



Mini-Grid Acceleration Scheme (MAS)

Financing and Due Diligence in the Nigerian Mini Grid Sector

Rural Electrification Fund

On behalf of the Federal Ministry of Power, Works and Housing

With the support from the Nigerian Energy Support Programme (NESP)

Implemented by

Introduction



The mini-grid sector in Nigeria is at its development stage and there are not enough long-term projects to be studied to ascertain the actual viability of such projects.



Deciding where to site your mini-grid is important as this will often be the difference between a viable and non-viable project



Developing a mini-grid in Nigeria is challenging and would need commitment and an understanding that the gains are not immediate

Financing mini-grids in Nigeria



Financing mini-grids in Nigeria and indeed in most developing countries is challenging due to the fact that studies have not entirely shown the commercial viability of mini-grids.



Lenders (banks usually) in Nigeria are already over-exposed to the power sector and shy away from power projects as the risks involved are high and the returns on mini-grids are over a long period of time.



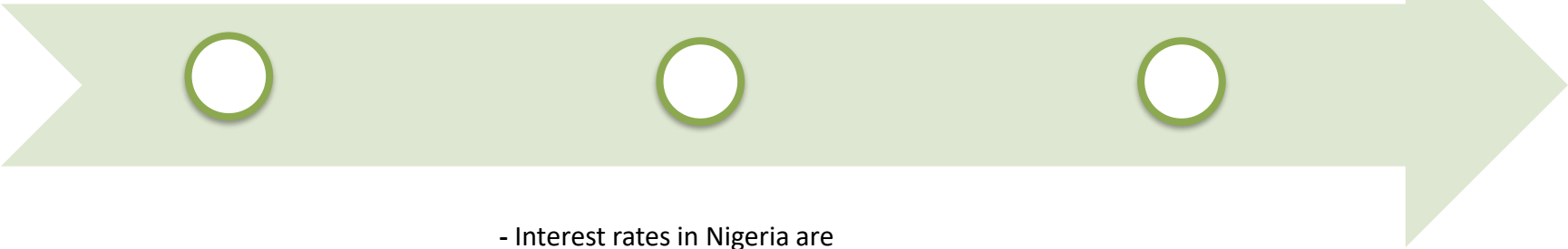
The main requirements for financing are:

- Low cost of capital; and
- Long term funding

Ease of Accessing Finance

- Need for long term and patient capital needed for investment in mini grids
- Interest rates need to be low
- Loan tenor needs to be long enough to accommodate the time for the project to make returns

For measure, the CBN lending rates in Nigeria are at 14% presently but to get funding from a commercial bank would see the borrower pay back at rates of 22% - 28%!

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- Interest rates in Nigeria are relatively high;
 - Mini grid market is not very well known to the lenders which adds an extra margin of risk for them.

Financing Options

Mini grids are usually financed with a mixture of financing options and in Nigeria, the most common is through grants and debt. The main ways that the mini-grids are being financed:

- Grants
- Equity
- Debt

Most of the other types are variations of these main financing methods and are at different stages of exploration in the mini grid space.

Due to the peculiarities of the Nigerian market, it is necessary to adapt the structure of financing to meet the specific needs.

How do these Options Work?



These are funds in cash or in 'kind' that do not need to be repaid and are often given by international donors, non-profits, and government agencies. They are usually given for the purpose of achieving specific developmental goals



This is money borrowed to be repaid over time with an interest component. Banks are the most common source of debt but the sources are not limited to banks as international donors are also a source.



These are funds given in exchange for partial ownership of the project or company. Sources include angel investors, venture capital firms, investment firms and impact investors

Where Do I Find the Money?

Globally, there are different holders of funds who provide financing with different aims and for diverse purposes

- Government Treasuries;
- Sovereign Wealth Fund;
- Development Partners;
- Pension Funds, Endowments, Charities;
- High Net Worth Individuals;
- Corporate Treasury Departments;
- Commercial Banks;
- Private Capital and Investment Fund Managers; and
- Impact Investors

What's Available in Nigeria?

In discussions with several banks, there is very low appetite for investment in the power sector and this is often due to the a lack of understanding as well as the current liquidity crisis that the sector is undergoing.

An example of
a bank who is
willing to
lend...

- For grants of 60% and above, the requirements are:
 - Minimum of 5% equity
 - Funding at 15%
- For grants below 60%
 - Minimum of 10% equity
 - Funding at 20%

Where Else Can I Look?

FUND NAME	TYPE	SIZE
bettervest GmbH	Debt	EUR 100,000-2.5M
ecoligo.investments	Debt	up to 2.5 Mio €
DEG: Climate Partnerships	Grant	Up to € 200.000
Benin: Off-Grid Clean Energy Facility	Grant	\$100,000 to \$5 M
The Renewable Energy Performance Platform (REPP)	Results-based finance	\$0.2-5 M
Global Climate Partnership Fund (GCPF)	Debt	\$5-20 M
Impact Assets Emerging Markets Climate Fund	Equity or Debt	\$0.5-5 M
Scaling Up Renewable Energy in Low Income Countries Program (SREP)	Grant	\$1-30 M
Engie: Rassembleurs d'Energies Solidarity Investment Fund	Equity or quasi-equity investment.	€0.1-1 M
Vantage GreenX Fund	Debt	\$5-50 M
InfraCo Africa – Sub Sahara Infrastructure Fund	Equity	\$1-3 M
NEFCO Carbon Fund (NeCF)	Equity or Debt	\$4-5 M
Catalyst Private Equity East Africa Fund (SME)	Equity	\$5-20 M

responsAbility – Energy Access Fund	Equity and quasi-equity	\$0.5-3M
Danish Climate Investment Fund (KIF)	Equity	€2-50M
Proparco FISEA : Invest and Support Fund for Businesses in Africa	Equity	€1-10M
Vital Capital II	Equity	\$10-50M
FMO Infrastructure Development Fund/ Direct Investment	Debt and Equity	€5-50M
DfID Impact Fund	Equity	\$5-15M
DEG Feasibility Study Financing	Grant	Up to €200K
DEG Upscaling	Re-payable Grant	€500K
GroFin SGB Fund	Debt	\$0.1-1.5M
Acumen Fund	Debt or equity	\$0.25-3M
Nordic Climate Facility (NCF)	Grant	€0.25-0.5 M
DEG – Direct Investments	Equity & Debt	€5-100M
GuarantCo	Guarantee	\$10-40M
ElectriFI	Debt and Equity	€0.5-10 M

African Renewable Energy Fund (AREF)	Equity	\$10-30M
Emerging Africa Infrastructure Fund (EAIF)	Debt	\$10-50M
Ariya Capital Sub-Saharan Africa Cleantech Fund	Equity	\$3-10M
Actis Infrastructure	Equity	\$10-50 M
Lereko Metier Sustainable Capital fund (LMSC)	Equity	\$10-50M
Inspired Evolution Investment – Evolution One Fund	Equity and Quasi Equity	\$10-20 M
Apollo Investment Partnership II (Apollo)	Equity and Quasi Equity	
Energy Access Ventures	Equity/Debt	\$0.5-4 M
Sustainable Energy Fund for Africa (SEFA)	Grant or Equity	\$1-3M
Energy and Environment Partnership South & East Africa	Grants	\$0.2-1 M
IRENA/ADFD Project Facility	Debt	\$5-15 M
OFID – Energy Poverty Program	Grant	\$0.1- 2M

Sample Documentation

In carrying out their due diligence, an investor might require some or all of the following ...

<input type="checkbox"/>	Company and Management Profile	<input type="checkbox"/>
<input type="checkbox"/>	Audited Financial Statements (usually last 3 years)	<input type="checkbox"/>
<input type="checkbox"/>	Memorandum and Articles association of company with Certificate of Incorporation	<input type="checkbox"/>
<input type="checkbox"/>	Business Bank statement	<input type="checkbox"/>
<input type="checkbox"/>	Project Feasibility Report (including industry report and technical viability)	<input type="checkbox"/>
<input type="checkbox"/>	Projected Financials with cash flow statement	<input type="checkbox"/>
<input type="checkbox"/>	Existing Bank loans and repayment track	<input type="checkbox"/>
<input type="checkbox"/>	Personal Guarantee of directors and their Net Worth statement	<input type="checkbox"/>
<input type="checkbox"/>	Project related commercial and legal agreements	<input type="checkbox"/>
<input type="checkbox"/>	Details of Collateral Security (legal opinion might be required)	<input type="checkbox"/>
<input type="checkbox"/>	Any other documents deemed necessary	<input type="checkbox"/>

Why are Lenders Reluctant?

In Nigeria, financial understanding of the power sector is limited and so the lenders are uncomfortable due to:



- ☐ Limited bank liquidity
- ☐ Startups are a higher risk
- ☐ Regulatory uncertainty

In addition, there are other reasons that a lender might be averse to investing in mini-grids:



- ☐ Rapidly depreciating assets
- ☐ Poor liquidation options
- ☐ Better options to invest in

What Do Investors Want?

What every investor really wants is low risk investments at high returns...



Unfortunately, this is not always the case!

Investors trust that the investee will keep their money safe

- It must be understood that the world of investment revolves around trust
- This trust must be built through demonstration of abilities to deliver on the plan of actions

Investors trust that the investee will return more money or value than what was invested

- The time value of money makes providing financial returns on investment important
- Investee has to deliver value that meets need at a price higher than cost required to create value

The riskier the investment, the higher the return

- The risk of receiving money in the uncertain future decreases its value
- The riskier an investment, the higher the return investors will expect

Due Diligence

Due diligence is a comprehensive appraisal of the project to be undertaken by all parties involved and this helps to de-risk the project to an extent.



Each group of investors might have questions that differ from the other depending on their rank of importance so it is important to create a data room* to enable easy access to documents that the investors might need



This can take time especially when the necessary information is not readily available or is seemingly vague

Requirements



Communication Q&A

- Questions about the business that might not be found in the documentation



Corporate Documents

- Parties involved in the project
- Ownership of the companies
- Track record of the companies (credit rating, debt servicing, etc)
- Risk appetite



Financials

- Audited accounts
- Tax returns
- Balance sheet
- Cash flow projections
- P&L of project



Market Studies

- Feasibility Studies
- Environmental Assessments
- Proof of communal support
- Approvals required and proof of receipt



Technology

- Viability of technology to be employed



Team

- CV checks

Sample Documentation

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What Next?



What Next?

The first stage in the checks is an evaluation which will include background checks on the company's dealings and the people behind the business. This should be taken seriously as if this stage fails, the investors would be unable to continue the process.

You might want to declare at this point anything that could potentially become an issue and if an issue you were not privy to is raised, you must be prepared to defend yourself and your company concerning information based on conjecture or inaccuracies.

Site Visits

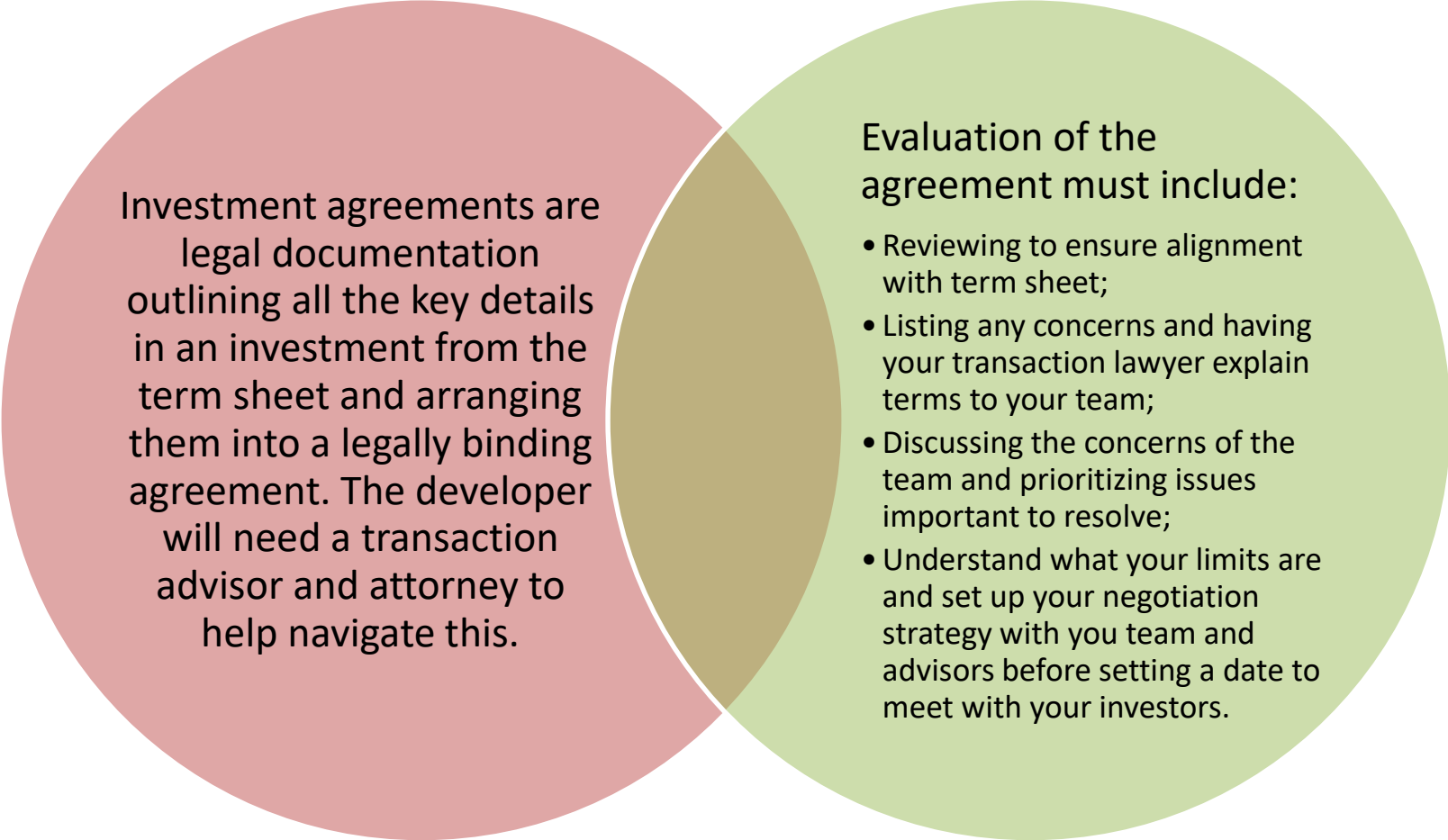


Whilst it is important that the investors get to inspect the site without any undue influence caused by the presence of the developer, there is often the issue of logistics as these sites are often off the beaten path.



Note that the developer will be required to assist the investors in arranging meetings with any parties (such as community heads, interest groups, etc.) should the need arise.

Investment Agreements



Investment agreements are legal documentation outlining all the key details in an investment from the term sheet and arranging them into a legally binding agreement. The developer will need a transaction advisor and attorney to help navigate this.

Evaluation of the agreement must include:

- Reviewing to ensure alignment with term sheet;
- Listing any concerns and having your transaction lawyer explain terms to your team;
- Discussing the concerns of the team and prioritizing issues important to resolve;
- Understand what your limits are and set up your negotiation strategy with you team and advisors before setting a date to meet with your investors.

Conditions Precedent

Conditions precedent are actions or approvals necessary to complete prior to disbursement of funds into the developer's business bank account. The onus is on the developer to meet these conditions agreed to in the investment agreement. These conditions include...

- Regulatory approvals secured
- Permits secured
- Shareholding agreements completed
- Resolution of corporate registrations
- Differing versions of guarantees signed
- Agreements from other parties to invest in an investment round in a club or syndicate
- Documents signed with third party suppliers
- Certain milestones met for portions of construction
- Conflict of interests resolved
- Deposits of shares in trust made
- Any other key details investors want before disbursement

Disbursement



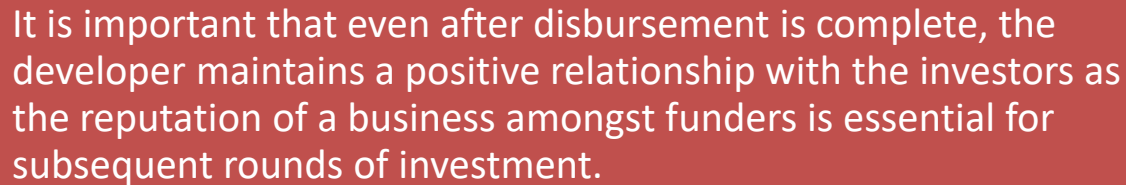
Disbursement is the transfer of funds from the investor to the developer. The investment agreement would usually include a schedule for disbursements and this would usually be over a period of time dependent on specified milestones on the project.

This is important to ensure that in the event of any default on the part of the developer, the investors do not lose all their funds and it gives the investor more control and helps them direct the developer's use of the funds.

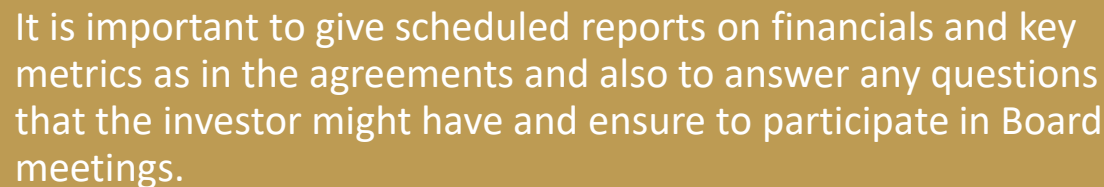
When it is time for the next tranche of funds and the developer has qualified for it, a letter should be written to the investors outlining which milestone has been achieved and requesting the next disbursement

Not quite the end....

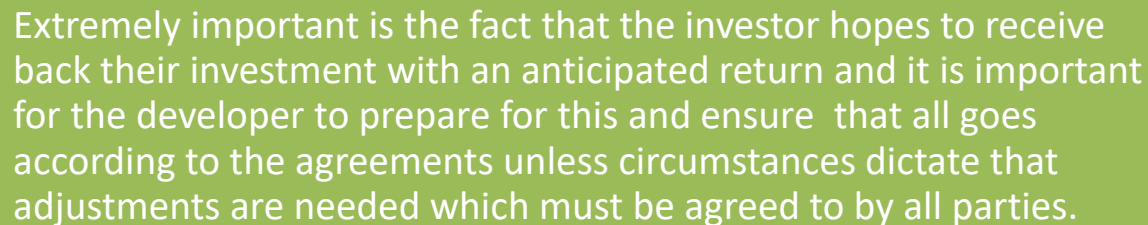
It is important that even after disbursement is complete, the developer maintains a positive relationship with the investors as the reputation of a business amongst funders is essential for subsequent rounds of investment.



It is important to give scheduled reports on financials and key metrics as in the agreements and also to answer any questions that the investor might have and ensure to participate in Board meetings.



Extremely important is the fact that the investor hopes to receive back their investment with an anticipated return and it is important for the developer to prepare for this and ensure that all goes according to the agreements unless circumstances dictate that adjustments are needed which must be agreed to by all parties.



Typical Challenges and Solutions for Securing Investment

CHALLENGE	SOLUTION
Funder concerned about risks	Create a risk management and mitigation specific to that funder
Valuation too low	Get multiple funders to evaluate and give offers of valuation
Valuation too high	A valuation that is too high can hurt subsequent fundraising and kill the prospects of the business; so reasonable prices are preferable
Difficult to meet conditions precedent	Ask to revise the conditions precedent in consultation with the prospective investor
Business hits downturn during fundraising	Speak openly and honestly with investors, set a plan for turnaround
Frustration with due diligence processes	Remain calm and have relationship oriented conversations with prospective investors



Thank you!

Nigerian Energy Support Programme (NESP)
Sustainable Energy Access (Off-Grid)