



CENTRAL BANK OF NIGERIA

**FRAMEWORK FOR IMPLEMENTATION OF THE
SOLAR CONNECTION FACILITY**

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1.0 Introduction

The pathways to energy access, financial inclusion and poverty reduction are closely linked and requires rapid scale of pay-as-you-go (PAYG) off-grid technologies that will create a \$2 billion (~N7.5 trillion) annual market opportunity as penetration today is less than 5% of total market potential. To support the economic recovery in response to the COVID-19 pandemic, the Federal Government of Nigeria (FGN) has launched an initiative as part of the Economic Sustainability Plan (ESP) to achieve the roll out of 5 million new solar-based connections in communities that are not grid connected. This program is expected to generate an additional N7 billion increase in tax revenues per annum and \$10 million in annual import substitution.

The solar connection Scheme is a Federal government initiative whose objectives are to expanding energy access to 25 million individuals (5 million new connections) through the provision of solar home systems (SHS) or connection to a mini grid; increasing local content in the off-grid solar value chain and facilitating the growth of the local manufacturing industry; and incentivizing the creation of 250,000 new jobs in the energy sector.

The Central Bank hereby introduce the Solar Connection Intervention Facility to complement the Federal government's effort of providing affordable electricity to rural dwellers through the provision of long term low interest credit facilities to the Nigeria Electrification Project (NEP) pre-qualified home solar value chain players that include manufacturers and assemblers of solar components and off-grid energy retailers in the country.

The guidelines is sub-divided into 2 sections as follows:

SECTION A: UPSTREAM PARTICIPANTS

2.0 Definition:

An **Upstream Participant** is hereby defined as any company or body corporate engaged in the:

- i) Manufacturing of solar components and Balance of System
- ii) Establishment/expansion/upgrade of solar manufacturing facilities
- iii) Assembly of solar components and Balance of System
- iv) Repair and maintenance of solar home systems and mini grid equipment
- v) Solar component Research and Development (R&D)
- vi) Any other off-grid solar value chain activity as may be prescribed by CBN

2.1 Prohibited Activities

The facility shall not be used to finance the importation of fully assembled solar components and Balance of System.

2.2 Eligible Criteria

The eligible obligors should demonstrate verifiable evidences of:

- i) Technical capacity: Eligible manufacturers must demonstrate a track record of experience in manufacturing of key off-grid components up to the quality standards instituted by the Rural Electrification Agency (REA) and/or Standards Organizations of Nigeria (SON)
- ii) Financial capacity: Eligible manufacturers must demonstrate financial capacity to repay the loan through a sufficient debt service current ratio (DSCR).
- iii) Off-take agreement: Eligible manufacturers must provide evidence of an irrevocable off-take agreement with one or more Nigeria Electrification Project (NEP) prequalified companies
- iv) Local content: Eligible component manufacturers are Nigerian-owned entities or consortiums involving a minimum of 70% local ownership
- v) Job creation focus: In line with the program's job creation objectives, eligible manufacturers must demonstrate commitment to employing local talent with a detailed vocational and technical training plan

- vi) Vertically integrated participants: Downstream participants (SHS distributors and mini grid developers) planning to manufacture or assemble their own products will need to comply with the criteria above, including terms of technical capacity by demonstrating ability to comply with the REA and SON quality standards

2.3 Participating Financial Institutions (PFIs)

Financial institutions licensed by the CBN to provide banking services in Nigeria.

3.0 Modalities/Types of Facilities

3.1 Term Loan

3.1.1 Amount

Funding shall not exceed 70 percent of the total cost of the project

3.1.2 Tenor

The facilities granted shall have a maximum tenor of up to 10 years as determined by the project's cash flow profile but not exceeding 31st December 2030.

3.1.3 Moratorium

- i) The moratorium on principal shall depend on the type and nature of the project but shall not exceed 2 years or the construction/ completion period, whichever is shorter.
- ii) Additional moratorium of up to 12 months may be added to the moratorium period (as above) in order to address the risk of completion delays (request to be supported with evidences).
- iii) Protracted completion delays could be addressed through other mechanisms such as adequate sponsor support and contingencies to be determined on a project specific basis.

3.2 Working Capital

Working capital facility shall be for one year with provision for roll-over not more than twice (i.e maximum tenor of 3 years)

3.3 Interest Rate

The facility shall be administered at an “all-in” interest rate of NOT more than 9 per cent per annum.

However, as part of the Bank’s Covid-19 relief package, the interest rate to be charged up to 28th February, 2021 shall not exceed 5 per cent per annum.

Interest shall be payable by the loan beneficiaries in accordance with the approved repayment schedule outlined in the Transaction Documents

The “all-in” interest rate of 9% to be shared as follows:

- a) Participating Financial Institution 6%
- b) Sponsor (CBN) 3%

PFIs are to remit the interest due to the CBN on quarterly basis not later than 10 days after the end of the quarter.

4.0 Application Procedure

- i) An eligible company that meets the Nigeria Electrification Project (NEP) requirement should submit its request to the Participating Financial Institution (PFI).
- ii) The PFI should conduct due diligence and obtain internal approval for the facility.
- iii) The PFI submits request for approval and release of funds to CBN.

4.1 Documents Required

Required documentation for the obligor to access funding includes:

- i) Written request from the project promoter
- ii) Certificate of Incorporation
- iii) Copy of MEMART
- iv) Copy of Form CAC 2A (Return of allotment of shares);
- v) Business plan including:
 - o Completed Environmental and Social Management System (ESMS) template

- Organizational chart
 - Health and safety guidelines
 - 3-year financial projections
 - Detailed vocational and technical training plan
 - Bill of Materials
- vi) Off-taker agreements with prequalified NEP companies;
- vii) Three (3) years audited financial statements for existing companies or a 6-months Management Account for new companies;

SECTION B: DOWNSTREAM PARTICIPANTS

5.0 Definition

A Downstream Participant is any company or body corporate involved in:

- i) Distribution and after-sales support of solar home systems (SHS)
- ii) Mini grid project development activities including site identification and assessment, design and planning and customer acquisition
- iii) Engineering, procurement and/or construction of Mini grids
- iv) Any other retail-based off-grid solar value chain activity as may be prescribed by CBN

5.1 Prohibited Activities

Activities that shall not be financed by this Facility include:

- i) Sales or deployment of fully (100%) imported solar home systems components with no proof of existing local content or credible plan for near-term integration of local content
- ii) Deployment of mini grid projects with 100% imported components solar PV and Balance of System with no proof of existing local content or credible plan for near-term integration of local content

5.2 Eligibility Criteria

- i) NEP prequalification: Companies would be required to pre-qualify under the World Bank Nigeria Electrification Program and have satisfied the minimum technical and financial requirements under the program
- ii) Local content: Eligible off-grid companies are Nigerian-owned entities or consortiums involving a minimum of 70% local ownership
- iii) Job creation focus: In line with the program's job creation objectives, eligible companies must demonstrate commitment to employing local talent with a detailed vocational and technical training plan

6.0 Modalities/Types of Facilities

6.1 Term Loan (for civil works, project expansion, equipment purchase, etc)

6.1.1 Mini grid Developers

- a) **Amount:** Maximum of 70 per cent of project cost
- b) **Tenor:** Up to 7 years (depending on the nature and cash flow stream)
- c) **Moratorium:** up to 2 years depending on the nature of the project.

6.1.2 Working Capital

- a) **Amount:** To be determined as a percentage of the average of 3 year adjusted projected cash flows subject to the maximum of limit of N500 million.
- b) **Tenor:** 12 months subject to roll-over not more than twice (i. e. maximum tenor of 3 years) (depending on the nature and cash flow stream)
- c) **Interest Rate:** 10%

6.2 Home Solar System Retailers and Distributors

6.2.1 Distribution/Retail Facility

- a) **Amount:** To be determined as a percentage of the average of 3 year adjusted projected cash flows subject to the maximum of limit of N500 million.

- b) **Tenor:** Up to 5 years depending on the cash flow stream
- c) **Interest Rate:** 10%
- d) **Moratorium:** 6 months

7.0 Application Procedure

7.1 Mini grid developers

Pre – Requirements - the qualification procedure for Mini grid developers shall follow the 8-step process at REA:

- i) NEP prequalification conducted by the Rural Electrification Agency
- ii) Application received from developer
- iii) Administrative screening of application
- iv) Evaluation of application (Company and Sites)
- v) Background checks
- vi) Verification of site-specific components e.g. proof of NERC registration, land acquisition, etc.
- vii) Approval by NEP Investment Committee
- viii) Obtain World Bank “No Objection”
- ix) Site specific evaluation and approval

7.5. Documents Required

Required documentation for the obligors to access funding include:

- a) Three (3) years Actual Cash Flows (minimum of one full year CF for new companies could be accepted).
- b) Five - year Projected Cash Flow
- c) List of Revenue Accounts with DMBs
- d) List of 3rd Party Revenue Collecting Agents
- e) Certificate of Incorporation
- f) Copy of MEMART
- g) Form CAC 2A (Return of allotment of Shares)
- i) Business plan including:
 - o Completed Environmental and Social Management System (ESMS) template
 - o Organizational chart

- Health and safety guidelines
- 3-year financial projections
- Localisation plan
- Historical sales (for SHS)

7.6 Other Requirements

Mini grid developers would be required to provide evidence of the following:

- i) Finalized business/financial model
- ii) Lease agreement or Land rights approval showing ownership or control of land.
- iii) Completed ESIA for category 1 sites with environmental concerns, while an ESMP suffices for category 2 sites
- iv) Water rights secured
- v) Permits or registration secured or evidence of receipt of payment submitted to NERC
- vi) Tariffs approval
- vii) Rules for community engagement
- viii) Tender for equipment supply
- ix) Community engagement and signed exclusivity agreement to power community

8.0 Funding for SHS Retailers & Distributors Under the Proposed CBN - Electricity Market Stabilization Model

8.1 Eligibility: Mini grid Developers and Home Solar Distributors and Retailers as defined above

8.2 Conditions

The company must

- i) sign written Agreements with CBN and other stakeholders to participate in the scheme
- ii) disclose all revenue accounts with banks and other financial institutions to CBN
- iii) disclose all 3rd party revenue collection agents to CBN
- iv) appoint a DMB to act as its Principal Collection Account bank

- v) Make arrangements to ensure that all revenues collected in a month are swept to a single account with the Principal Collection Bank.
- vi) Allow the Administrator appointed by the CBN to monitor all the revenue accounts
- vii) Allow CBN to have first line charge on its revenue accounts
- viii) Allow CBN to restrict withdrawals from all revenue accounts for certain number of days till loan repayment to CBN is effected.

8.3 Other Conditions

- i) Only CBN licensed entities are to be appointed as revenue collection agents.
- ii) Loanable amount to any company would be determined as a factor of its Actual and Adjusted Projected Cash Flows.
- iii) The gross monthly repayment to CBN (i. e. the sum of Principal and Interest payments) shall not exceed 20% of the company's monthly revenue.

9.0 Collateral Requirement

Directors' guarantee to contribute the amounts payable to CBN in case of significant reduction in monthly revenues.

SECTION C – GENERAL (DOWN & UPSTREAM)

10.0 Verification/Monitoring of Projects

Periodic joint monitoring and evaluation (M&E) of financed projects shall be conducted by CBN in conjunction with REA and the respective PFIs.

11.0 Responsibilities of Stakeholders:

11.1 Rural Electrification Agency (REA)

- i) Obtain necessary approvals for the initiative
- ii) Provide appropriate institutional arrangements for seamless implementation of the Scheme
- iii) Set standards for off-taker agreements
- iv) Identify/ confirm the companies prequalified under the NEP

- v) Ensure that borrowers are properly educated about the Solar Connection Intervention Facility and its implications
- vi) Provide capacity building and technical support to stakeholders
- vii) Participate in joint monitoring of the funded projects

11.2 Central Bank of Nigeria (CBN)

The Central Bank of Nigeria shall:

- i) Articulate clear guidelines for the implementation of the Facility
- ii) Provide funds for the Intervention
- iii) Appoint an Administrator to manage the Downstream Window of the Facility
- iv) Monitor and evaluate implementation of the Scheme
- v) Review the Guidelines of the Facility as may be necessary

11.3 Participating Financial Institutions

The Participating Financial Institutions shall:

- i) Receive and process requests for funding under the scheme.
- ii) Exercise due diligence and care in appraising requests under the scheme
- iii) Bear the credit risk
- iv) Retain copies of physical or digital version of the mandate executed by the Borrower.
- v) Disburse funds released from CBN to the approved beneficiaries as provided in the operational guidelines
- vi) Monitor the funded projects and render periodic reports to the CBN.

11.4 Borrowers

The borrowers shall:

- i) Utilize the facility for the purpose for which it was granted
- ii) Adhere strictly to the terms and conditions of the facility and Transaction Documents
- iii) Insure the project being financed
- iv) Make the project and records available for inspection/verification by the CBN and the relevant PFI

12.0 Sanctions arising from Infractions

- i) Diversion of funds by the PFIs shall attract a penalty at the bank's maximum lending rate at the time of infraction.
- ii) Non-rendition of returns or the rendition of false returns shall attract the penalty stipulated by BOFIA section 60
- 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 – the DMB to refund the money within 48 hours of discovery
- v) Banks that flout the Terms & Conditions of the facility to be sanctioned in line with provisions of the BOFIA s60.

13.0 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.

14.0 Amendment

This Guidelines is subject to review from time to time as may be deemed necessary by the Central Bank of Nigeria.

For Enquiries

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