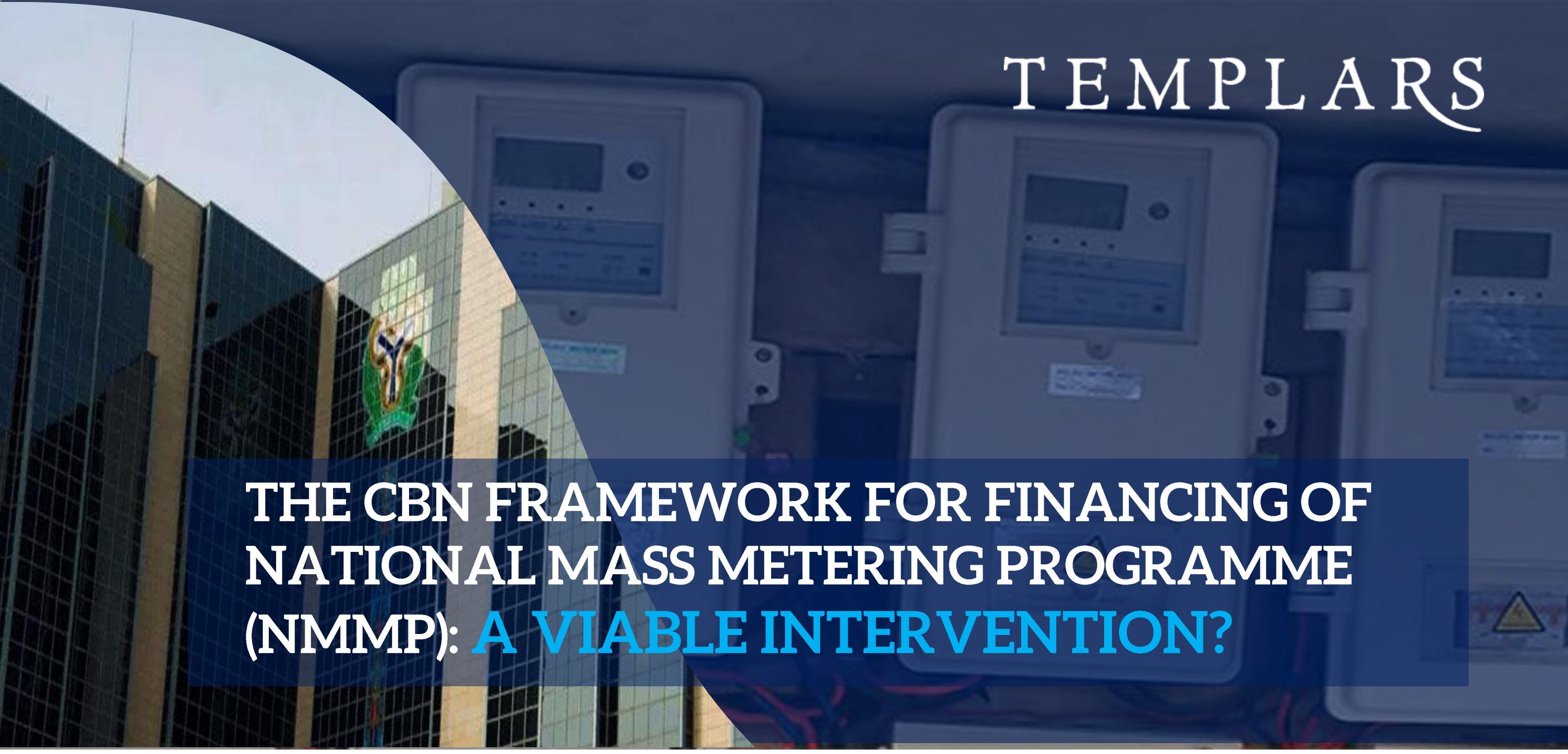

THE CBN FRAMEWORK FOR FINANCING OF NATIONAL MASS METERING PROGRAMME (NMMP): A VIABLE INTERVENTION?

The recent introduction of the service-based tariff (SBT) regime has again brought to the fore the need to ensure that all consumers are metered. The metering issue has remained central to ensuring that there is adequate collection and sanctity of the bills issued in the downstream section of the Nigerian Electricity Supply Industry (NESI). The current metering gap in the industry has been conservatively estimated at about 10 million.

As part of their commitments in the Performance Agreements entered into with the Federal Government of Nigeria, the investors in the electricity distribution companies (DisCos) undertook to meter the consumers using certain definite annual metering targets. Upon takeover, the investors presented a revised metering plan to close the metering gap within 18 months. These targets were not necessarily met as the investors complained that, among other things, they could not secure bank loans to finance their mass-metering programme due to their cash flow challenges, impaired balance sheets and general liquidity issues arising from tariffs that were not cost reflective.

As one of the earliest interventions, the Nigerian Electricality Regulatory Commission (NERC) in 2013 came up with the Credit Advanced Payment for Metering Implementation (CAPMI) Scheme. The CAPMI Scheme allowed willing customers to “advance” the cost of meter to the DisCos and be repaid in energy credit over a defined period. For numerous reasons, the CAPMI Scheme was not entirely successful and the metering gap and estimated billing remained. This led to another intervention in the form of the Meter Asset Provider (MAP) Scheme introduced by NERC in 2018.

The MAP Scheme aims to create a metering services industry in order to address the problem of estimated billing and accelerate the closure of the metering gap. Whilst implementation is still at the early stages, it has been observed that the MAP Scheme has suffered some early challenges including the initial distortion of the scheme by the imposition of a tariff on meter importation. In addition, industry sources say that some of the MAPs may not be financially viable to fund the capital expenditure requirements of the MAP Scheme.

It is against this background that on 19 October 2020, the Central Bank of Nigeria (**CBN**) intervened by issuing a circular on the Framework for financing of National Mass Metering Programme (the "**Framework**") to outline the operational modalities to be adopted by the CBN in providing financing support to the DisCos (downstream) and local meter manufacturers (upstream).

OVERVIEW OF THE FRAMEWORK

According to the CBN, the introduction of the Framework is aimed at increasing Nigeria's metering rate, eliminating arbitrary estimated billing and strengthening the local meter value chain by increasing local meter manufacturing, assembly and deployment capacity. This will also (i) invariably support Nigeria's economic recovery by creating jobs in the local meter value chain; (ii) reduce collection losses; and (iii) increase financial flows to achieve the goal of 100 per cent market remittance obligations of the Discos being met.

The Framework is structured to cover interventions targeted at the DisCos on the one hand and those meant for local meter manufacturers on the other hand.

FINANCING FOR ELECTRICITY DISTRIBUTION COMPANIES

The framework provides that the intervention is applicable to any NERC licensed DisCo or body corporate engaged in bulk purchase of energy for onward retail to electricity customers; a body corporate involved in collection of tariff and charges and remittance of payment to the market; a body corporate involved in the collection of retail energy related data for the industry and a body corporate involved in the ownership and management of electricity distribution infrastructure including meters and metering infrastructure.

By the above definition, the scope of the intervention is wide to encompass all potential meter downstream activities. This means that other players other than the traditional DisCos (such as the Disco franchisees and mini grid operators) will benefit from the initiative.

Approved and Restricted Activities for the DisCos

The financing under this section is to be restricted to the procurement and deployment of meters and the associated infrastructure (software and hardware) to support the metering network. This includes, but is not limited to, the procurement of NERC approved meters, backend metering platform and data management systems, payments for installation and deployment of meters. In essence, activities outside this scope would not be supported by the intervention under this section.

Under the Framework, the procurement of fully assembled meters from overseas is restricted except meters already imported into the country by MAPs as at September 30, 2020 and which are verified by NERC. The importation of related metering infrastructure that are currently being produced in the country is also prohibited.

Categories of Financing Applicable for the DisCo

Two broad categories of financing are applicable under this section. The first is the financing of orders covered under the MAP Scheme. This means that DisCos that had already engaged the services of MAPs for their metering initiative can access financing under this category to fund their payment obligations under the meter service agreement with the MAPs. Naturally, the funds to be accessed under this category would be based on the volume and type of meters to be procured by the DisCo from the contracted MAP.

The second financing option is the CBN funded bulk procurement from local meter manufacturers/assemblers. This option provides financing to support the procurement of meters from local manufacturers outside of the MAP Scheme. Like the earlier category, the quantum of funds to be accessed would depend of the volume and type of meters to be procured by each DisCo as well as the prices at which meters are bought during the bulk procurement.

Loan Tenure for the DisCo activities

The maximum tenor of any facility granted under the DisCo intervention segment shall be 10 years from the date of the loan, but shall not exceed 2030. There shall also be a moratorium on the principal amount for a period not exceeding 24 months from the date of loan disbursement.

Interest Rate for the DisCo

The facility is subject to an "all-in" interest rate of not more than 9 per cent per annum or any other rate as may be specified by CBN. However, as part of the CBN's Covid-19 relief package, the interest rate to be charged up to 28 February 2021 shall not exceed 5 per cent per annum. Out of the 9%, Participating Financial Institutions (PFIs) are allowed to charge up to 6% while the CBN retains 3%.

Collateral Requirement for the DisCo

The facility is treated as a regulated debt obligation to be approved by NERC as a charge against all energy collections for the market. The loan will be a next line charge in the payment waterfalls of each DisCo below the existing payment to the Nigeria Electricity Market Stabilization Facility (NEMSF). To the extent that this facility is available to other players in the downstream other than the traditional DisCos, there is no clarity on the applicable collateral for such players since they do not have the regulated debt burden that the traditional Discos carry. Perhaps the collateral for such players could be defined by the CBN and the PFIs on case by case basis.

Accessing the Financing

To access the meter finance, the DisCo will need to apply to its guarantee bank which will conduct a due diligence on the DisCo and obtain internal approval for the facility. The funds will be released to the guarantee bank upon submitting certain documents required by the CBN including invoice for the meters to be purchased; evidence of MAP procurement from local manufacturer; agreement(s) signed with MAPs; certification of the meters by Nigeria Electricity Management Services Agency (NEMSA); etc.

FINANCING FOR LOCAL METER MANUFACTURERS

Local meter manufacturers stand to benefit from the intervention under this category of the framework. A local meter manufacturer is referred to as a company or body corporate engaged in the manufacturing of electricity meters and its components and the assembling of completely and/or semi knocked down components into meters. The intervention is restricted to the procurement of equipment for meters set up or expansion of manufacturing or assembling facilities; working capital and procurement of production data management and software systems.

The sole prohibited activity under this section is the importation of fully assembled meters. Therefore, so long as a local meter manufacturer is not engaged in importation of fully assembled meters, it is eligible to benefit from the intervention under this category. This intervention has the potential to spur local meter manufacturing capacity and also provide support to the MAPs to achieve their full potentials.

Eligibility Considerations for Local Meter Manufacturers

For a local meter manufacturer to benefit from the facility, it must meet the following eligibility requirements:

- **Technical capacity:** For brownfield projects, the operators will need to demonstrate a track record of experience in manufacturing of key meter components up to the quality standards instituted by the NERC, NEMSA and/or Standards Organisation of Nigeria. For greenfield projects, they will need to show bankable business plan acceptable to the PFIs.

- **Financial capacity:** Demonstrate financial capacity to repay the loan through a sufficient debt service cover ratio.

- **Local content:** A requirement of Nigerian-owned entities or consortiums involving a minimum of 70% local ownership.

- **Job creation focus:** Commitment to employing local talent with a detailed vocational and technical training plan.

Facility Threshold for Local Meter Manufacturers

The framework provides that the funds to be accessed under the facility shall not exceed 70 per cent of the total cost of the applicable costs/expenses related to meter manufacturing/assembly done in accordance with the provision of the applicable documentation and procedures required by the PFIs.

Facility Tenure for Local Meter Manufacturers

The tenure is the same as that prescribed for the DisCos which is a maximum of 10 years as determined by the project's cash flow profile but not exceeding 31 December 2030. The Framework provides for a moratorium on principal dependent on the type and nature of the project but shall not exceed 2 years or the construction/ completion period.

Interest Rate for Local Meter Manufacturers

Like the one for the DisCos, the local meter manufacturer's facility is also subject to an "all-in" interest rate of not more than 9 per cent per annum or any other rate as may be specified by CBN. As part of the CBN's Covid-19 relief package, the interest rate to be charged up to 28 February 2021 shall not exceed 5 per cent per annum. Out of the 9%, PFIs are allowed to charge up to 6% while the CBN retains 3%. Repayment by the PFIs to the CBN is to be not more than 10 days after the end of each quarter.

OTHER HIGHLIGHTS

Sanctions applicable under the Framework

(i) Diversion of funds by the PFIs shall attract a penalty at the CBN's maximum lending rate at the time of infraction.

(ii) Non-rendition of returns or the rendition of false returns shall attract penalty.

(iii) In the event of default in loan repayment (principal and interest), the PFIs shall have the right to charge commercial interest rate on the amount of default.

(iv) Unauthorized withdrawals from revenue collection account will result in the relevant deposit money bank refunding the amount withdrawn within 48 hours of discovery.

(v) Banks that flout the terms and conditions of the facility would be sanctioned.

Discontinuation of Credit Facility

Whenever a loan is repaid or the facility is otherwise discontinued, the PFIs shall advise the CBN immediately, giving particulars of the credit facility.

CONCLUSION

As earlier noted, this is yet another government intervention aimed at deepening meter penetration in the market. This initiative is laudable because it provides support across the distribution and meter value chain. The intervention will provide the much-needed support required by the distribution companies to fund meter procurement. The intervention will also provide support to the MAPs and could lead to more success for the MAP Scheme compared to earlier interventions on metering in the NESI.

Notwithstanding there appears to be some element of bureaucracy that has the potential to slow the application process if not properly managed. For instance, accessing the facility is subject to the successful application by the DisCos through its financial institution and approval by NERC. The fulfilment of these conditions if not tied to strict timelines by the various stakeholders could potentially delay swift deployment of capital.

It also remains to be seen whether the DisCos will be able to improve their collections and remittances to fully service the facility alongside other existing obligations.

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