

THE CBN FRAMEWORK FOR FINANCING OF NATIONAL MASS METERING PROGRAMME (NMMP): AN OPPORTUNITY FOR LOCAL METER MANUFACTURERS IN NIGERIA

By

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1. Introduction

In August 2020, President Muhammadu Buhari directed the introduction of mass metering programme with the aim of bridging Nigeria's metering gap - an estimated 6.25 million customers remain unmetered. As an indication of the Federal Government's (FG) commitment to the mass metering programme, the Central Bank of Nigeria (CBN) recently released the Framework for financing of National Mass Metering Programme (the Framework). The Framework outlines the operational modalities of the CBN's financing support to the electricity distribution companies (DisCos) and local meter manufacturers in Nigeria.

The National Mass Metering Programme

The NMMP announced by the FG has the following objectives:

- (a). Increase of Nigeria's metering rate.
- (b). Elimination of arbitrary estimated billing.
- (c). Strengthening of the local meter value chain by increasing local meter manufacturing, assembly, and deployment capacity.
- (d). Supporting of Nigeria's economic recovery by creating jobs in the local meter value chain.

(e). Reduction of collection losses and increasing financial flows to achieve 100% market remittance obligations of the DisCos.

(f). Improve network monitoring capability and availability of data for market administration and investment decision making.

Historical Analysis of the NMMP Framework and the Metering Sector in Nigeria

Since its electricity sector was liberalised in 2005, Nigeria has faced severe metering challenges in addition to other challenges facing the Nigeria Electricity Supply Industry (NESI). This has adversely impacted the collection efficiencies of DisCos. The unavailability of meters has meant the prevalence of estimated billing practices across the NESI. Estimated billing often results in customers paying for more power than they consume as their bills are not directly tied to the exact amount of energy they consume extracted from metered readings. The agitation by electricity customers to be metered in order to pay for actual power consumed resulted in the FG undertaking the following initiatives – the promulgation of the Meter Asset Provider (MAP) Regulation in 2018; the declaration of a national mass metering programme in 2020 in order to fast-track the deployment of meters

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and close the metering gap; and the grant of a one-year waiver on the import levy imposed on imported electricity meters.

Thus, the emergence of a nationwide mass metering programme is the FG's response to the problems of arbitrary estimated billing and metering gap in the country.

The Meter Asset Provider (MAP) Regulations

The MAP Regulations were promulgated in 2018 to create a framework for more private sector participation in the NESI through the introduction of MAPs. In particular, the MAP Regulations was promulgated to encourage the development of independent and competitive meter services in the NESI; eliminate estimated billing policies in the NESI; attract private investment to the provision of metering services in the NESI; and close the metering gap through accelerated meter roll out in the NESI.

The MAP Regulations require MAPs to ensure that local meter manufacturers are patronized. Paragraph 9 of the MAP Regulations mandates MAPs to source a minimum of 30% of their contracted metering volumes from local meter manufacturing companies in Nigeria. NERC estimates that there exists a 6.25 million metering gap deficit across the country. Thus, of the over 6million meters to be procured to fill the metering gap, 1.8 million meters should ordinarily be purchased from local manufacturers. To encourage the local metering manufacturing sector, the Federal Government imposed an additional import levy of 35% on imported meters. However, the local meter manufacturing sector has been plagued with funding challenges which has rendered the sector incapable of providing the numbers needed to bridge the metering gap. The

inability of local meter manufacturers to meet local demand however resulted in the FG granting a one-year waiver on the payment of import levy on fully built meter units.

Analysis of the NMMP Framework

Participants in the local metering manufacturing sector admit that funding and financial incentives is one of the major challenges facing the sector. However, there exists some concern that the FG's waiver of import levy will stall the growth that the sector has experienced during the imposition of the import waiver. In response to this concern, the government has adopted a dual approach – permit a waiver on import levy for a period of 12 months and create a framework for financing the local meter manufacturing sector. The Framework introduced by the CBN recently, sets out the operational modalities of the CBN's financing/ facility support to the DisCos and local meter manufacturers.

Qualification Requirements Under the NMMP

To qualify for the CBN facility, a local meter manufacturer is required to be a corporate entity i.e. registered in Nigeria pursuant to the provisions of the Companies and Allied Matters Act (CAMA). Such manufacturer must be involved in the manufacturing of electricity meters and its components and/ or the assembly of Completely and/or Semi Knock Down components into meters. Local meter manufacturers qualify for the CBN financing if the financing is needed for any or all of the following activities:

- (a). Procurement of manufacturing or assembly equipment for Meters.

- (b). Set up or expansion of manufacturing or assembly facilities.
- (c). Procurement of production data management and software systems.
- (d). Working capital.

The NMMP mandates that the facility is not be used to finance the importation of fully assembled meters. Thus, companies involved in the importation of meters for local use are not eligible to apply for the facility.

Local meter manufacturers interested in the CBN facility are required to demonstrate evidence of verifiable technical capacity by demonstrating a track record of experience in manufacturing of key meter components which meets the quality standards instituted by the Nigerian Electricity Management Services Agency (NEMSA) and/or the Standards Organisation of Nigeria (SON) where such manufacturer is brownfield. Where the manufacturer is greenfield, the manufacturer is required to provide a bankable business plan acceptable to financial institutions licensed by the CBN to provide banking services in Nigeria (PFIs).

Eligible local meter manufacturers are also required to demonstrate their financial capacity to repay the loan through a sufficient debt service current ratio (DSCR); as well as their local content capacity demonstrating that the local meter manufacturer is a Nigerian-owned entity or a consortium involving a minimum of 70% local ownership. Eligible manufacturers must also demonstrate commitment to employing local talent with a detailed vocational and technical training plan.

The funding to be applied for under the CBN financing is limited to 70 percent of the total

cost of the applicable costs/expenses related to meter manufacturing/assembly. Where a facility is granted to a local meter manufacturer, 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. 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. Working capital facility shall be for one year with provision for roll-over not more than twice (i. e. maximum tenor of 3 years).

The facility shall be administered at an "all-in" interest rate of not more than 9% per annum (Participating Finance Institutions (PFIs) - 6% and CBN - 3%) or any other rate as may be specified by CBN. 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 annum. Interest shall be payable by the loan beneficiaries in accordance with the approved repayment schedule outlined in the Transaction Documents.

Documents Required for accessing the CBN facility

Required documentation for the local meter manufacturer to access the CBN financing includes:

- (a). Written request from the project promoter
- (b). Certified True Copy of Certificate of Incorporation
- (c). Certified True Copy of MEMART
- (d). Certified True Copy of Form CAC 1.1

- (e). Business plan. The business plan is required to include the following:
 - (i). Organizational chart
 - (ii). Health and safety guidelines
 - (iii). 3-year financial projections
 - (iv). Detailed vocational and technical training plan
 - (v). Latest three (3) years audited financial statements for existing companies or a 6-months Management Account for new companies.

Conclusion

The CBN financing is a laudable step by the FG aimed at growing the local meter manufacturing sector, creating more job opportunities thereby supporting Nigeria's economic recovery while bridging the metering gap. Local brownfield meter manufacturing companies can use the loan to expand existing manufacturing or assembly lines and as working capital with the aim of ramping up production in order to meet local demand at the end of the waiver period in 2021. Prospective and existing greenfield local meter manufacturing companies are encouraged to take advantage of the CBN facility in entering into a sector that the FG is interested in developing. These companies can utilise the facility to procure manufacturing or assembly equipment with the aim of starting production before the lapse of the waiver period in 2021 by which time, they are certain to have gone live with meter production.

About Brooks and Knights Legal Consultants

Brooks and Knights Legal Consultants is a consultancy firm located in Lagos, Nigeria. We provide bespoke consulting services to individuals, businesses, government agencies and non-governmental organisations.

Our consultants are power sector experts and have advised on a significant number of transactions in the Nigerian power sector which revolve around power project development, regulatory compliance advisory and representation of meter asset providers. Our consultants are also skilled business consultants. We consult on business strategy and development and prepare business, strategic and financial plan projections for businesses across different sectors.