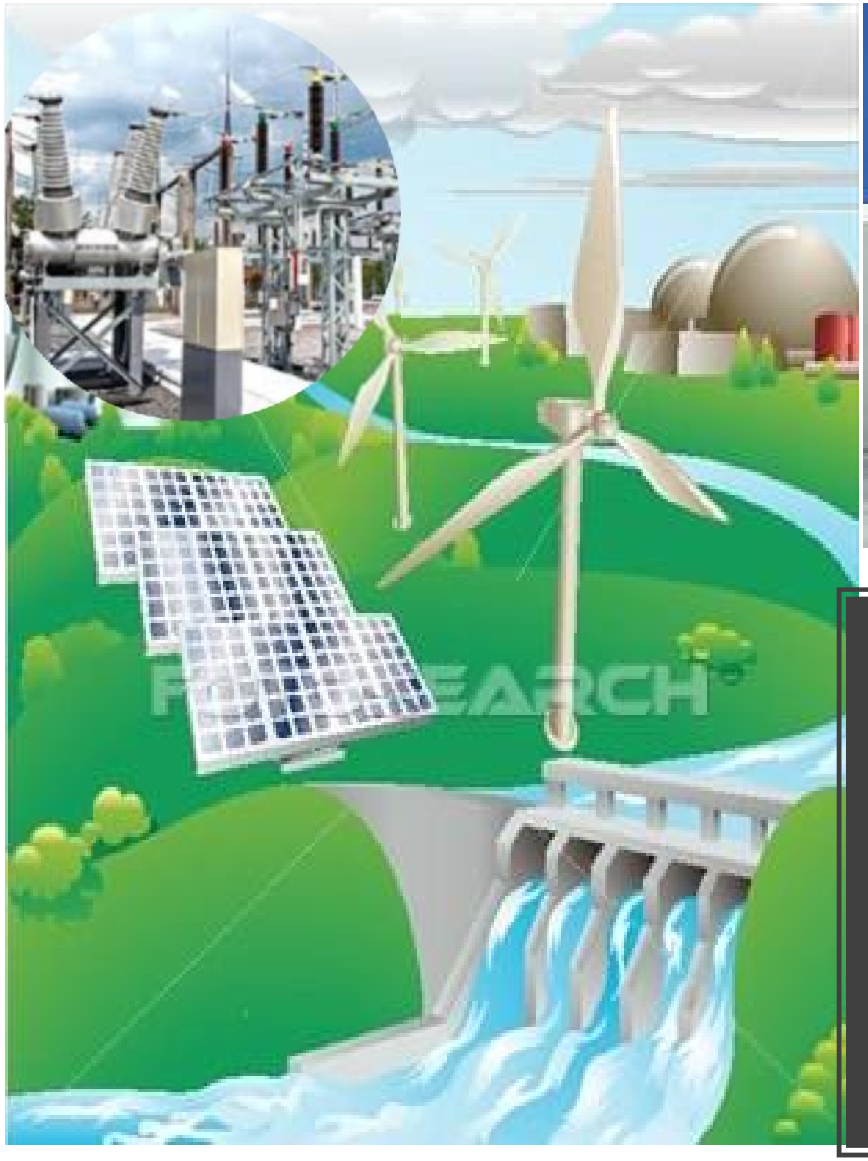


INVESTMENT CHALLENGES & WAY FORWARD TOWARDS ENERGY TRANSITION IN NIGERIA

PRESENTED BY

Elder Boma V. Benebo- ***CMC FIMC***

CEO-Soboms Nigeria Ltd

THE SPEAKER

- **Elder Boma Vincent Benebo, CMC, FIMC** is the Chairman/Chief Executive of Soboms Nigeria Ltd/So-Konsult BS. He is a Certified Management Consultant, a Fellow of the Institute of Management Consultants and a Business Development Service Provider for the Bank Of Industry.

- He retired as an Executive Management Staff of the Central Bank of Nigeria. He has over 30years experience in Practicing Development Financing. He was Head of the Infrastructure Finance Office until retirement and has been involved in the initiation of many of the Central Bank of Nigeria Development Finance Initiatives spanning Agric Finance, Power & Airlines, MSME, Infrastructure, etc.

- He midwifed & managed the Power & Airlines Intervention Fund, Nigeria Electricity Market Stabilization Facility, Nigeria Bulk Electricity Trader Payment Assurance Facility, REA-Solar Power Support Facility for SMEs, CBN-Bank of Industry Industrial Facility and Represented the CBN on Several National Policy discussions.

- An alumnus of The University of Ibadan, University of Nigeria & Ateneo De Manilla University, Quezon City, He also holds a Post graduate Diploma in Education and Diploma in Micro Finance. He has exposure to trainings & Country experiences in the broad spectrum of Development financing.

RC:1482267
SOBOMS NIGERIA LTD.

This Presentation will focus on

- Introduction- Energy Gap & Big Market Opportunity In Nigeria
- External Investors perception of Nigeria
- Challenges facing investors In Nigeria
- Way Forward

Introduction: Energy Gap, A Big Opportunity!

- **Nigeria remains a big market for investment in electricity.**

WORLD BANK REPORT FEB 5, 2021

- 85 million Nigerians don't have access to grid electricity. This represents 43% percent of the country's population and makes Nigeria the country with the largest energy access deficit in the world. The lack of reliable power is a significant constraint for citizens and businesses, resulting on annual economic losses estimated at $26.2 billion (₦10.1 trillion) which is equivalent to about 2 percent of GDP. According to the 2020 World Bank Doing Business report, Nigeria ranks 171 out of 190 countries in getting electricity and electricity access is seen as one of the major constraints for the private sector.
- Nigeria's population is predicted to double by 2050

Introduction: Energy Gap, A Big Opportunity!

- A minimum of 40,000mw required to power current GDP

- Current installed generation capacity…..13,000mw
- Available Generation Capacity…….7,500mw
- Average daily generation……4,000mw

Due to low transmission capacity and even lower distribution capacity, gas supply constrains and lack of capacity to bring immediate turn around.

- Poor national network creates room for mini-grids from renewable energy sources especially Solar.
- There is more buy-in to independent power supply especially Renewable Energy by homes.
- A discussion of the challenges of investors in RE is therefore very timely!

RC:1482267

SOBOMS NIGERIA LTD.

Translating Visions, Harnessing Potentials, Uniting People and Organizations to Resources

Investor Perception of Nigeria

- What are they telling us?
- What do we need to Change?

Medium-Term Country Risk Rating -Country Grade

RC:1482267 SOBOMS NIGERIA LTD.

- **The country grade measures economic imbalances, the quality of the business climate, and the likelihood of political hazards. It is based on a six-level scale, AA (lowest risk) to D (highest risk). The rating is a combination of:**
- **The Macroeconomic Rating (ME) based on the analysis of the structure of the economy, budgetary and monetary policy, indebtedness, the external balance, the stability of the banking system and the capacity to respond effectively to (emerging) weaknesses**
- **The Structural Business Environment Rating (SBE) measures the perceptions of the regulatory and legal framework, control of corruption and relative ease of doing business**
- **The Political Risk Rating (P), which is based on the analysis of mechanisms for transferring and concentration of power, the effectiveness of policy-making, the independence of institutions, social cohesion, and international relations.** Source: Allianz trade)

Rating Agency	Rating
S&P Global rating	B- Country Risk high
Moody's Investors Service	BB
Fitch	B
OECD	6 (Speculative Grade – Sovereign Rating

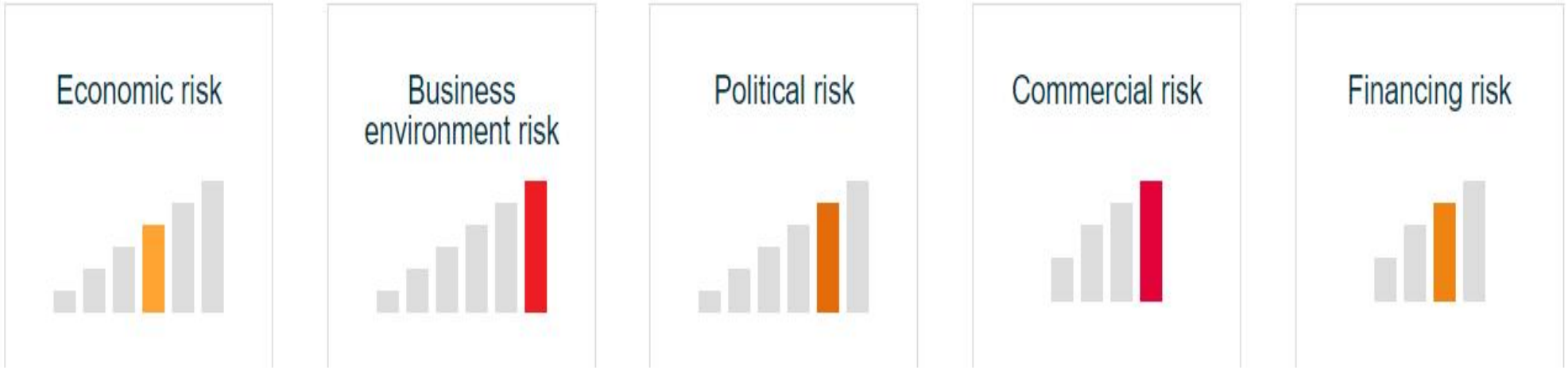
RC:1482267 SOBOMS NIGERIA LTD.

Recovering from challenging times

D3 SENSITIVE RISK for enterprise

COUNTRY	FITCH	MOODY	S&P	OUTLOOK
Nigeria	B	B2	B-	Stable
Ghana	B-	Caa1	B+/B-	Stable
Rwanda	B+	B2	B+	Negative
South Africa	BB-	Ba2	BB-	Positive

B grading (Highly Speculative)



Sources: World Government Bonds; Allianz- trade; Fitch Rating Agency, S&P Global Ratings and Moody others

External Perception

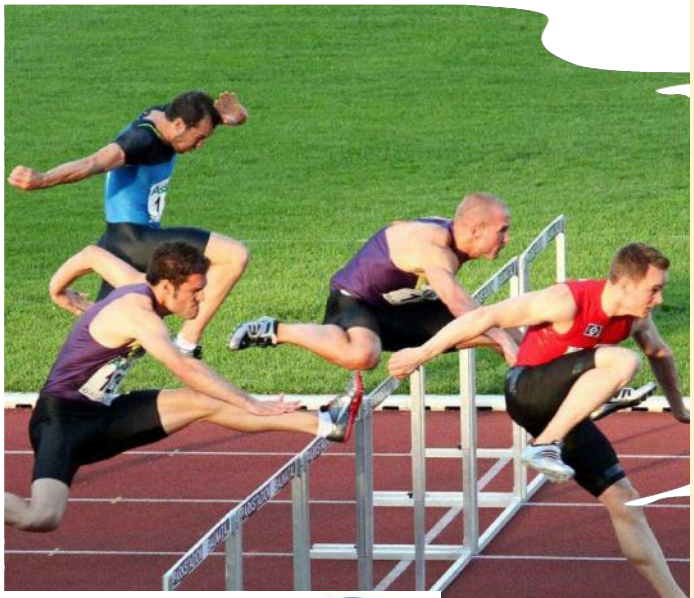
RC:1482267
SOBOMS NIGERIA LTD.

- Dominant economy in West Africa in terms of population and GDP
- The continent's largest economy.
- Economy depends on mono product-Oil- swings with the oil market. Current account surpluses (import cover markedly in excess of the international comfort benchmark of three months)
- High Hydrocarbons resource base, with 2.2% of global oil reserves (11th in global rankings and 43 years of additional extraction at current rates) and 2.7% of natural gas reserves (9th and over 100 years).
- External debt ratios are again deteriorating but remain comfortable.
- The federal government is hampered by the strength of state and tribal authorities. Deep ethnic, religious and regional divisions provide risks to systemic stability.
- Personal and corporate security is high risk.
- Long history of economic mismanagement and corruption continue to affect perceptions of doing business in the country.
- Data provision remains poor for a country of such size and strategic importance.
- Weak investment level.

FEEDBACK FROM OPERATIONAL ENVIRONMENT- INTERNAL INVESTORS

RC:1482267
SOBOMS NIGERIA LTD.

Challenges to Renewable Energy Finance In Nigeria



- **Supply Side:** The major challenge seems to be the capital intensive nature of installing renewable energy due to the high cost of accessories (imported), which is necessary for an off-grid solution.
- **Demand side:** Income level : Nigeria is classified as having a lower middle-Income level (June 2021-WB). [Middle income N75,000-N100,000/mth]
- The average Nigerian cannot afford the cost of acquiring the components needed to generate electricity that can power as little as a 500W system.

RC:1482267
SOBOMS NIGERIA LTD.

Challenges to Renewable Energy Finance In Nigeria – Large Investors (with Impact on Grid Supply)

RC:1482267
SOBOMS NIGERIA LTD.
Translating Visions, Harnessing Potentials, Linking People and Organizations to Resources

- Liquidity challenge in power sector / request for Sovereign gtee affecting Financial close of renewable energy contracts with Bulk Purchaser (NBET)
- Weak Economy manifesting in forex scarcity for equipment import
- Embargo on Sovereign Guarantee for Off-shore facilities
  - Uncertain political/ economic environment;
  - Fear of policy reversals by government as typical Energy projects span periods of 15 – 20 years which represents 4 -5 regimes in Nigeria;

RC:1482267
SOBOMS NIGERIA LTD.

Challenges to Renewable Energy Finance In Nigeria - Medium & Small scale Investors (Stand Alone/Mini Grids)

RC:1482267
SOBOMS NIGERIA LTD.
Translating Visions, Harnessing Potentials, Linking People and Organizations to Resources

- Inadequate capacity for Energy Project Finance by lenders (DMBs in particular);
- Paucity of commercially bankable projects
- Lack of incentives for long term financing by the banks e.g. refinancing facility for assisting banks ;
- Request for Bank Guarantee from Deposit Money Banks by Development Finance Institutions
- Difficulty in accessing CBN interventions through DMBs
- Banks demand for 120% collateral instead of reliance on project cash flow
- Non-existence of risk sharing structures;
- Inadequate skilled labor in Installing a renewable energy system; and
- Lack of developed Capital and bonds market in the economy

Feedback from Investors on DMB & CBN Power Facilities

The CBN & BOI Interventions provides favourable debt financing…

- Favourable debit conditions comparable to local lenders
  - Lower interest rates
  - Longer tenor
- Funds are accessible to organizations in the power and aviation sectors
- Several organizations have benefited from these funds.

However access to finance has been difficult due to

Limited in-house experience in evaluating renewable energy /mini-grid projects - banks are responsible for credit appraisal but most of them are not familiar with mini-grid business models or the project development process

Funding structure is unfavorable to most mini-grid developers – short tenors, short moratorium periods relative to project construction period, high equity contribution requirements that increase the cost of capital for developers

High collateral requirements (excess of 100% of loan value) that placed on developers and their banks stifle lending to the nascent renewable energy mini-grid sector in Nigeria

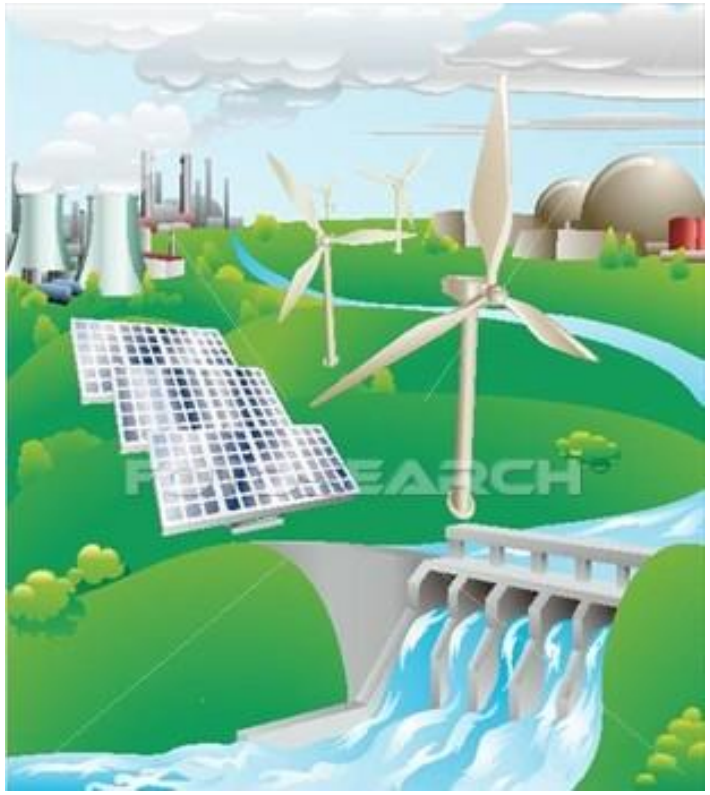
Long approval timelines (~12 months) - required documents are not readily available to developers and often favor already existing (brownfield) projects vs greenfield projects

RC:1482267
SOBOMS NIGERIA LTD.
Translating Visions, Harnessing Potentials, Linking People and Organizations to Resources

Causes of Poor Bankability of Nigerian Projects

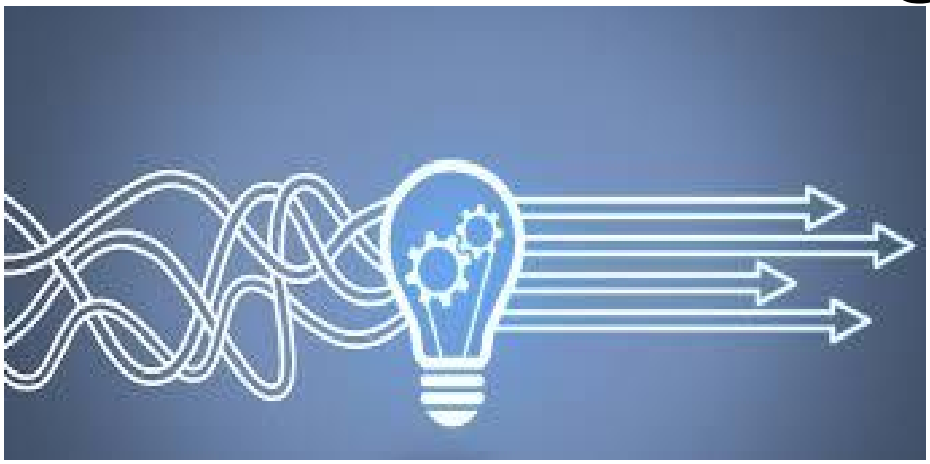
RC:1482267
SOBOMS NIGERIA LTD.

• **Feasibility** -Policy Analysis -Regional & Country Profile -Site identification • **Development** -Project development Support • **Documentation** -Standardization of Contract Document -Sanctity of Contracts	• **Match-making** -Project assessment for Risk mitigation • **Deployment** -Finance -Skilled manpower -Equipment (port status)



WAY FORWARD

(Resolution Of External Perceptions & Practitioners Challenges)



RC:1482267
SOBOMS NIGERIA LTD.

Strategies for Improving Investment in Renewable Energy - By External Investors

RC:1482267
SOBOMS NIGERIA LTD.
Translating Visions, Harnessing Potentials, Uniting People and Organizations to Resources

- Sustain ease of doing business reforms in Nigeria
- Policies to Address Multiple taxations in Nigeria;
- Change of Social Perception of electricity as a social service from Government.
- Review of Security architecture to guarantee Personal and Corporate Security
- Mapping of States to delineate DisCos Franchise and non franchise areas for off-grid intervention
- Viability gap Funding through public private partnership.(Budgetary Provision)
- More Grants to encourage RE connections (REA Model)

Strategies for Improving Investment in Renewable Energy - Medium/Small Green & Brownfield investors

RC:1482267
SOBOMS NIGERIA LTD.
Translating Visions, Harnessing Potentials, Uniting People and Organizations to Resources

- Cash flow collaterization (NEMSF Model)
- Provision of tax incentives for long-term projects requiring huge funds.
- Legal reforms to promote Public –Private partnership (PPP);
- Development of an appropriate framework for the growth of the capital market to provide long term finance for driving Energy development;
- Development and strengthening of the Bond Markets in Nigeria to enhance long term financing;
- Evolution of policies for local manufacture of RE Components
- Mechanisms to utilize Pension funds as sustainable source of long-term finance for the development of Power infrastructure in Nigeria.
- There is need to establish renewable energy training academies across Nigeria.

Closing Comments – Advice to External Investors

- The future of renewable energy is glorious in Nigeria.
- If You wait for the Perfect day you will Never Invest in Nigeria.
- Learn from the MTN Model- Recognize the local business environmental challenges & develop a model that will fit in and be scalable. MTN initial Investment in 2001 as license fee to Nig govt was $280m. At 20yrs it has crossed the trillion mark in revenue and growing at 23% Year-on Year.
- Learn from Azura-Edo Power model- Get firm contracts and achieve financial close before starting
- Push for partial risk guarantee instead of full sovereign guarantee to ensure profit and capital repartriation

Closing Comments – Advice to Policy Makers

Celebrate small milestones in reversing the negative perceptions. For Instance:

1. The Movement of Nigeria upwards on the Ease of doing Business in Nigeria by the world bank
2. Policies to address Power sector Challenges

   (attached as extra slide)

3. The recent signing of Power Purchase Agreement for 40Mw from Mabon hydro Power in Gombe state by NBET (The Bulk Trader)
4. Show case successful RE investors in Nigeria
5. Wean the power sector to become a truly commercial sector independent of political leadership.
6. Achievements under Policies to break mono-product economy

Closing Comments – Advice to Internal Investors

- Invest in Small scale mini-grids which could be upscaled
- Consider backward integration to manufacture some components locally to hedge forex fluctuations
- Consider crowd funding with equity holding by trade groups – artisans and trade associations
- Initiate Regional PPPs on RE Development
- Give Feedback to government on challenges being experienced

Closing Comments

Nigeria faces significant challenges in addressing its energy deficit and meeting its development objectives.

- The future of renewable energy is glorious because it has the solution to future energy needs to meet supply gap and reach remote locations without access to the national grid.
- Best of all, global markets already exist for the sourcing of RE funding
- Nigeria should take the feedbacks from External & internal Investors seriously to fast track our energy transition process.

RC:1482267

SOBOMS NIGERIA LTD.

Translating Visions, Harnessing Potentials, Linking People and Organizations to Resources

Thank you for your Attention

EMERGING POLICY OPTIONS- Overview

Causes of Inadequate Power Supply	Policy Initiatives
Inadequate investment in Power Infrastructure	Power Sector Recovery Programme (PSPR) CBN Intervention in Power asset Acquisition
Aging Transmission and Distribution facilities	Power Sector Recovery Programme (Increase in Government Spending on transmission) Privatization of Power Sector
Inappropriate pricing of electricity/ Poor Business model	Tariff Review by NERC CBN Intervention – Nigeria Electricity Market Stabilization Facility (NEMSF)
Poor mix of power supply options(Thermal/Renewable fuel sources)	Establishment of Rural electrification Agency (REA) Energizing Economies Initiative (Solar Power for markets) CBN Off Grid power Support & Solar Connection Facility
High Aggregate Technical Commercial & Collection (ATC&C) losses	Meter Asset Providers (MAP) Programme National Mass Metering Scheme
Inadequate Regulation	Establishment of Nigeria Electricity Regulation Commission (NERC)
Prevalence of Electricity theft	Criminalizing electricity theft
Others (High debt to Electricity generation Companies)	CBN Intervention facility - NBET- Payment Assurance facility; CBN –NEMSF (market stabilization Facility)