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Tackling liquidity challenges

To address liquidity challenges in the Nigerian electricity supply industry, and create an economically viable and sustainable sector, the Nigerian Central Bank recently issued terms and conditions to deposit money banks for participation in the Nigerian Electricity Market Sector Facility (CBN-NESMF). This follows the handover of the Nigerian utility company, PHCN, to successor companies. The N213 billion ($1 billion) facility, with a 10-year tenor and 12-month moratorium period on the principal amount, is designed to settle outstanding payment obligations to market participants, service providers and gas suppliers in the Nigerian electricity market (beneficiaries), and will be warehoused in an SPV set up by the apex bank and the Nigerian Electricity Regulatory Commission, and under administration and management of an asset manager.

As expected, the special purpose vehicle (SPV) will refinance the facility by repaying the lenders in proportion to their stated commitment as defined in the various transaction documents, with the Central Bank subscribing to debenture notes issued by the SPV in the total sum of the facility amount. Of crucial importance is the role played by the banks and their designation in relation to their functions. Yet, what is common to all is the responsibility of ensuring the reasonable protection of the best interests of the SPV.

In this regard, opening and maintaining unauthorised accounts on behalf of a distribution company, the late or non-disbursement by lenders of sums due to the beneficiaries, late or non-remittance of repayment sums due under the facility and held by collection banks, as well as exercising the right to set-off against existing and future obligations or liabilities in relation to monies received under the facility are some events of default spelt out under the terms and conditions. The occurrence of such an event of default triggers a fine to be paid by the defaulting bank in an amount to be decided by the apex bank. The revocation of a banking licence or the appointment of a liquidator effectively serves to terminate a bank's participation under the CBN-NESMF.

Given the continued liberalisation of the electricity sector and push for adequate liquidity, the CBN's initiative is a welcome development in encouraging more banking intervention in a sector that has often been plagued with very low liquidity. The terms and conditions will, however, serve to ensure that participating banks do not simply seek to profit from such an arrangement, but actively contribute to the growth of the sector.

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