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CENTRAL BANK OF NIGERIA INTERVENTION FUND IN THE NIGERIAN ELECTRICITY INDUSTRY

Introduction

The Central Bank of Nigeria (CBN) in conjunction with the Nigerian Electricity Regulatory Commission (NERC), the Ministry of Power and the Ministry of Petroleum Resources developed a scheme called the Nigerian Electricity Market Stabilisation Facility (NEMSF).

The NEMSF is designed as an intervention fund to ameliorate the effects of a liquidity shortfall in the value chain of the Nigerian Electricity Supply Industry. The Nigerian electricity market thus required an urgent payment intervention.

Background

The CBN intervention fund arose as a result of several entreaties made by the power generating companies (and gas suppliers owed by some of the thermal generating plants) who were not being fully paid for their monthly invoices raised in respect of power generated.

Thus the measures proposed by the CBN and its partner government agencies include:

- providing liquidity support
- tariff adjustments
- commitments by electricity market participants

The total amount of the intervention fund is ₦213billion which, at today's rate is about US\$1.033billion. It is believed that the disbursement of this intervention fund will kickstart the Transitional Electricity Market (TEM).

It is important to note that all market participants are involved in this fund. The Electricity Generation companies as well as the Electricity Distribution companies. For the Distribution companies, the fund is a loan facility which has a ten (10) year repayment plan granted at a 10 percent rate. For the Generation companies, it is not a loan but a disbursement of monies owed to them for electricity already generated and sent to the national grid. The funds for the generation companies are expected to be used for improvements in their various plants i.e capacity recovery (and in the case of the thermal plants - payment to their gas suppliers) which will in turn lead to more energy generated and available for use on the national grid.



The Deposit Money Banks (DMBs) are key players in this transaction as they act as collection agents of the Central Bank.

It is important to understand that there are chiefly two different movements of money in this transaction. There is the disbursement chain which is the first stage and then there is a repayment chain which is the second and final stage.

The disbursement chain is structured as follows:

fulfillment of all conditions precedents by generating companies

execution of legal agreements (disbursement) agreement by generating companies

creation of a Special Purpose Vehicle (SPV) by the CBN. The SPV will receive the full amount of the NEMSF

the SPV disburses various amounts of money to participating DMBs

the DMBs in turn disburse money to a Fund Manager

Upon confirmation of amounts owed, the Fund Manager will disburse payment to the beneficiary which could be a market participant, gas company or service provider.

The repayment chain is structured as follows:

consumers pay for electricity at the nominated DMBs of the distribution companies.

The DMBs in turn will sweep all monies received to a Principal Collection account.

The Principal collection bank upon receiving monthly payment notices will deduct amounts due under the CBN-NEMSF facility and remit to the SPV's account with the CBN. The amount deducted is a first line charge to the CBN

Disbursement

On Monday 2nd of February 2015, the CBN commenced the disbursement of the intervention fund. A total of about ₦18.26billion (about US\$88.6m) was disbursed. The beneficiaries are two distribution companies and three generating companies. These beneficiaries are the only ones thus far, who have fulfilled all the conditions precedent necessary and have executed their agreements. It is hoped that this disbursement will reset the economics of the electricity supply industry.



Critique

It is important to note that for the generating companies the monies to be received from the intervention fund are monies owed from the shortfall in invoice payments. It is thus a grant and not a loan or a facility. Thus, critics of the intervention fund have said that since it is payment for monies owed, there should not be a need to fulfill all the conditions precedent and execute all agreements before the money is paid. A lot of the plants are currently suffering due to payment shortfalls in their invoices. They are not able to meet their capacity recovery obligations to the government regulator and are struggling to pay vendors, consultants and staff salaries.

Conclusion

It is hoped that this disbursement will kick-start the electricity market to ensure marked improvement in power supply to Nigerians. It remains to be seen if all generating companies and distribution companies will fulfill all conditions precedent set by the CBN for a wholesome participation in the fund.





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