



# Energy Sector Investment Environment; Investors & Financiers Perceptions and Expectations 6<sup>th</sup> August 2018

# Compact Development Goal: Reduce poverty through economic growth

2008 Constraints analysis: Direct & strong relationship between Access to electricity/ Electricity consumption and Economic growth or a country's poverty level/People's well being

Only 10% of Malawi's pop. has access to electricity vs 30% SADC average

One vertically integrated public power utility: doing Gx, Tx & Dx

Regulatory system in infancy and not conducive to private investment;

Overdependence on one electricity Gx Technology (hydro)

Unreliable Tx, & Dx network coverage & Gx infrastructure

Low Gx capacity

**PRE/CURRENT-REFORMS / COMPACT PERIOD**

# Programme Objectives

Increase Investment income & employment by reducing cost of doing business

Expand access to electricity

Increase value-added production.

# Specific Objectives

Increase throughput capacity & stability of the national grid

Strengthen sector institutions, regulations and sector governance

Increase efficiency of hydropower generation

**Ultimate Goal: Reduce poverty through economic growth**



**ENERGY SECTOR INVESTMENT  
ENVIRONMENT: Investors &  
Financiers Perceptions and Expectations**

# ENERGY SECTOR INVESTMENT ENVIRONMENT

Investment/Business Opportunity

Sectoral Financial performance

Policy and Legal Framework

Regulatory Framework

Reliable Infrastructure

Clear Resource Planning

Investors' & Financiers Perceptions and Expectations



# Investment/Business Opportunity

- Unserved Population:
  - 90% population without access to electricity presents a market /an opportunity:
    - for business Investment to serve people in homes and social services;
    - Growth in economy and Long term profits:
      - Industrialisation and growth of services, businesses and agriculture production.
- However, Population, on its own is not enough.



# Financial performance

- Investors want assurance that the energy sector in Malawi is financially viable;
- Tariff regime: Cost reflective tariff (CRT) – Compact covenant,
  - A study (Cost of service) to determine inputs into the production, transmission and distribution of electricity was done;
    - A CRT is an assurance to investors that they would recover their production costs, an assurance for customers of continued access to services, through more investment private sector, protects investments and sustains service provision;
- A non Cost Reflective Tariff discourages entry into the market, and Investors not assured of return on capital;
- Investors want a strong and financially sound Off-taker who will effect payments timely;



# Financial performance cont'

- Collection discipline;
- Availability of a guarantee from the Govt or a multilateral agency to cover the risk of non payment.
- Investors want to see some signs of growth and how the sector intends to grow;
- If the sector is unstable lenders will charge a premium to cover the risk
- If the sector is in difficulties investors want to see the debt repayment plan, this works as proof that the sector is capable of handling its financial obligations.





# Policy and Legal Framework

- Investors look for appropriate Market Structure that allows entry and exit of the market;
  - The Electricity Act was amended (June 2017):
    - To allow entry into market by private sector players;
    - Separation of functions among licencees;
    - Protection of the electricity generation companies from the off-taker;
  - The IPP Framework was approved and it provides rules of engagement for IPPs;



# Policy and Legal Framework cont'

- Investors look for evidence of signed PPAs:
  - mostly long term to protect their investment and return on capital;
  - Need for Timely conclusion of negotiations and signing of important documents: Term sheets, Implementation Agreements, PPAs etc;
- Need for a clear and consistent energy policy ;
- Effective judicial system- a clear enforceable legal framework is key



# Policy and Legal Framework cont'

- Investors require an Independent sector regulator with appropriate tools and regulations:
    - A new Tariff methodology;
    - Grid Code;
    - Market rules were developed;
- These guide operations of the market and the Energy Regulator approved these in 2016.
- Investors and Financiers expect use and application of these without bias.



# Reliable Infrastructure

- Transmission and Distribution Infrastructure:
  - Investment in such, not usually in investors' interest;
  - Investors expect unhindered access to existing grid;
  - The System and Market Operator ought to provide and maintain the grid;
- Compact resources have been used to modernise the National Grid and sub stations – preparing the system for future increases in generation capacity;



# Clear Resource Planning

- Investors require clearly define resource maps;
- Diversification of electricity generation technologies;
  - An Integrated Resource Plan (IRP) was developed and approved;
    - ESCOM advertised for solar PV and selected IPP to produce 70MW
  - ESCOM has produced a 5 year Generation Plan;
  - Is in the process of producing a year ahead generation plan;
  - The Single buyer needs to come up with expression of Interests for additional generation capacity;



# Other Expectations



# Other Expectations



- Improve responsiveness to the needs of investors to reduce transaction costs;
- Investors control over their investment;
- Availability of land;
- Some level of Government incentives;
- Availability of foreign exchange and transferability of certain level of profits to the lenders/financiers;
- Sustainability of positive market reforms.



# Conclusion ...1

- Investors' & Financiers' Perceptions and Expectations are largely derived from the undesirable environment in the sector, before commencement of reforms and before the Compact;
- Investors & Financiers expect to reduce business risk while they provide a service and make some profit.





## Conclusion ...2

- The Compact sought to strengthen the national grid.
- Compact activities alone will not address the power deficit.
- Need for fresh investment in the sector;
- Investors & Financiers and/ donors need a conducive environment for this to happen;
- Players in the sector, have critical roles to play:
  - **Government:**
    - Sustain legal and policy reforms
    - Attract bilateral / multilateral support such as the MCC compact
  - **ESCOM:** Improve on financial and operational sustainability
  - **MERA:**
    - Improve and sustain the regulatory environment
    - Achieve and sustain Cost Reflective Tariff,



# THANK YOU

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