

# Establishment of National Energy Fund in Lesotho

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EXCELLENCE IN PROJECT AID PROGRAMME MANAGE



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## TABLE OF CONTENTS

LIST OF FIGURES .....	4
LIST OF ABBREVIATIONS AND ACRONYMS .....	5
EXECUTIVE SUMMARY .....	6
1. BACKGRODUND .....	7
1.1. GOVERNMENT RURAL ELECTRIFICATION POLICIES AND STRATEGIES .	7
1.2. DECREE .....	7
1.3. PURPOSE OF THE NEF .....	8
1.4. OBJECTIVES AND EXPECTED OUTCOMES .....	8
2. GOVERNANCE AND INSTITUTIONAL STRUCTURE.....	10
2.1. OWNERSHIP.....	10
2.2. GOVERNANCE AND MANAGEMENT.....	10
2.3. REA BOARD.....	11
2.4. INVESTMENT COMMITEE.....	13
2.5. NEF SECRETARIAT .....	13
2.6. STAFFING AND PERSONNEL.....	14
3. FINANCING MECHANISM OF NEF (CAPITALIZATION).....	16
3.1. SOURCES OF FUNDS FOR NEF .....	16
3.2. THE SPECIAL PURPOSE FUNDS .....	16
3.3. FLOW OF FUNDS .....	17
3.4. PROJECT APPROACHES THAT CAN BE SUPPORTED/ENTRY POINTS .....	17
3.5. NEF BUDGET .....	18
4. FINANCIAL STRUCTURE AND INSTRUMENTS .....	20
4.1. FINANCIAL STRUCTURE.....	20
4.2. FINANCIAL INSTRUMENTS .....	20
4.3. TECHNICAL ASSISTANCE.....	21
4.4. INVESTMENT GRANTS .....	22
4.5. RBF SCHEME FOR SHS AND COOKING STOVE SUPPLIERS .....	23
4.6. CONCESSIONAL LOANS .....	24
4.7. GUARANTEES .....	24
4.8. INVESTMENT AND EQUITY.....	25
5. PROJECT CYCLE.....	26
5.1. FUNDS MANAGEMENT.....	26
5.2. DISBURSEMENT PROCESS.....	27
5.3. ELIGIBILITY CRITERIA.....	28

5.4.	APPRAISAL AND SELECTION PROCEDURES OF PROJECTS FOR FINANCING.....	30
5.4.1.	Appraisal and Selection for Performance Grant.....	30
5.4.2.	Appraisal and Selection for RBRF – SHS & Cooking Stoves.....	32
6.	THE NATIONAL ENERGY OPERATIONALIZATION.....	34
6.1.	RECOMMENDATIONS .....	34
6.2.	NEF DEPLOYMENT ROADMAP .....	36
6.2.1.	Phased Approach to Fund Management .....	36
6.2.2.	Detailed Methodology .....	37
7.	ANNEXES.....	39
7.1.	LIST OF PROJECT STAKEHOLDERS INTERVIEWED.....	39
7.2.	STAKEHOLDERS’ CONSULTATIONS .....	40
7.3.	REFERENCES.....	42

## LIST OF FIGURES

Figure 1: Proposed NEF governance structure and institutional arrangement of Lesotho Energy Sector.....	11
Figure 2: Proposed structure of the PMU/NEF Secretariat. ....	15
Figure 3: NEF Funding Portfolio and flow of funds.....	17
Figure 4: NEF Budget.....	19
Figure 5: NEF’s financial and Non-Financial Instruments.....	21
Figure 6: RBF Approach.....	23
Figure 7: Trust agent involvement in the disbursement process.....	27
Figure 8: Process of disbursing funds from NEF.....	28
Figure 9: The Appraisal and Selection Process – Performance Grant.....	30
Figure 10: Disbursement of Grants for Sales of Solar Home Systems/Cooking stoves.....	32
Figure 11: NEF Phased Approach Deployment.....	36
Figure 12: 6 Key Steps of Fund Establishment .....	37

## LIST OF ABBREVIATIONS AND ACRONYMS

<b>CDM</b>	The Clean Development Mechanism
<b>DFI</b>	Direct Foreign Investment
<b>CSO</b>	Civic Society Organization
<b>DoE</b>	Department of Energy
<b>EA</b>	Energy Commission
<b>EMP</b>	Electrification Master Plan
<b>EU</b>	European Union
<b>EDF</b>	European Development Fund
<b>FIRR</b>	Financial Internal Rate of Return
<b>FNB</b>	The First National Bank of Lesotho
<b>GCF</b>	Global Climate Fund
<b>GEC</b>	Global Environment Fund
<b>GHG</b>	Greenhouse Gas Emissions
<b>GoL</b>	Government of Lesotho
<b>IC</b>	Investment Committee
<b>LEWA</b>	Lesotho Electricity and Water Authority
<b>LHDA</b>	Lesotho Highlands Development Authority
<b>LESES</b>	Lesotho Solar Energy Society
<b>LPB</b>	Lesotho Post Bank
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MEM</b>	Ministry of Energy and Meteorology
<b>MoU</b>	Memorandum of Understanding
<b>NEF</b>	National Energy Fund
<b>NEFS</b>	National Energy Fund Secretariat
<b>NGOs</b>	Non-Government Organizations
<b>NO</b>	Network Owner
<b>PDD</b>	Project Design Document
<b>PMU</b>	Project Management Unit
<b>PUE</b>	Productive Uses of Energy
<b>PV</b>	Photovoltaic
<b>RBF</b>	Results Based Financing
<b>REA</b>	Rural Energy Agency
<b>REA</b>	Rural Energy Agency
<b>SADC</b>	Southern Africa Development Community
<b>SE4All</b>	Sustainable Energy for All
<b>SHS</b>	Solar Home System
<b>ToR</b>	Terms of Reference
<b>UAC</b>	Universal Access Fund
<b>UNDP</b>	United Nations Development Programme
<b>UNFCCC</b>	The United Nations Framework Convention on Climate Change

## **EXECUTIVE SUMMARY**

Lesotho's Vision 2020 and Energy Policy 2015-25 are clear about the Government's intent to advance national electrification efforts while an Electrification Master Plan (EMP) sets out the role of both on-grid and off-grid electrification technologies (by way of mini-grids or stand-alone Solar Home Systems) in meeting national access targets.

Financially, national electrification undertakings require long-term funding commitments to supplement government efforts. Lesotho's electrification constraints are, to a large degree, related to the availability of capital required to undertake electrification projects. This is because many of these projects are not commercially viable on a standalone basis, and remain heavily dependent on non-commercial capital such as public funds and cross-subsidies, for their undertaking. At the same time, Lesotho public funds that can be allocated to electrification, are and remain limited.

Despite local funding constraints, a wide variety of global concessional funding options as well as commercial funding options are available and could be applied to expedite the local electrification drive. However, vehicles to capture and exploit these global funds are not yet established, meaning that these funds are not yet being utilized.

It is in this context, the GoL has embarked on an initiative to establish the National Energy Fund (NEF) that is intended to become a vehicle through which financing for off grid electrification projects is channeled, programmed, disbursed and monitored in Lesotho. Establishment of NEF is part of implementation of ongoing institutional reform in Lesotho Energy Sector supported by the European Union (EU) which is also expected to catalyze private sector involvement in electrification projects. As a national basket fund, NEF will both be an instrument to facilitate direct access to international environment and climate finance, as well as to streamline and rationalize external aid and domestic finance.

The following report details the final results of the NEF establishment initiative. Summarized below, the contents cover the NEF's:

- > Background and purpose;
- > Governance and institutional structure
- > Financing mechanism (capitalization);
- > Financial structure and instruments;
- > Project cycle covering funds management, application process, eligibility criteria and appraisal process; and
- > Recommendations and NEF Deployment Roadmap.

The operation and organization of NEF would ultimately be guided by Lesotho Law, under the Energy Act for which the Bill is awaiting Parliamentary deliberations and approval. As and when the Energy Act is enacted and the REA Board is constituted, this design document, including governance and operational aspects, will be presented for approval to formalize operationalization of NEF.

## **1. BACKGRODUND**

### **1.1. GOVERNMENT RURAL ELECTRIFICATION POLICIES AND STRATEGIES**

For improved coordination of electrification efforts, The Government of Lesotho (GoL) prepared an Electrification Master Plan (EMP) that sets out the role of both grid and off-grid electrification in meeting national access targets. It is estimated that 10,346 off-grid connections will be made annually and 207,280 new off-grid connections up to 2038. The plan is for off-grid solutions to be delivered to 36% of Lesotho's population (households, community facilities, and small businesses) located more than 15km from existing grid infrastructure as are least cost in this case.

Solar Photovoltaic (PV) was identified as the most suitable option for off-grid electrification, proposing six off-grid options based on the affordability levels ranging from solar lanterns, solar kits, Solar Home Systems (SHS) to mini-grids. There is buy-in from the Government and recognition that the private sector will be an important ally in achieving universal electrification by 2030. However, the off-grid market in Lesotho is still in its infancy. Uptake of off-grid solutions is hampered by a lack of funding and an immature regulatory and legal environment (mini-grid regulations has only recently been approved) to promote greater access to off grid clean energy, particularly for the roll-out of mini-grids. As a result, there are only a few energy service companies operating in the off-grid space, including existing private sector providers of standalone SHS and mini-grids in the country.

In view of this, the GoL has initiated an initiative to establish the National Energy Fund (NEF) under the Energy Act as part of innovative efforts to operationalise EMP and address financing challenges hampering mobilizing investments for the sector. The NEF initiative is also aligned with the GoL's electrification agenda and will demonstrate the implementation of the Lesotho Energy Policy 2015–2025 and Lesotho Vision 2020 by complementing ongoing efforts by Development Partners (DPs), private sector and other stakeholders supporting the provision of off-grid electricity.

NEF will be credibly, professionally and transparently managed to assure both contributors and beneficiaries that all funds are accounted for, used for the intended purposes in line with government policies and plans and that it constitutes a funding vehicle that can be relied on by all relevant stakeholders. As such to make NEF work well and impactfully, the key features will be:

- i. Clear policy guidelines within which the fund must operate, particularly the criteria for selecting qualifying applications
- ii. Transparent procedures for the operation of the fund and its bidding process; and
- iii. Proper accountability of the fund e.g., independent audit, proper monitoring and reporting procedures, etc.

### **1.2. DECREE**

The organization, capitalization, functioning and responsibilities of NEF will be formalized through the Energy Act that shall come into operation on the date of publication in the Gazette. Mandated organization provides for establishment of the Rural Energy Agency (REA) and NEF, formation of the board of REA and appointment of a Trust Agent.

The REA will be an autonomous institution to promote and ensure availability of commercial and

modern off-grid energy sources and technologies in the Kingdom of Lesotho. The Trust Agent shall be a custodian of the fund and shall be responsible for the administration of financial disbursement, verification and monitoring activities.

The Board shall govern REA and shall also be entrusted to oversee administration of NEF. The objectives, governance and financing sources of NEF shall be defined under the Ministerial Decree establishing the Fund. NEF will consolidate some existing energy funds and accounts with the objective for it to become Lesotho's primary vehicle through which finance for off grid electrification projects is channeled, programmed, disbursed and monitored on a transparent and non-discriminatory basis.

### **1.3. PURPOSE OF THE NEF**

The purpose for which NEF is established is to promote equitable rural electrification coverage by facilitating the population's access to electricity at affordable price for economic, social and household uses. In its support of investment projects, the NEF will promote the exploitation of technically and commercially proven renewable energy technologies in rural areas.

The Fund will provide least-cost blended funding that is specifically and singularly earmarked for off grid electrification activities by private and public entities, co-operatives, and local community organizations in Lesotho. The idea is to make off-grid electrification projects commercially viable and tariffs affordable.

Specifically, NEF will to help:

- i. To facilitate the remote rural household, which is not likely to have access to the electricity network for a long period, to have access to electricity through renewable energy technologies such as isolated mini grids and SHS,
- ii. To facilitate the private developers in rural areas to access fund for investment on expansion of electricity supply networks in order to allow all rural households within the license areas to have access to electricity for use,
- iii. To facilitate households in rural areas to have access to electricity with low tariffs under the country's subsidy framework
- iv. To promote usage of clean/efficient cooking stoves in remote rural areas of Lesotho.
- v. To promote Productive Uses of Energy (PUE) – including water heating systems, cold rooms, drying, milling and irrigation pumps.

To achieve this, NEF will aggregate funding from a variety of sources, including from the Government, Direct Foreign Investments (DFIs), private capital, electrification end-users and others, and to provide a single point of access to the said funds for those undertaking off grid electrification activities. The Fund is to actively engage relevant Government agencies as well as other potential funders to seek and secure additional funding for rural electrification in Lesotho.

### **1.4. OBJECTIVES AND EXPECTED OUTCOMES**

Based on consultations, the following overall objective, and outcome have been formulated.

The objectives of NEF are:

- 1) To promote equitable rural electrification coverage by facilitating the population's access to electricity at affordable price for economic, social and household uses, thus contributing to poverty reduction, and



- 2) To promote and encourage private sector to participate in providing sustainable rural electrification services; in particular the exploitation of and economic application of technically and commercially well proven off grid energy technologies.

NEF will use its resources to least cost finance the implementation of projects consistent with its objectives such as:

- (a) Providing general support activities for the preparation and implementation of off grid electrification projects in Lesotho including gathering of information on rural investment opportunities and costs, project documentation.
- (b) Providing private sector and local community output-based investments in off grid electrification projects; and,
- (c) Promoting the commercialization of well proven, technically and commercially, of new and renewable energy technologies.

The expected outcome of NEF would be to sustainably and equitably finance and further strengthen national programmes and private sector initiatives in the off grid electrification areas, and other relevant development related initiatives. The overall objective and outcome are compatible with the strategic priorities set in GoL's Energy Policy 2015-25; Vision 2020, EMP as well as other plans and strategies.

## 2. GOVERNANCE AND INSTITUTIONAL STRUCTURE

### 2.1. OWNERSHIP

NEF will be owned by the GoL and the Ministry of Energy and Meteorology (MEM) will provide policy oversight. It will be under the custodianship of the Energy Commission (EA) and the REA will be the entity that houses the Fund. The Fund will be operated and managed to the benefit of all electrification stakeholders. The Fund is to be fully ring-fenced from the Government's financial allocations and controls and operated in the form of a single-purpose, professionally managed financing vehicle.

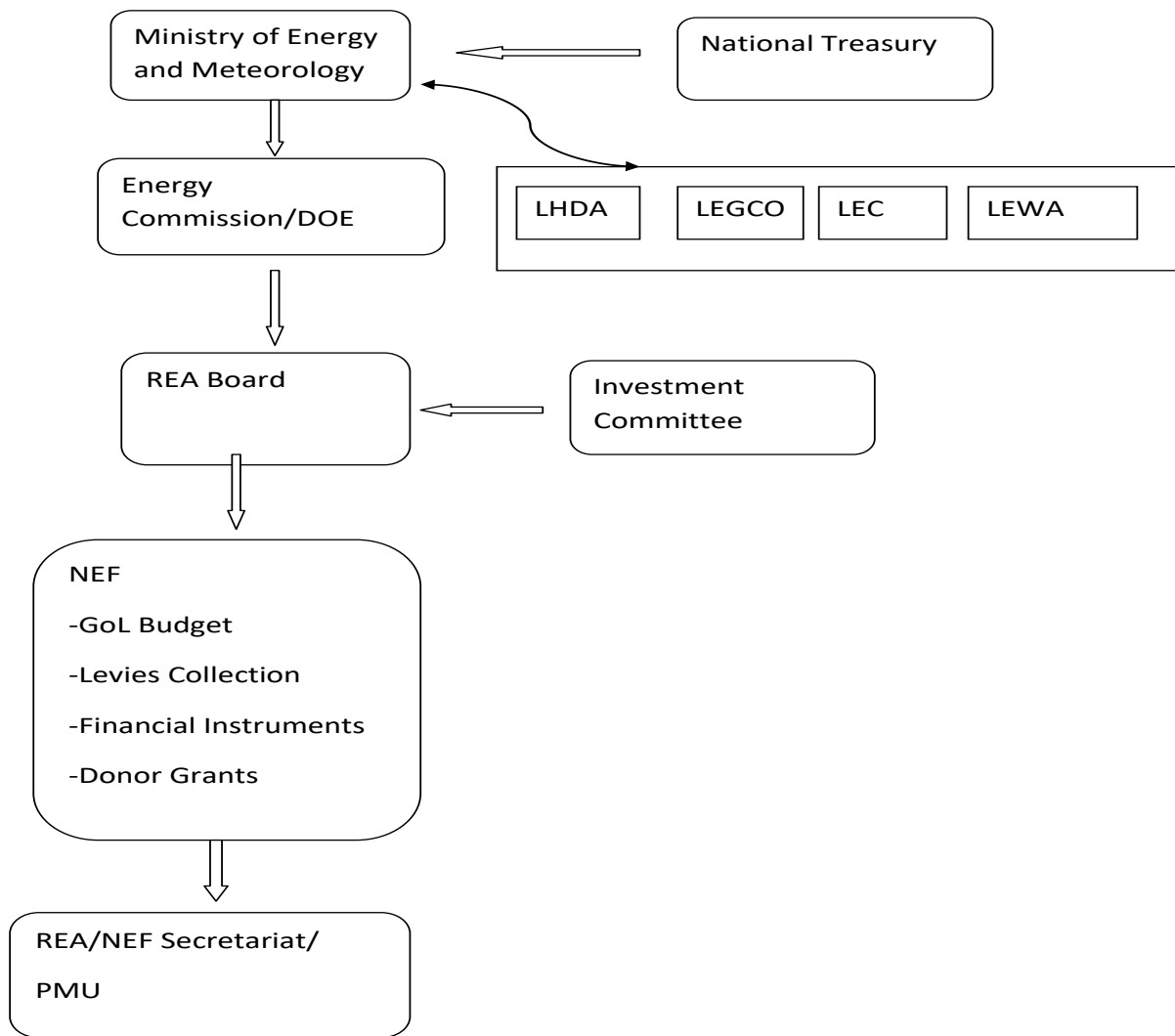
### 2.2. GOVERNANCE AND MANAGEMENT

In order to ensure that NEF is able to raise capital from various sources at concessionary rates for an extended period of time, institutional arrangements that provide adequate oversight, transparency and accountability will be created. The majority of day-to-day fund management will be conducted within the NEF Secretariat (NEFS) to be headed by a suitable independent fund manager.

The governance structure of NEF is of vital importance to ensure its credibility, and to attract third party funding. The governance of NEF will fulfill the following requirements:

- The separation of powers to ensure semi-autonomous operation status
- Strong checks and balances
- Independent oversight
- Well established, documented, diligent and adhered-to processes
- Appointment of suitable financial expertise
- Appointment of suitable technical expertise
- The highest financial reporting standards
- The highest reporting and record keeping standards
- Transparency
- Diligent risk management
- Unfettered stakeholder representation

In line with the Energy Bill, and drawing from other rural electrification funds in the Southern Africa Development Community (SADC) region, Figure 1 below illustrates the proposed NEF governance structure consisting of the Board, Investment Committee (IC) and Secretariat.



**Figure 1: Proposed NEF governance structure and institutional arrangement of Lesotho Energy Sector**

### 2.3. REA BOARD

The Board will be responsible for the monitoring and directing of NEF's activities. It is the highest organ for NEF management and oversight. The Board will consist of maximum 15 members with expertise in energy from the commission, government line ministries, private sector active in energy issues and consumer group as follows:

- a. MEM/EC
- b. Ministry of Finance
- c. Local government
- d. Representatives of Lesotho Electrical Association
- e. Representative from Lesotho Consumer Association
- f. Non-Government Organizations (NGOs) and civil society
- g. Representatives of private developers in the Energy sector
- h. 2 executive directors (Chief Executive Officer, corporate secretary)
- i. 2 additional professionals in the areas of finance, law, engineering/energy, auditing,

human resources

- j. A representative of donors, recommended to the Minister of Energy and Meteorology by the donors, as a member;
- k. A representative of the financial sector recommended by the Minister of Finance as a member.

The proposed membership of Board of REA will be assessed, approved and appointed by the Minister by notice published in a Gazette, following an open and competitive process, managed by an independent panel convened for that purpose.

The functions of the Board will be as follows:

- To act as the advisory board on policy issues related to off grid electrification and the promotion and encouraging of well proven, technically and commercially, of new and renewable energy technologies, to MEM;
- To oversee NEF and to monitor the performance of REA and of the NEF's Trust Agent;
- To adopt its own procedures for conducting meetings and other administrative matters related to the execution of its functions;
- Approve the appointment of a duly qualified independent and internationally recognized firm to carry out the external audits of the NEF and the Trust Agent.

In the execution of its NEF oversight functions, the Board will:

1. At the end of each financial year, adopt the annual policies and procedures for the use of NEF funds for the next financial year, in particular concerning:
  - a. The allocation of the annual NEF budget to funds for:
    - Investment grants and subsidies
    - Off grid electrification support programs and projects,
    - NEF operational expenses including the cost of payments agent, and
    - New and renewable energy programs and projects.
  - a. The appropriate criteria for NEF financing support;
  - b. The NEF financing instrument and associated rates for the financial year.
2. Hire or dismiss the Fund Manager of the NEF Secretariat
3. Define procedures for tendering of outsourced programs and consulting tasks and payments to project sponsors.
4. Approve:
  - a. The organizational structure, personnel policies and internal work procedures of the NEF;
  - b. The annual work program of the NEF;
  - c. The annual operational budget of the NEF;
  - d. The annual accounts of the NEF.
5. Monitor the management and operational performance of the NEFS including the payment procedures for sub-contracts.
6. Contract the NEF Trust Agent and supervise his/her performance and the flow of funds to grant recipients.
7. If needed, hire a person with in-depth knowledge of new and renewable energy technologies and Clean Development Mechanisms (CDM), to act as advisor to the REA Board.

## 2.4. INVESTMENT COMMITTEE

The NEF Investment Committee (IC) will be responsible for ensuring strong ownership of NEF supported activities, and enhancing their sustainability. The NEF Investment Committee will be comprised of a Chair and Co-chair, the latter represented by a Development Partner on a rotational basis, CEOs from key energy related sectors, and the NEFS as Secretary.

IC will meet at least once every quarter to review progress of NEF. Its core responsibilities will include reviewing action plans and budget allocations, procurement plans, as well as to screen and develop a shortlist of projects/programmes that have met basic criteria at the Secretariat level, for the approval of the REA Board.

## 2.5. NEF SECRETARIAT

Project Management Unit (PMU) (possibly recruited by European Union-EU) for a period of two years) will initially lead and staff the Secretariat. The Secretariat will be responsible for day-to-day management of NEF.

PMU/NEF Secretariat will have the following functions:

- a. To generate and provide information to communities, investors, consultants, and financial institutions on:
  - Costs and benefits of rural electrification and new and renewable energy projects,
  - Potential investment opportunities, and
  - On the terms and procedures of technical and financial support programs.
- b. To evaluate and approve applications for the NEF investment grant funds to rural electrification and new and renewable energy projects and disclose, inter alia, the names of the approved projects, a brief description of the approved projects, the names of the grant beneficiaries, and the amount of each grant approved.
- c. To undertake planning and project preparation activities needed to keep up the momentum of the government rural off grid electrification program support.
- d. To monitor and evaluate the performance of supported programs and projects and maintain a national off grid electrification database on rural electrification projects in Lesotho.

PMU, through the Secretariat, will be responsible to build the capacity of EC/ REA and the Trust Agent for direct management of the fund beyond the 2-year period. PMU will include technical (international and national) experts associated with the thematic windows on a call down basis. Note: the PMU's Terms of Reference (ToR) is synonymous with the Secretariat's ToR in the first 2 years of NEF operation, subject to approval by the REA Board. Although the PMU/NEFS will operate initially on a standalone basis, staff members of the Secretariat will be incorporated into REA organogram after a period of two years.

The NEFS will also establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with international accounting standards to adequately reflect the operations, resources and expenditures related to the NEF. The NEFS will, within six (6) months after the end of each financial year, submit the NEF's

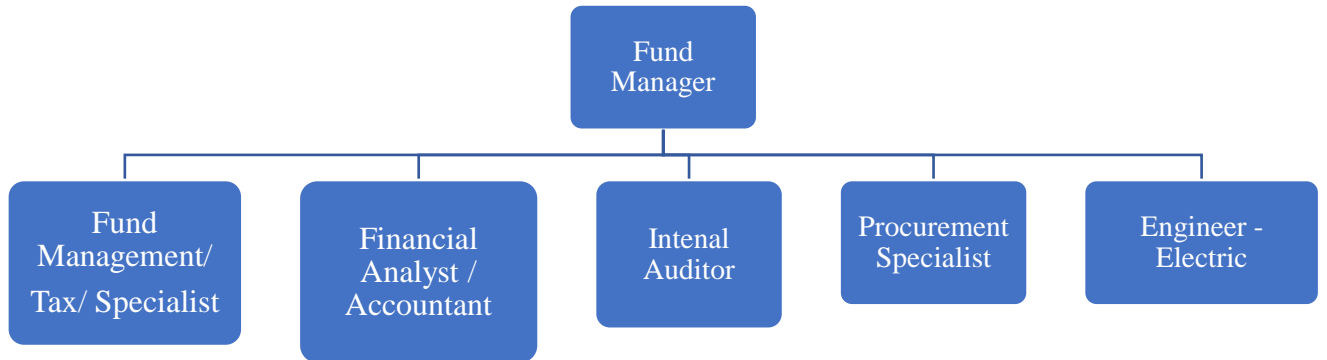
audited financial report to the REA Board, to the Minister of Energy and Meteorology/EC, the Minister of Finance, and to each donor of the NEF. At times, a Development Partner (DP) may require and or appoint an auditor of its choice and at its cost to audit the books of the NEF and may have a provision to this effect in its agreement with the NEF. The NEF will ensure that the funds from the NEF are used for intended purposes and procurement of goods, works and services under the off grid electrification projects to be financed by the NEF funds are performed, pursuant to the laws and regulations on procurement of the Kingdom of Lesotho, in accordance with economy and efficiency principles, and in a competitive and transparent manner.

## 2.6. STAFFING AND PERSONNEL

The proposed staffing approach is maintaining a lean, demand-based structure of experienced practitioners with proven leadership and fund management skills, as well as energy expertise that will ensure delivery of results towards NEF objectives. The structure comprises a 6-member NEF Secretariat as illustrated in Figure 2 below, each with demonstrated experience and ability to provide effective services in the context of Lesotho's unique institutional landscape and sustainable development objectives. They will have skills and expertise required to build capacity and provide technical assistance in each of NEF's key entry points across Thematic Financing Windows. Experience of working in Lesotho and Southern Africa will also be a key requirement.

Key roles for each member of the Secretariat is as summarized below:

- **Fund Manager:** responsible for coordinating all aspects of NEF strategy implementation.
- **Fund Management Specialist:** Working closely with the Fund Manager will have extensive experience with various types of portfolio management and risk management nationally and internationally, as well as thorough practical understanding of the GoL processes. Responsible to fast track the process of resource mobilisation from internal and external sources and will also work as Tax Specialist.
- **Financial Analyst/Accountant:** 1) Maintains up-to-date accounting records and ledgers and record all financial transactions for all activities relating to disbursements, and 2) Prepare Annual Financial Statements in a satisfactorily and timely manner in compliance with International Accounting Standards as applicable in public sector.
- **Internal Auditor:** 1) Appraise the soundness and application of accounting, financial and operational controls to ensure are in place; and 2) to achieve accountability at all levels and assurance that the fund is used for intended purposes with due consideration for economy, efficiency and effectiveness.
- **Procurement Specialist:** Provide purchasing support for the NEF and establish proper organization, policy and procedures for control of procurement of both project and operational support goods and services.
- **Engineer-Electric:** Inspect and test all manner of electrical components for power plant constructed by private developers to ensure they are within acceptable standards. When it comes to renewable energy, this means anything from solar panels, wiring, storage systems all the way to geothermal power stations.



**Figure 2: Proposed structure of the PMU/NEF Secretariat.**

### 3. FINANCING MECHANISM OF NEF (CAPITALIZATION)

#### 3.1. SOURCES OF FUNDS FOR NEF

Seed capitalization is to be provided by the GoL, with an annual budget allocation made. Additional funding will be sought from potential funding partners by PMU/NEF Secretariat. The Fund is expected to rely on concessional loans and grants from development finance and similar institutions to lower the weighted average cost of capital for electrification and to ensure that private investment can generate a commercial rate of return on investment so as to attract private capital.

The NEF will aim to consolidate and attract multiple sources of domestic public and external revenue to promote its sustainable capitalization. Potential financiers are likely to include the Green Climate Fund (GCF), Green Environment Fund (GEF), EU and United Nations Development Programme (UNDP).

Generally the sources of income for the NEF will consist of monies as may be provided-

- (a) By GoL in an annual budgetary allocation, to be deposited in the NEF account at the beginning of every month or as may be determined by the Minister for Finance;
- (b) Surcharges from electrification projects which is in the form of temporary account that Lesotho Electricity Company (LEC) uses to collect connection fees.
- (c) All moneys earned from consultancy and advisory services and any other service provided by the NE;
- (d) As contributions from international financial organizations, multilateral and bilateral agencies and other development partners;
- (e) From levies on the commercial generation of electricity to the national grid, as determined by the Minister in consultation with the Minister of Finance, to be deposited in the account of the NEF at the end of every month. Currently LEC collects this as Electrification Fund and remits to Universal Access Fund (UAC) managed by Lesotho Electricity and Water Authority (LEWA). Going forward, UAC is set to be channeled to NEF.
- (f) From levies on the generation of electricity in specified isolated systems, including systems for private consumption as determined by the Minister in consultation with the Minister of Finance, to be deposited in the account of the Fund at the end of every month;
- (g) Seed financing from public domestic stakeholders (line ministries)
- (h) As fees in respect of programmes, publications, seminars, consultancy services and other services provided by the Agency
- (i) From Carbon emission trading: Building on country's target to lower net Greenhouse Gas Emissions (GHG) by 10% by 2030, there is potential to exercise an option to attract a hard currency revenue stream by selling carbon credits from CDM Projects<sup>1</sup> that reduce greenhouse gas emissions; such revenues can then be channeled to the NEF.

#### 3.2. THE SPECIAL PURPOSE FUNDS

In some cases, financiers require a special set up for supporting off grid electrification efforts but would not allow their funds to go directly to the NEF, rather they require special purpose/dedicated accounts through which their funds are administered and managed. As such The Minister of

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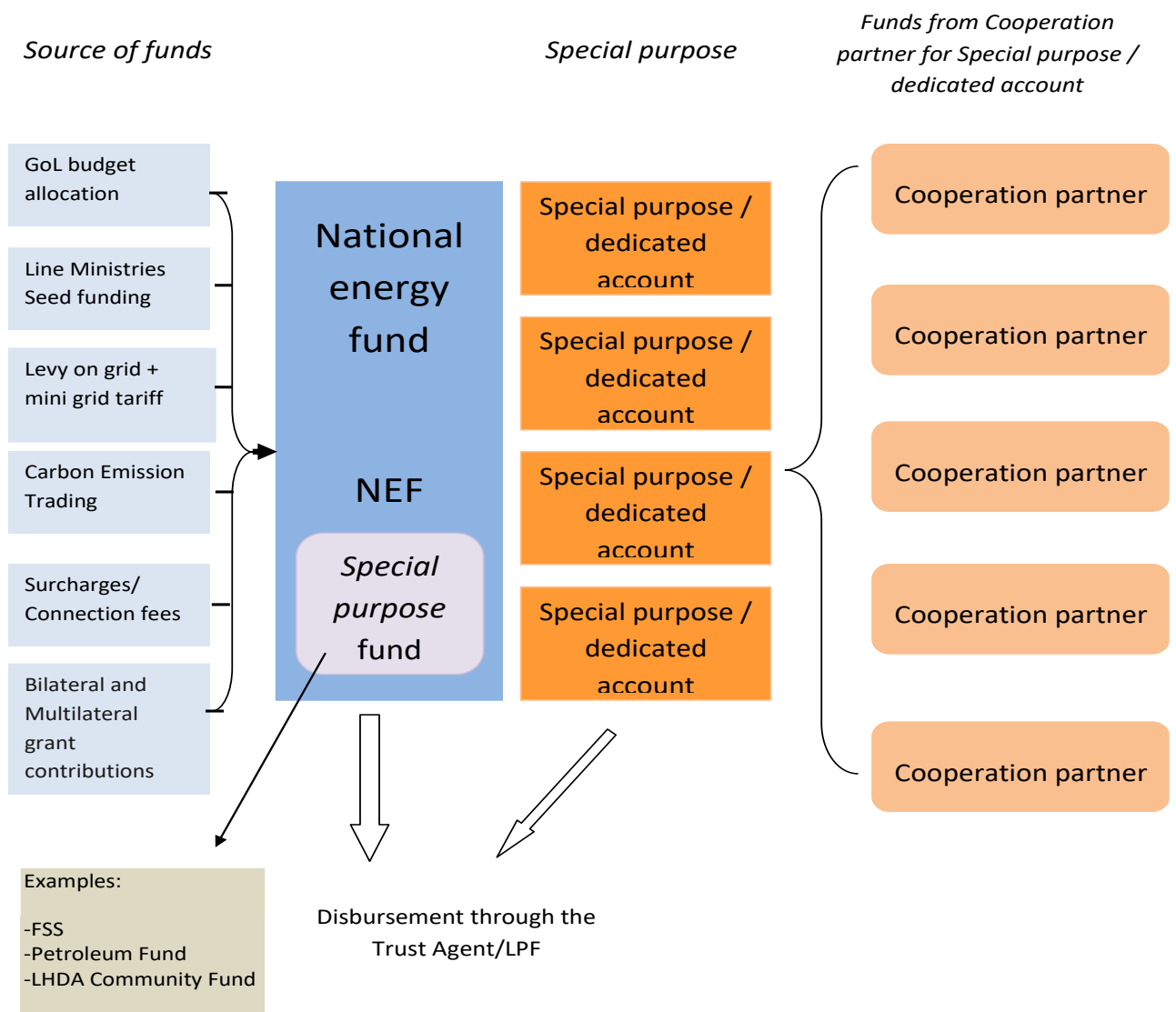
<sup>1</sup> CDM projects generate emissions credits called Certified Emission Reductions (CERs), which are then bought and traded as part of the United Nations Framework Convention on Climate Change (UNFCCC).



Energy and Meteorology may, in consultation with the Minister for Finance, execute agreements with development partners setting up Special Purpose Funds for rural detailing separate financing arrangements for the Fund. The Special Purpose Funds however follow the disbursement procedures as outlined in the agreements.

### 3.3. FLOW OF FUNDS

Figure 3 illustrates the flow of funds, including i) the NEF, including Special Purpose Funds, and ii) Special purpose/dedicated accounts.



**Figure 3: NEF Funding Portfolio and flow of funds**

### 3.4. PROJECT APPROACHES THAT CAN BE SUPPORTED/ENTRY POINTS

Support from the NEF is technology neutral and projects are either electricity or non-electricity rural energy projects. The different types of rural energy projects that can be supported are outlined below.

**Mini grids or isolated grids** are grids that are sufficiently far from the national grid to be cost effective solutions to providing certain areas with electricity. A recent World Bank report<sup>2</sup> noted that mini-grids offer a better solution for electrifying off-grid households, community facilities, and small businesses located more than 15km from existing grid infrastructure given the largely mountainous terrain and low population density in remote villages. The technology option could be renewable energy capacity (e.g. small hydro, biogas, biomass, wind), agro-industrial generating capacity currently used for self-generation (e.g. bagasse cogeneration), diesel or hybrid solutions, depending on the specific context of the area to be served.

**Stand alone systems e.g. photovoltaic (PV) systems** have limited capacity and offer less scope for income generating activities than mini grids approach. However, in isolated and dispersed rural areas PV systems can be the only viable option for households, small commercial establishments, health centres, schools and community halls.

In addition to the approaches mentioned above, it is worth mentioning **embedded generation**, i.e. electricity generation connected to the distribution network (33 kV and lower). Generally, embedded generation consists of smaller generators that use a variety of generation technologies such as diesel, natural gas, biogas, biomass, PV, wind turbines and small hydro.

Furthermore, **non-electricity projects**, i.e. energy aimed at providing non-electricity modern energy services to customers such as clean cooking stoves or energy efficiency projects.

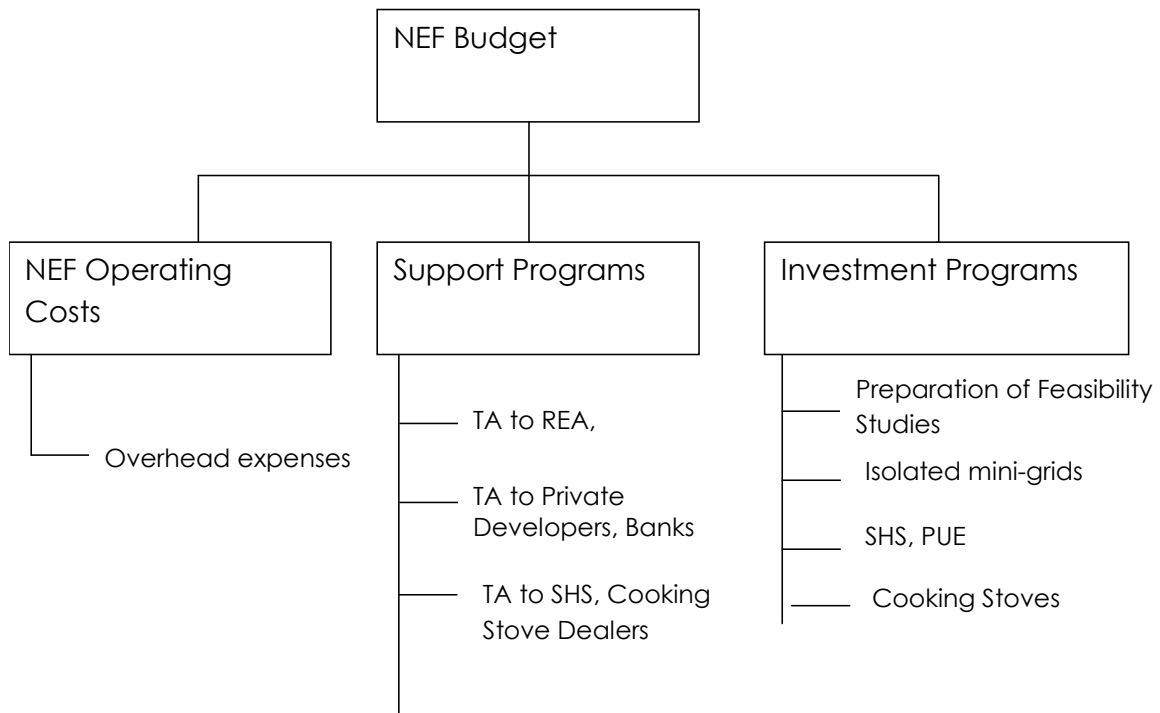
### 3.5. NEF BUDGET

As detailed in figure 4 below, NEF will provide resources for the following:

1. To cover the operating cost of the NEF, composed of overhead expenses e.g.
  - (i) attendance fees to members of the Board for participation in board and meetings.
  - (ii) The annual cost of the contract with the NEF auditor once he or she is appointed by the Board.
2. To finance the cost of Technical Assistance programs (sub-contracts with outside institutions for the execution of capacity building and information activities):
  - The provision of technical assistance by suitably qualified experts related to project documentation to support application for financing
  - Training and capacity building to REA, Trust Agent, Private Developers, banks.
3. For investments programs – pre-investment studies and capital investments of projects implemented by qualified developers; Results Based Financing (RBF) for SHS and improved cooking stoves dealers.

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<sup>2</sup> World Bank. “Network Reinforcement and Access Project (P166170) (2020).



**Figure 4: NEF Budget**

## 4. FINANCIAL STRUCTURE AND INSTRUMENTS

### 4.1. FINANCIAL STRUCTURE

The financial structure of NEF refers to the profile of disbursements of funds over time. Since various resources from the GoL, DPs, and other external climate finance are expected to be pooled to the Fund every year it is appropriate to consider NEF as a basket fund.

As the NEF starts demonstrating adequate return potential, the structure of the Fund or a portion of the Fund can be changed to “venture capital”, to provide the private sector with an investment option. Subject to approval by the Board, this option should only be explored in the long-term, given the key priorities.

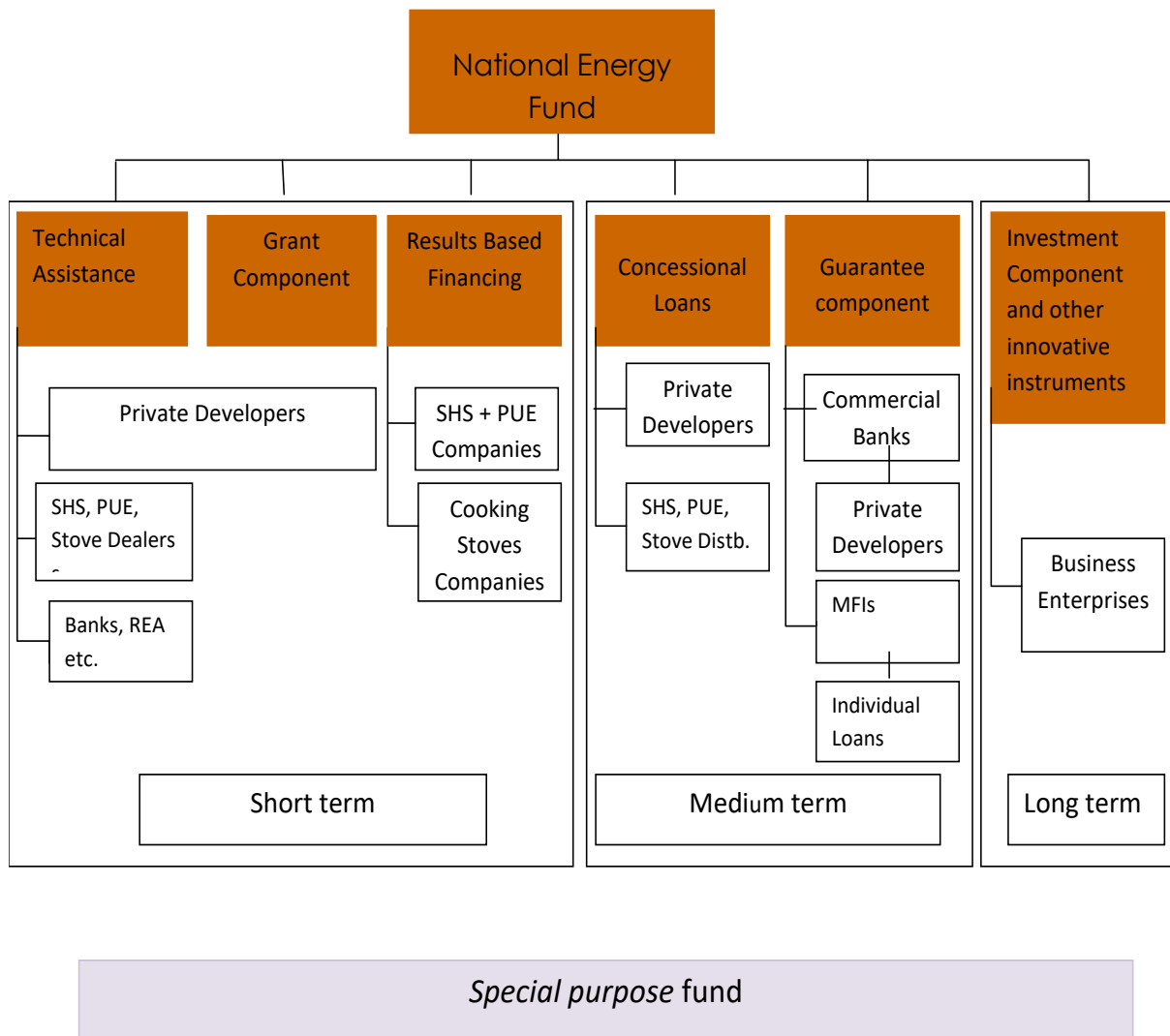
### 4.2. FINANCIAL INSTRUMENTS

The following funding windows will be available also visualized in figure 5 below:

In the short-term (0-1 years), two primary financial instruments are proposed for both public and private beneficiaries: (1) In-kind support for proposal be co-financing (e.g. for private sector beneficiaries). In-kind support includes mostly technical assistance for proposal development to project developers and, in some cases, offset of proposal development costs through grants.

For the first two years, the majority of resource allocations to the private sector will come in the form of investment grants and RBF until guarantee and concessional loan facilities are introduced. Medium-term (2-5 years) instruments will include more complicated financial instruments, namely low interest and/or concessional loans.

Long-term (>5 years) financial instruments such as equity investments are expected to be introduced several years into the operationalisation of NEF, subject to the Fund’s performance and private sector demand. The makeup and sequencing of these phased developments will be determined by the evolution of the Fund and the REA Board.



**Figure 5: NEF’s financial and Non-Financial Instruments**

### 4.3. TECHNICAL ASSISTANCE

This is the NEF’s single, non-financial instrument, and the tool through which NEF is expected to leverage the largest amount of additional (external) financing, will be in-kind support for the development of project proposals. The screening process will determine whether a project proposal could potentially attract financing from external sources: global environment or climate funds, private sector equity and private foundations, among others. If the screening process determines that NEF will provide a project with in-kind support, then the NEFS will assist project developers with identification of the most appropriate source of finance, the development of proposals and, in some cases, offset the cost of proposal development through grants. In-kind support will be available to all domestic stakeholders: NGOs/Civic Society Organizations (CSOs), GoL institutions, and the private sector.

Often times, TA will be provided directly without necessarily translating it into cash that in this case would then go through the Fund. However, the Fund could be used for TA if EC/NEFS so wishes upon approval of the Board.

In order to avoid conflict of interest, it is recommended that the proposal development advisors (and any embedded technical advisor that participated in proposal development) do not take part in the screening process. This will be closely monitored by the Board.

#### 4.4. INVESTMENT GRANTS

The NEF will provide capital subsidies for the development of rural energy projects. Funding from the NEF is intended to buy down the capital investment costs of rural energy projects with a view to enable a significant number of rural households and institutions to afford energy services and products supplied to them. The following funding windows will be available:

##### *Matching grants*

These are typically not investment support but rather support to preparatory work and/or support to developing new and innovative approaches on a cost-share basis (co-financing) with a project developer.

##### **Eligible activities**

- Market development activities (e.g. market studies, promotion, education)
- Business improvement (e.g. staff training, business plan preparation)
- Product development activities (e.g. assembly optimization study, testing)
- Pre-investment and preparation activities (e.g. preparation studies for licenses)
- Market Entry (e.g. establishing new outlets and networks, demonstrations)
- New initiatives (e.g. new alliances and partnerships, new territories)

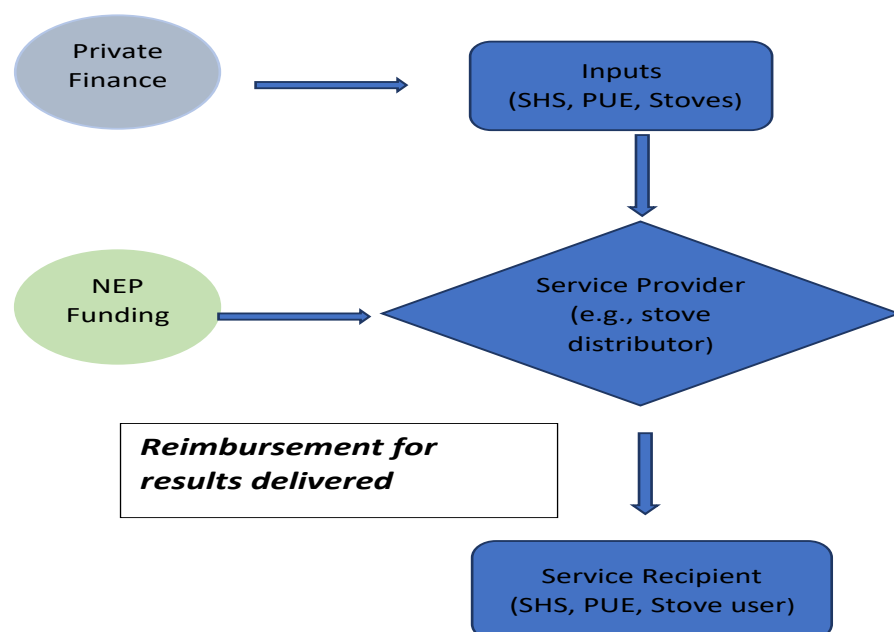
##### *Performance grants*

These are meant to provide Investment support on a cost-share basis (co-financing) with a project developer. Investment subsidies from the NEF will be designed to arrive at affordable tariff levels in line with the country's subsidy policy for rural customers and provide an acceptable financial rate of return for the private operators. As such subsidy allocation will base on objective criteria (including the number of customers to be connected during the first two years, the average tariff and the cost of investment by connected off-grid customers). No subsidies for energy consumption or operating expenses will be provided. Also funds cannot be used for financing or acquisition of existing assets (including land) or refinancing of existing debts or accrued interest.

#### 4.5. RBF SCHEME FOR SHS AND COOKING STOVE SUPPLIERS

The RBF initiative will be focused on the application of a financial product in NEF that will serve to assist the private sector in developing the market for SHS and clean cooking stoves products in vulnerable and isolated rural areas of Kingdom of Lesotho. The RBF approach will employ financing to SHS and clean/improved cooking stoves distributors as a performance incentive rather than traditional lump sum loan disbursements. The key feature is payment upon delivery. The dealers will be expected to take the full risk until the moment of delivery of the contracted results. The NEF's RBF scheme will be characterized by the following principles:

- Disbursement of funds is contingent on the delivery of pre-determined results (outcomes or closely related outputs);
- Results are broadly defined to allow for product & service innovation by allowing flexibility to service providers;
- Verification acts as the trigger for disbursement;
- Incentives are non-discriminatory, in that all eligible service providers are able to competitively participate



**Figure 6: RBF Approach**

### *RBF for SHS*

The RBF scheme is designed to provide incentives to SHS import-suppliers and retailers / end sellers to bolster their investments in solar distribution chain development by rewarding these private sector players with incremental sales based performance incentives. At the same time it is meant to be as assistance to reduce the cost of the SHS and the purchaser will pay back the remaining cost, after deducting the incentive/ subsidy amount. In order to assure quality, only Lighting Global/Verasol-approved products will be considered under the RBF. The value of the RBF incentive applied to each unit of SHS will be calculated annually by NEFS based on the performance of each SHS product (brightness and run time) and an annual product incentive cap. As the market develops and economies of scale are achieved, the annual product incentive value will decrease.

### *RBF for Clean Cooking Stoves*

NEF would specify the intended results, verification methods, and associated subsidies, and payments would be made to the service provider against verified delivery of the stoves and their operational performance.

Private-sector suppliers will have the flexibility to innovate in designing, producing, and selling defined clean stoves that are eligible for targeted incentives. This flexibility is vital to stoves market development since stoves must fit local conditions, including customary cooking practices, affordability, and availability of local resources and after-sales service.

To achieve these impacts, the RBF incentive would be linked to the verifiable output: certified clean stoves sold to and used by households. Also critical to success would be technical assistance activities for strategy and policy development, capacity building, institutional strengthening, and awareness raising campaigns.

## 4.6. CONCESSIONAL LOANS

Financing that offers repayment terms that is more lenient (in net present value terms) than prevailing terms offered by domestic financial institutions. This will be manifested in two ways:

- i. Area with medium density of population, where doing electricity business may not be profitable if the electricity supplier has to pay interest on the investment capital*  
NEF may provide interest free assistance for investment on electricity infrastructure in rural areas with medium density of population.
- ii. Area with low density of population, where doing electricity business is not viable unless part of the infrastructure cost is provided as grant*  
NEF may provide part of the infrastructure cost as grant and part of the cost as interest free assistance for investment on electricity infrastructure in rural areas.

## 4.7. GUARANTEES

***These will be applicable in areas with high density of population having economic efficiency.*** In that case NEF may provide the guarantee for the private sector typically 50%-



80% on loan borrowed by the private developers in rural areas from the local banks for investment on development of electricity infrastructure in rural areas to fully cover its authorized distribution area. This arrangement will be designed to ensure that the lender has an incentive to monitor repayment.

#### 4.8. INVESTMENT AND EQUITY

In the long term, NEF envisages direct project investment in form of investment and equity. In this case NEF would inject capital into an existing business in exchange for equity in the company. NEFS would conduct financial analysis and upgrade legal capacity to ensure a reasonable assessment of return on investment before offering such an investment or equity investment.

## 5. PROJECT CYCLE

### 5.1. FUNDS MANAGEMENT

The administration of payments to beneficiaries of NEF will be undertaken by the Trust Agent. To avoid conflicts of interest, all NEFS staff, including their spouses and children will not be permitted to hold any official, advisory or consulting role with, own stocks or bonds of, or have any economic interest in the beneficiaries of the NEF financing. Furthermore, all NEFS staff will be prohibited to accept, any gift or gratuity, different from that generally applicable to the public, from any above-mentioned beneficiaries of the NEF.

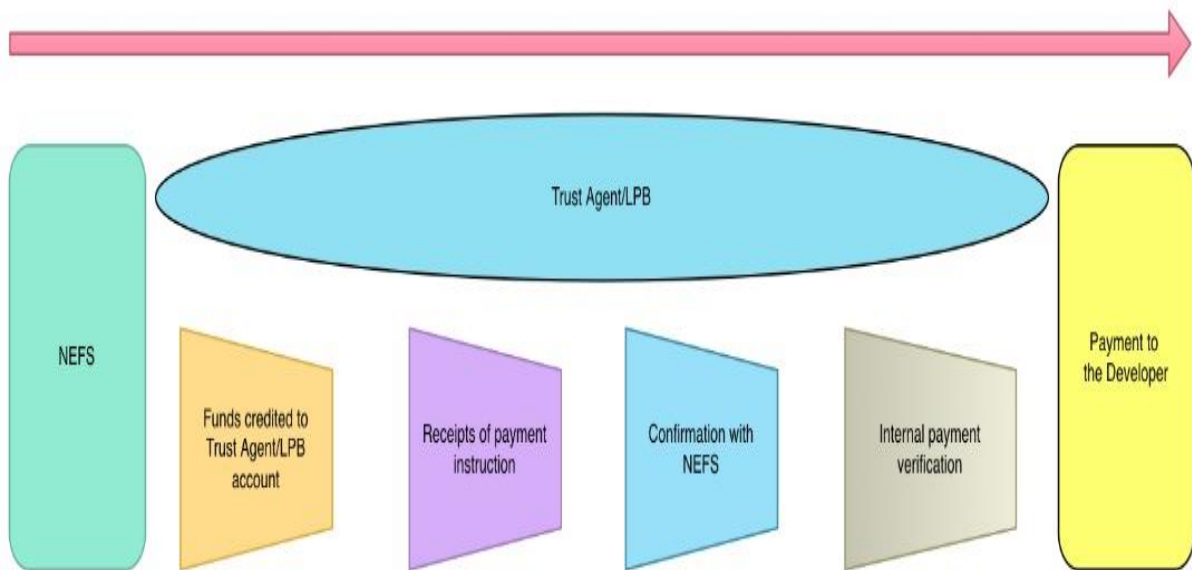
Specifically, the Trust Agent will perform the following functions as regards to performance grants for project developers:

- a) Monitor the projects implementation schedule in line to the approved budget.
- b) Verify all disbursement requests for correctness and ensure propriety and eligibility.
- c) Ensure that all payments documentation is in order and in accordance with any special requirements as may be determined from time to time by the REA Board.
- d) Ensure prompt disbursement to projects upon authorization by the Board. In the event that the Trust Agent shall fail to disburse the approved Funds to the Developer within 14 calendar days from the day of approval, the Trust Agent will be liable to pay Board the interest for the undisbursed amount for the period of delay at the commercial interest rate issued by the Trust Agent's Bank. The accrued interest rate shall be deposited in the account of the Fund.
- e) Undertake comprehensive supervision of the project including but not limited to verification of documents and statement and general due diligence on the developers and projects thereof;

There will be an energy audit firm attached to the Trust Agent with the following duties and responsibilities:

- a) Undertake comprehensive supervision of the project including but not limited to verification of documents and statement and general due diligence on the developers and projects thereof;
- b) Undertake professional monitoring of projects including but not limited to, inspecting field projects, to provide overall back up support services, ensuring that developers/grant recipients adhere to the terms and conditions of the respective performance grants and as the need arises, recommending for the most efficient and cost-effective means of implementation and monitoring the projects.

Figure 7 below, visualizes Trust Agent throughout involvement in the disbursement process to private developers.



**Figure 7: Trust agent involvement in the disbursement process**

## 5.2. DISBURSEMENT PROCESS

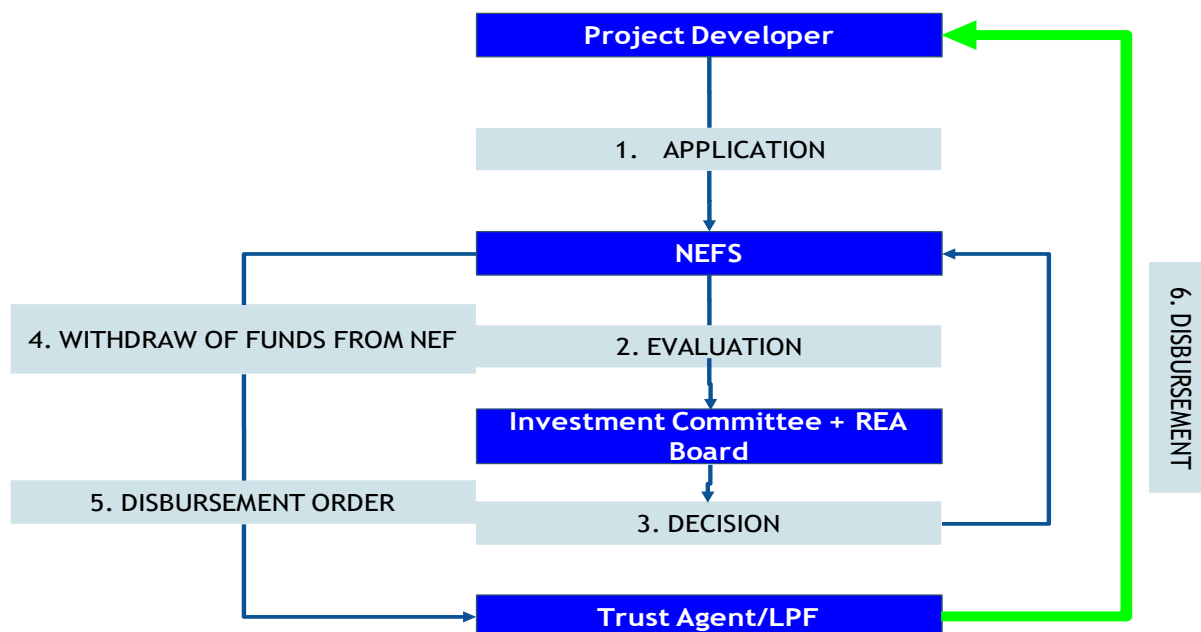
The guiding principle for performance grant disbursement will be “cash on delivery”, i.e. the payments are made on achievement of specific milestones in the contract. However, consideration will also be given to “charge” the equipment and machinery in the event of the latter not being possible, due to insufficient funds to purchase equipment at the start of implementation of the project.

This means that each contract should specify the payment milestones and the documentary proof to be provided that the milestone has been accomplished. The NEFS and Investment Committee will verify the documentation, and has the right to undertake or commission site inspections for verification purposes. A percentage of the payment, for example 15%, should be withheld until final project completion and commissioning. The time frame for disbursements will be specified in each individual contract. The disbursement (including from Special purpose/dedicated funds) will be executed by the Trust Agent.

The NEFS will monitor that the work by the Project Developer proceeds timely and on budget and that the resulting infrastructure is operated and maintained in a sustainable manner to meet the public good objectives.

Typically disbursement process can be summarized as hereunder:

1. **Application:** The Project Developer submits a grant application to the NEFS.
2. **Evaluation:** The NEFS and IC evaluate the application in accordance with the evaluation criteria.
3. **Decision:** The IC presents to the Board the outcome of the evaluation process. The Board makes the formal decision about whether or not to support the project and communicates it to the NEFS.
4. **Withdrawal of funds from the NEF:** The Board approves funds withdrawal from the NEF.
5. **Disbursement order:** The NEFS then sends a disbursement order and the funds to the Trust Agent.
6. **Disbursement:** The funds are disbursed by the Trust Agent to the Project Developer.



**Figure 8: Process of disbursing funds from NEF**

### 5.3. ELIGIBILITY CRITERIA

An application for performance grant may be submitted from a project developer meeting the following criteria:

- The project developer could be a sole proprietorship, partnership, corporation, non-profit entity, cooperative, community based organization or a joint venture, legally registered, incorporated, or existing in accordance with the Laws of the Kingdom of Lesotho;
- The project developer should not have been “blacklisted” by the GoL for any reason whatsoever; and
- The project developer should not have been declared bankrupt and should not have a history of mediation, arbitration or litigation relating to fraudulent business transactions.

A project developer will be evaluated using the NEF criteria for the purpose, see Table 1.

Quality	Criteria	Indicators
Financial capacity	They must have access to funds that can significantly contribute to the establishment of a rural energy project. This means they must be able to raise and manage funds.	<ul style="list-style-type: none"> <li>• Financial assets (bank accounts, property, secured loans)</li> <li>• Ability to keep records, and prepare financial reports</li> </ul>
Local community endorsement	The community must support the project champion’s project	<ul style="list-style-type: none"> <li>• Letters/endorsements from</li> </ul>

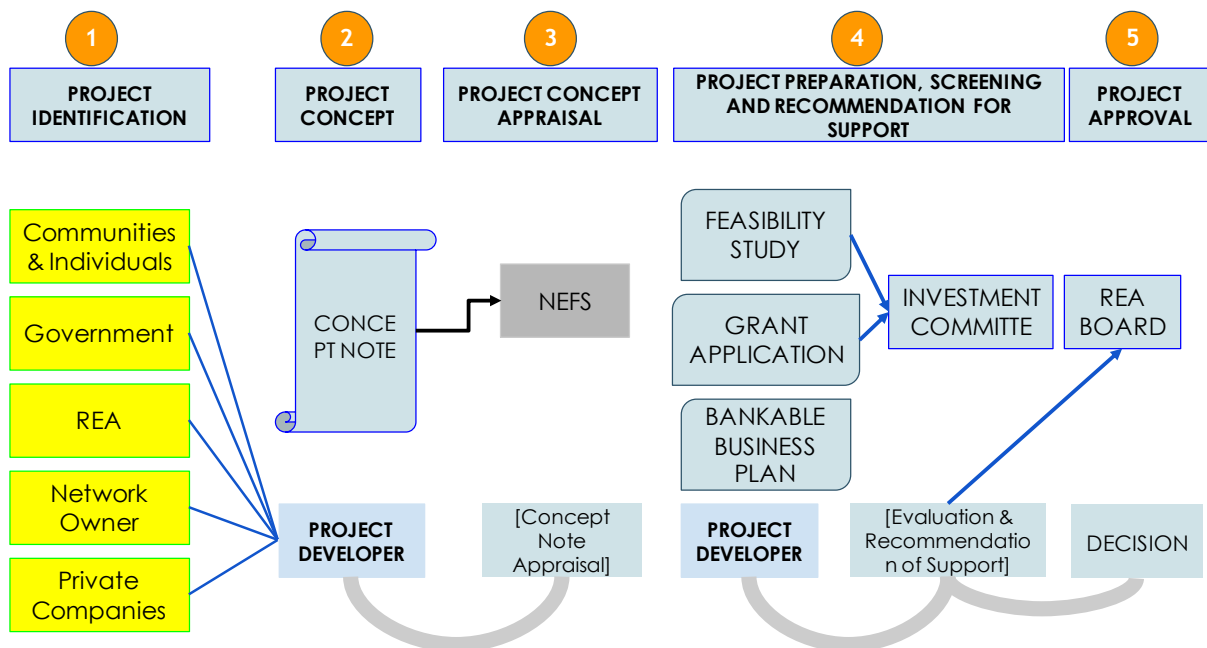
Quality	Criteria	Indicators
	and believe that it is a reasonable solution to their electricity needs. Further the project champion must have the community trust that they (project champion) will provide the power efficiently, cost effectively and reliably.	<p>local government, community leaders, businesses and institutions</p> <ul style="list-style-type: none"> <li>• Partnerships with community entities</li> <li>• Local presence</li> </ul>
Technical Capacity	They must demonstrate that they can pool and manage a team comprising the technical expertise required for the project.	<ul style="list-style-type: none"> <li>• Existing skills and demonstrated qualifications (experience, degrees, diploma)</li> <li>• Access to technology (ability to acquire and install)</li> <li>• Knowledge of the technology marketplace</li> </ul>
Procurement Capacity	They should be able to demonstrate that they can apply normal business and procurement practices	<ul style="list-style-type: none"> <li>• Existing skills or accessible skills in business and procurement practices</li> </ul>
Management Capacity	They must have the capacity to complete a viable business plan, engage the necessary skills and resources, implement the project on approval and manage an rural energy utility.	<ul style="list-style-type: none"> <li>• Demonstrated qualifications</li> <li>• Experience running a business/institution</li> <li>• Ability to prepare business documents</li> <li>• Ability to keep records</li> </ul>
Entrepreneurial Capacity	They must have the ability to identify opportunities for rural energy themselves and to implement systemic methods of capitalizing on the opportunity.	<ul style="list-style-type: none"> <li>• Communication and negotiation skills</li> <li>• Track history and experience</li> <li>• Creativity and innovation displayed based on interview with NEF team.</li> </ul>
Experience	They must have a demonstrated track history of working in	<ul style="list-style-type: none"> <li>• Number of years working in rural environment on</li> </ul>

Quality	Criteria	Indicators
	business or rural development activities, and more preferably, in rural energy projects.	development projects <ul style="list-style-type: none"> <li>• Rural energy experience (number of years)</li> <li>• Diversity of relevant activities completed which relate to rural energy and rural development</li> </ul>

## 5.4. APPRAISAL AND SELECTION PROCEDURES OF PROJECTS FOR FINANCING

### 5.4.1. Appraisal and Selection for Performance Grant

All steps in the Appraisal and Selection procedures of projects for financing are illustrated in figure 9 and explained in more detail in this section.



**Figure 9: The Appraisal and Selection Process – Performance Grant**

#### Step 1: Project Identification

Off grid energy projects can be identified through a variety of means such as:

- i. Requests for modern energy supply submitted to the MEM/EA, the REA or a Network Owner (NO)/Energy Supplier from communities, social service centres (dispensaries, schools etc.) and individuals.
- ii. The GoL may indicate priority projects
- iii. The REA may, as part of its work, identify potential project
- iv. And, in addition a transmission/distribution line extension project can be identified by a NO.

## Step 2: Project Concept

After a project has been identified, the project developer submits a concept note to the NEFS in order to get a preliminary assessment of whether the planned project is eligible for support from the NEF or not. The Concept note should follow the NEF template and include:

- 1) Background
- 2) Market assessment
- 3) Energy resource assessment
- 4) Technical assessment
- 5) Management & institutional aspects
- 6) Financial assessment
- 7) Environment and social assessment
- 8) Risk analysis

## Step 3: Project Concept Appraisal

When the project developer has submitted a concept note, the NEFS makes a brief assessment of the project concept to ensure that it is aligned with the NEF mandate and objectives and that it is eligible for support. The NEFS will provide feedback to the project developer on the concept note within one (1) month.

## Step 4: Projects Preparation, Screening and Recommendation for Support

### *General*

A feasibility study using the NEF template to determine the project's technical, economic, financial, social, environmental and operational viability should be prepared by the project developer. In preparing and undertaking the feasibility study/report the project developer should consider the following:

- i. If the project is non-financially viable without grant support (i.e. having a Financial Internal Rate of Return (FIRR) less than the project's weighted average cost of capital (WACC)) but otherwise viable, the project developer may apply for a grant from the NEF.
- ii. A project developer can apply for grants for co-financing of the capital cost of a project (Performance Grant). In addition, the project developer may apply for a grant to co-finance the cost of preparation of a project (Matching Grant).

## Step 5: Project Approval

Following the screening and ranking the NEFS will summarize the results of the appraisal in a standard evaluation form and

- i. Recommend to the IC and Board if the project should be supported;
- ii. Recommend the level of grant;

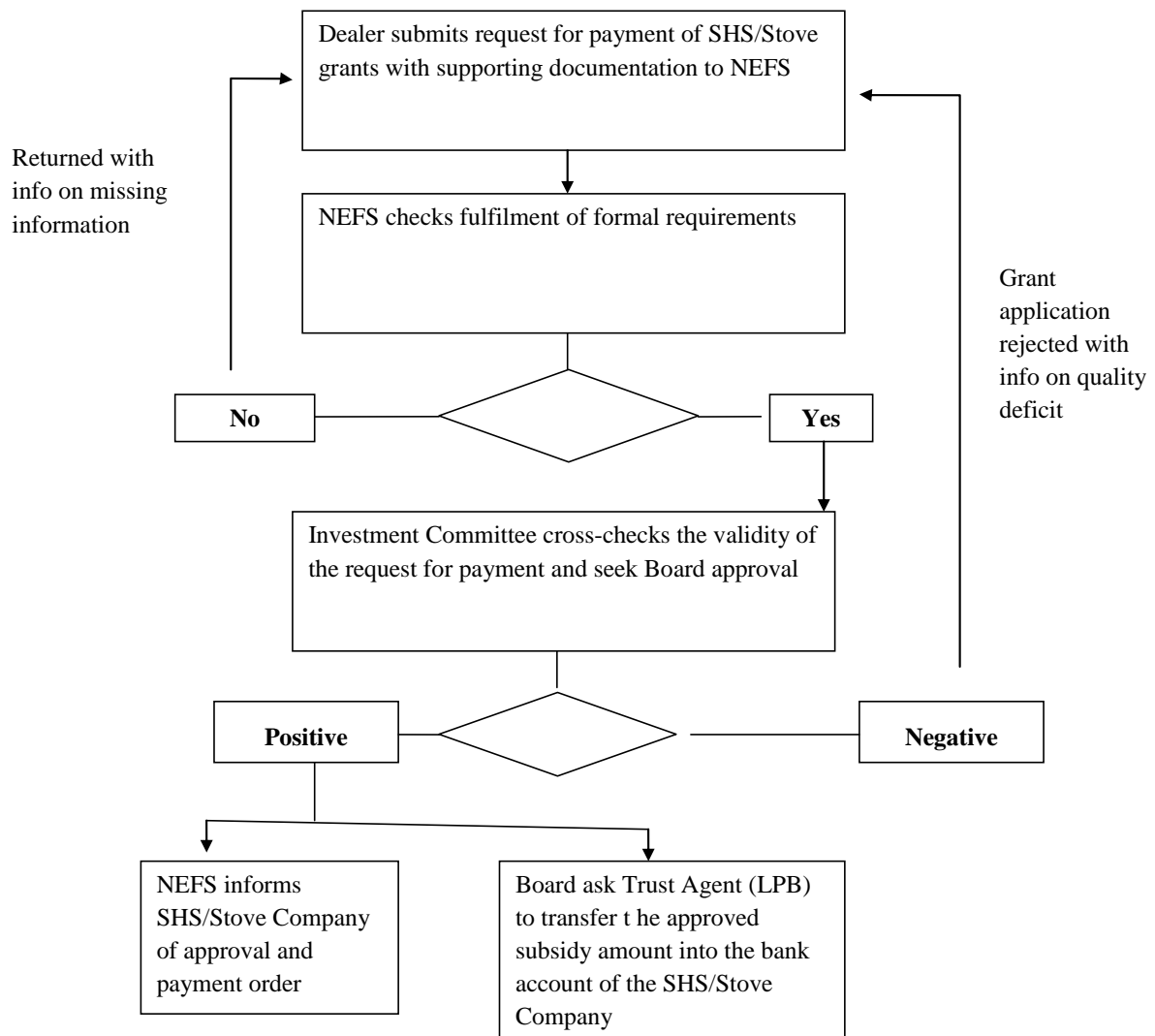
If authorization for support to the project is obtained from the Board (with advisory from IC), this will be communicated to the project developer and information will also be published in newspapers and on the REA website.

A document detailing the results of the financial, legal, economic, technical and environmental appraisal will form part of the contract between the REA and the project developer.

In addition, following authorization for support to the project from the Board, and signing of the contract, the NEFS will initiate preparation for performance grant disbursement.

### 5.4.2. Appraisal and Selection for RBRF – SHS & Cooking Stoves

Figure 10 visualizes application and disbursement of grants to SHS and Cooking Stoves in the RBF scheme.



**Figure 10: Disbursement of Grants for Sales of Solar Home Systems/Cooking stoves**

Prior to quality check on information provided in the payment request illustrated above, NEFS will check for compliance with formal requirements for SHS-Subsidy as follows:

- Prepare a list of solar and clean stove companies (importer, service including delivery/installation, etc) doing business in the Lesotho market and submit the list for Board approval. The list may be updated every three months. NEF will finalize quality standard framework for SHS/cooking stove in consultation with fund source experts and or other rural electrification projects in the region



- The grant application form is fully and correctly filled out.
- Detailed information in hard copy and in read-only soft copy format is presented on monthly/quarterly installed SHS/ cooking stoves, containing names and addresses of consumers according to region and to type of installed system.
- The solar/cooking stove company has signed a declaration confirming that the list of customers and size of systems installed and this will be kept available for inspection by authorized personnel.
- Copies of custom forms for imports of SHS/clean stoves or SHS/clean stove-components since the last payment of SHS/Clean Stove-grants are attached. The solar company has signed a declaration confirming that the original custom forms will be kept available for inspection

## 6. THE NATIONAL ENERGY OPERATIONALIZATION

### 6.1. RECOMMENDATIONS

Following stakeholders' consultations and assessment of Lesotho Energy landscape, the project recommends various steps going forward to be taken for an efficient and effective NEF that would contribute to the country electrification agenda:

- The GoL should seek 2 years' Technical Assistance for REA to implement a phased approach deployment of NEF that will be led by PMU consisting of Fund establishment; operationalization and transfer of management functions. The overarching aim of the Project Management Unit of NEF over the course of the Fund's initial 2-years of operation is:
  - To operationalize and manage day-to-day activities of NEF;
  - To mobilize capital and provide technical assistance and capacity building support;
  - To ensure the on-going sustainability of the Fund beyond the initial two-year period, both in terms of securing resources for future Fund activities and ensuring that a functional System, capacity and expertise is transferred to GoL.
  
- In the absence of Development Financial Institution in Lesotho, Lesotho Post Bank (LPB) assumes the role of Trust Agent for NEF because of the following:
  - Stable commercial bank with about 15 branches in almost all districts. Ranked no.2 after Standard Lesotho bank in terms of profits and market share according to 2020/21 financial statements.
  - Like NEF, LPB is 100% government owned. Experience from the region and other countries have revealed such a fund is managed by a government owned bank.
  - Commands some experience and expertise in fund management. LPB have signed Memorandum of Understanding (MoU) with Ministry of Agriculture to provide 70% financing to farmers to purchase tractors and other agri-inputs. Ministry of Agriculture provides guarantee in form of cash cover, tractors also serve as collateral
  - LPB is the commercial bank with the widest reach in rural communities of Lesotho and thus well placed to be vehicle of channeling consumer end financing for off grid products.

Second in ranking from project's perspective, First National Bank of Lesotho (FNB) can also be considered in this role. FNB is the retail and commercial bank division of FirstRand Bank. Similarly, Rand Merchant Bank (RMB) is the corporate and investment division of FirstRand Bank while WesBank is the finance division of FirstRand Bank. Therefore FNB can leverage on expertise and resources of these partners on different sectors (including energy).

- Neither UNDP's Financial Support Scheme nor Petroleum Fund nor Lesotho Highlands Development Authority (LHDA) community Fund can be consolidated into NEF as have specific mandate. However discussions with their representatives have revealed that they can potentially be immediate candidates for Special Dedicated Fund within NEF under specific conditions to support off grid electrification efforts

- Currently there is no competent Energy Audit Firm in the country that ideally could support Trust Agent in evaluation of electrification projects prior to payment. In such as situation, the project recommends Investment Committee should assume this role in addition to appraising project proposals for funding during the initial 2 years' period. The project recommends further that existing IC for FSS<sup>3</sup> be deployed but its team composition reviewed to ensure it has competent individuals who can effectively undertake this function. The Board in collaboration with Trust Agent should continue to look for the competent Audit firm to perform this function on a long term basis.
- To fill in the vacuum left following demise of Lesotho Solar Energy Society (LESES), EA and REA should work with other stakeholders to motivate private sector to establish Private Sector Federation or equivalent that would serve as a platform of energy private actors as potential prime beneficiary of NEF. Such association will be a strategic partner to NEF to ensure smooth communication and improve coordination of efforts toward financing between the fund and the private sector. demise
- Establish appropriate building blocks for the proposed RBF scheme.
  - o Cooking Stoves: standards/rating system, testing and certification protocols, and testing centers. The standards/rating system should consider compatibility with the rating framework provided by the International Workshop Agreement, which includes four performance indicators (efficiency, indoor emissions, emissions, and safety). Laboratory and field testing might be included, and the certification process should be transparent and fair.
  - o SHS: GoL should gear up steps to enforce compliance to Lighting Global/Verasol standards to address rampant influx of sub-standard solar products in Lesotho. This would maintain consumer confidence on products and ensure level playing field for suppliers. The project has noted Lesotho does not have a national standards body and no national standards for SHS have been developed to date
- Recent approval of mini-grid regulations for private mini-grid developers is the significant milestone for the energy sector. Going forward, autonomy of LEWA as the regulator to oversee implementation is to be maintained as far as possible. The aim is to avoid investment uncertainties and therefore catalyze private sector involvement in the sector.
- Potentially Carbon Emission Trading could be one of sources of funds for NEF given GoL's commitments and green house gas emission targets as highlighted in its National Determined Contribution to achieve universal access and Sustainable Energy for All (SE4All). To earn carbon credit however, the GoL should proceed to develop a clear, accurate and comprehensive Project Design Document (PDD) and register associated projects in the country with The United Nations Framework Convention on Climate Change (UNFCCC). The PDD is used to evaluate the project's potential and judge its merit in terms of greenhouse gas emission.

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<sup>3</sup> UNDP initiated \$1.2 million Financial Support Scheme designed to jump-start the market for isolated PV/renewable energy mini-grids and Energy Centres in Lesotho by providing start-up capital and reducing the developers' financial requirement.

- Parallel with deployment of NEF in form of RBF, the GoL may also consider implementing other fiscal incentives (e.g. Tax exemption) for importation of clean cooking stoves components and SHS to further improve consumer affordability and hence uptake.

## 6.2. NEF DEPLOYMENT ROADMAP

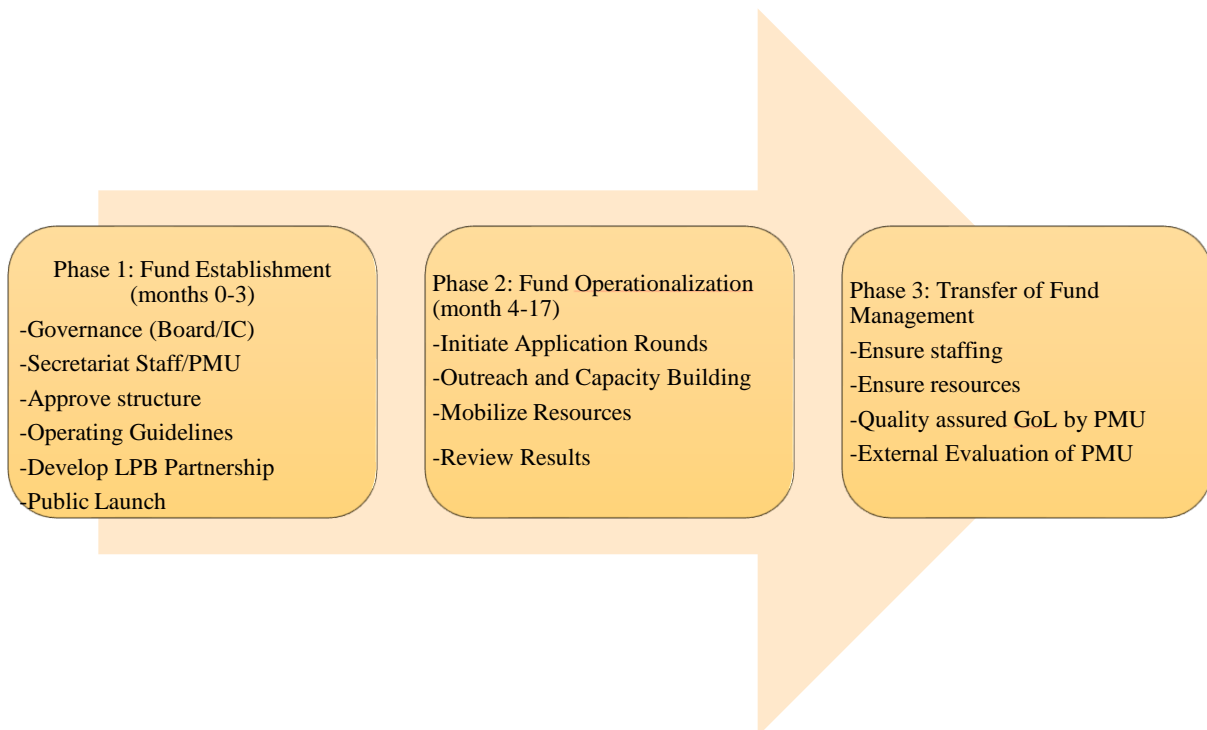
### 6.2.1. Phased Approach to Fund Management

The project proposes a phased approach to the 2-year Fund management consisting of: 1) Fund establishment; 2) operationalisation and 3) transfer of management (see Figure 10 below).

Phase 1 establishes the foundations of NEF operations by setting up key governance structures, identifying Secretariat staff, approving design features and formalizing a working partnership with the Trust Agent over the first 3 months.

Phase 2 features the bulk of PMU services during months 4-17, and involves initiation of quarterly application rounds, outreach in the form of communications and awareness raising, capacity building, resource mobilization and periodic reviews to ensure delivery of results.

Phase 3 is the culmination of the work of Phases 1 and 2. During the final 6 months of the 2 year Fund operationalisation, phase 3 ensures that NEF management staff within the GoL is in place and sufficient resources mobilized to facilitate the continued function of the Secretariat and proposal financing beyond the 2 year operational period.



**Figure 11: NEF Phased Approach Deployment**

## 6.2.2. Detailed Methodology

Below is the proposal outline of a detailed methodology highlighting key work streams based on the scope, structure and operational processes of the NEF:

**Fund Establishment** lays out the proposed approach to fund establishment. Over the first 3 months of operations, this process will finalize design features, governance, systems and procedures of NEF operations and management in the lead up to a public launch and acceptance of proposals.

The project proposes 6 key steps to NEF establishment to take place during the first 3 months of operations (Figure 12 below).



Figure 12: 6 Key Steps of Fund Establishment

**Fund Management** describes the team’s overall management approach for operationalizing the NEF over months 4-17, highlighting ‘job shadowing’ methods to train REA staff towards sustainable transfer of management responsibilities, technical assistance to prospective and awarded beneficiaries, utilization of Trust Agent (LPB) and comprehensive communications and outreach approach to maximize awareness of Fund opportunities and objectives.

**Monitoring and Evaluation (M&E)** details an M&E approach that provides robust evidence for improving the effectiveness and impact of NEF financed projects/programmes, further harmonizes the existing NEF M&E framework with GoL M&E systems, as well as demonstrates accountability in decision making to ensure transparent use of funds. This also describes our approach to ensuring Value for Money (VfM) within the Fund management and awarded projects.

**Knowledge Management** introduces web-based Integrated Knowledge Management Platform which distils and publically disseminates data, information and knowledge developed through project/ programme cycles, learning events/seminars, a NEF thematic network, and PMU Reporting. The overall aim of this is to establish an institutional culture of knowledge generation and sharing, and continuous learning, within the management of NEF.

**Capacity Building** describes our approach to build capacity across government, private sector and Fund beneficiaries. Methods include conducting a capacity needs assessment and full capacity building programme design and implementation strategy to be carried out over months 4-17. This will seek to realize economies of scale through targeting identified 'agents of change' and 'training of trainers' approaches.

**Transfer of Fund management** details how we propose to transfer Fund management to NEF Secretariat staff during the last 6-months (months 18-24) of the 2-year operational period. The transfer process will be gradual and be quality assured and overseen by PMU.

**Project Management** summarizes project management approach for the 2 year contractual period. The approach is centred on a 2-year Work Plan and includes a summary of core management staff, reporting lines and outputs, consortium management and provision of internal and external quality assurance.

## 7. ANNEXES

### 7.1. LIST OF PROJECT STAKEHOLDERS INTERVIEWED

The pool of stakeholders in the field of energy projects financing for electrification access growth and sustainable consumption and production in Lesotho is widely dispersed. Interviews were conducted in person in November and December 2021 in Maseru. Dates of interviews are indicated in parentheses:

#### **Government Agencies**

- Department of Energy (12 Nov 2021)
- Lesotho Electricity Generation Company (26 Nov 2021)
- Lesotho Highlands Development Authority (30 Nov 2021)
- Lesotho Energy and Water Authority (30 Nov 2021)
- The Lesotho Petroleum Fund (01 Dec 2021)
- Lesotho Electricity Company (06 Dec 2021)

#### **Financial Institutions**

- The First National Bank of Lesotho (25 Nov 2021)
- Lesotho Post Bank (29 Nov 2021)

#### **Private Sector**

- Mos-Sun Clean Energy Technologies (25 Nov 2021)
- Africa Clean Energy (07 Dec 2021)

#### **Subject Matter Experts**

- Vagn Bendz Jorgensen – Finance and Economics Expert to ‘Support to Energy Sector Reforms in Lesotho’ (SESRL) (11 Nov 2021)
- Edward Russel – M&E Expert to SESRL (13 Dec 2021)
- Magdalena Kuoneva - Key Expert, Financial Instruments for The EU Global Technical Assistance Facility (TAF) for Sustainable Energy (22 Dec 2021)
- Nikos Sakellarios - Key Expert, Renewable Energy for The EU Global Technical Assistance Facility (TAF) for Sustainable Energy (22 Dec 2021)

## 7.2. STAKEHOLDERS' CONSULTATIONS

Below is the check list with guiding questions used during exploratory consultations with stakeholders.

**Respondents:** Government agencies

Checklist	
<b>Mandate</b>	a. What is the role and responsibilities of your institution in the energy space?
<b>Other government Agencies</b>	b. How does the institution relate and interact with other government agencies in the energy sector?
<b>Private Sector</b>	c. How does the institution relate to the private sector players involved in energy Projects? What is the current level of involvement of private sector in electrification projects?
<b>Regulatory Framework</b>	d. Describe the policy and regulatory framework in place for private sector and how is it enforced?
<b>Financing Vehicles</b>	e. What are the GoL's financing vehicles in place to support off grid electrification?
	f. From (e) above, describe capitalization sources, collection process, funds management, disbursement of the said vehicles.
	g. Highlights that GoL is facing in managing the funds? What are your thoughts about consolidation of UAF, Electricity Levy and Surcharges into NEF?
<b>NEF</b>	h. What are your recommendations for an efficient NEF that fits Lesotho context– in terms of ownership, structure, sources of funds and, target beneficiaries?

**Respondents:** Private Sector Actors

Checklist	
<b>Business Model</b>	a. Describe your product offering, value proposition and target market b. What is the level of consumer affordability for your products?
<b>Financing Needs</b>	c. How do you currently finance your business? What are your financial needs required to scale up your operations? d. Provide insight of funding opportunities in Lesotho for the energy sector
<b>Enabling</b>	e. Does the country have favourable enabling policies and



<b>Environment</b>	regulations to facilitate your business? f. What is the level of competition?
<b>NEF Structure</b>	g. What your thoughts on NEF- in terms of entry points, financing instruments, target group and eligibility criteria?

### Respondents: Financial Institutions

Checklist	
<b>Ownership</b>	a. Who are the owners of the institutions? b. What is your vision?
<b>Product Portfolio</b>	c. What are your financing instruments in offering? What is their average interest rate and pre-conditions? d. Are you currently involved in financing energy projects? e. Do you work with GoL at any capacity?
<b>Competitive Landscape</b>	f. What is your market share and reach to the target market? g. Describe regulatory environment
<b>Fund Management</b>	h. What is your experience and exposure in funds management function? i. What skills gaps (if any) would you like to address in this function?

### Respondents: Development Partners

Checklist	
<b>Involvement in Energy Sector</b>	a. What energy projects have you undertaken in Lesotho? Provide insight of intervention areas, budget levels and impact. b. Who are other key DPs working on Lesotho Energy Sector?
<b>Funding Mechanism</b>	c. How have you been financing your energy projects in the country? d. From your perspective, what is your expectation on NEF in terms of structure, ownership, target market and financing instruments?
<b>Enabling Environment</b>	e. What are your thoughts on the current regulatory framework to catalyze private sector participation in energy sector?
<b>Other</b>	f. Given Lesotho context, what is the relevance and usefulness of Renewable Energy Technologies to contribute in universal access? g. Share any reports and studies you have undertaken on Lesotho Energy space.

### 7.3. REFERENCES

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