its energy gap. Lagos has also sought advice on how to create virtual power plants redirecting excess power generation from solar installations to the distribution network. Katsina is currently in negotiations to procure power and is considering regulating electricity. Kano state has already engaged advisers to determine its energy gap and the mix required to fill that gap.

Transportation

Transportation Infrastructure and Mobility feature in every state government's policy priorities. Properly designed transport projects can attract carbon market finance and help avoid future emissions. Almost all state budgets feature roadbuilding projects. However, wider mobility priorities vary – Niger state procured 200 buses powered by compressed natural gas. Lagos state inaugurated the light railway systems. Ekiti is focused on rural access roads. Taking a climate lens to these transport priorities could be one way to increase their financeability.

Agriculture and Forestry

Agriculture and forestry are major sources of employment and livelihoods in Nigeria. Both sectors are exposed to climate risk and are contributors to GHG emissions – particularly non-CO2 emissions such as methane. There are opportunities to develop climate smart agriculture that improves livelihoods in a sustainable way.

Jigawa, Kaduna and Kano have piloted the System for Rice Intensification (SRI). SRI is a farming practice that uses less water, less seeds, has lower costs of production and leads to higher productivity compared to paddy rice. It also has a positive benefit for GHG emissions and helps increase climate resilience – and is eligible for carbon market finance. This is a good example of how a development priority can have climate change benefits – and is more impactful than just a narrow focus on climate change.

Ekiti state provides an example of leadership in agricultural and forestry having built up a substantial institutional capacity with technical support for agro-forestry, ecological and water management, where the state is currently piloting better control of logging, protected areas for biodiversity and watershed management. The state is also seeking funding from AFDB for a Special Agriculture Processing Zone which they seek to engineer as climate-smart intervention from the outset. The state's agricultural policy focus on export crops cocoa and palm oil features deforestation free frameworks to ensure eligibility for export to EU and other markets. Multiple policy interventions within agriculture and forestry in Ekiti demonstrate the complex and intricate needs of states to align priorities to meet resource conditions of funders and donors.



Economic Growth and Diversification

Niger state held a Green Economy summit and developed a Green Economy Blueprint – with the aim of diversifying its economy, promoting clean energy transition, ensuring food security, and creating green jobs that would empower its communities. Both Ekiti and Lagos states intend to coalesce the different policy threads into “a whole-of-government vision” An advisor to the Governor of Katsina also noted that in creating the Department of Climate Change, the Governor intends for the department to be a whole of government resource.

Climate Finance as Development Finance

A recent report (Climate Impacts, Policies, and Actions at Subnational Level in Nigeria) assessed the level of climate change awareness and action in the 36 states. Its findings were that states do not have sufficient climate plans or laws – this may be true from a ‘climate-first’ perspective, but the examples above show that many states are already taking positive climate-aligned action, and that there is merit in taking an integrated approach, whereby climate change is seen through the lens of wider (and arguably bigger) development priorities. What is emerging are indications that states aspire to meld climate considerations into their development aspirations – rather than focus narrowly on purely climate goals.

These actions are diverse, depending on development and political priorities. A number are progressing to levels where climate is being integrated as a whole-of-government approach to policy management such as Ekiti and Lagos. Others are more focused on pressing matters such as security while creating institutional arrangements to align policy aspirations with climate conditions such as Katsina.