INCREASING INVESTMENT IN THE ENERGY SECTOR IN SADC
Challenges and Opportunities

The energy sector is one of the most important enablers for the integration agenda of southern Africa, particularly now that the region aims to industrialize its economy. For example, beyond its general use in daily life, energy catalyses infrastructure projects that drive socio-economic growth. However, a lack of investment for energy projects has been identified as one of the main challenges affecting the energy sector in southern Africa. This policy brief profiles some of the opportunities and challenges for increasing investment in the energy sector in the Southern African Development Community (SADC).

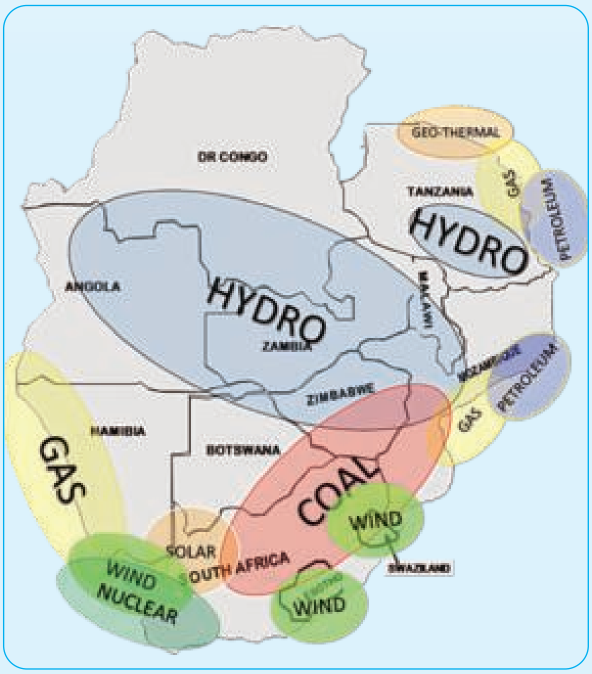
Overview of the SADC Energy Sector

Southern Africa is relatively well-endowed with energy resources, as the illustration show. However, the SADC energy sector has faced some challenges in the provision of affordable and reliable energy due to a combination of factors including limited investment in exploring these energy resources. The lack of investment and financing of energy projects is hampered by a number of barriers such as low tariffs and poor project preparation, as well as limited off-takers that can sign power purchasing agreements under single-buyer models; and other required policy/regulatory frameworks.

Existing Energy Policy/Regulatory Framework

SADC has put in place a number of legal documents, policies and institutional frameworks to ensure the availability of sufficient, reliable, least-cost energy services. The main legal document on energy development is the SADC Protocol on Energy of 1996, which entered into force on 17 April 1998 after ratification by two-thirds of Member States. Other key supporting governance instruments include the Revised Regional Indicative Strategic Development Plan (RISDP) of 2015, the Regional Infrastructure Development Master Plan (RIDMP) Energy Sector Plan (2012), and the SADC Energy Sector Cooperation Policy and Strategy with related Activity Plan (2010).

SADC Energy Resources, Mainland Countries



Source Presentation by the Southern African Power Pool at a workshop for review of the SADC RISDP, May 2013

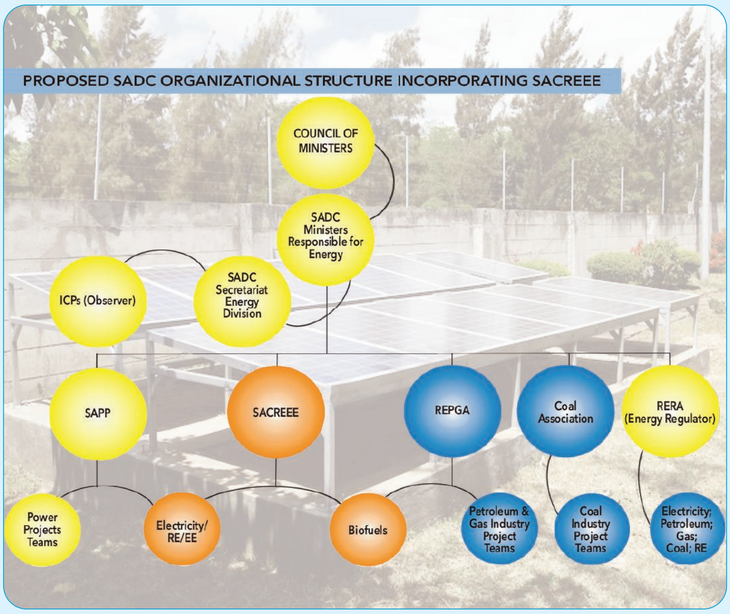
These frameworks are premised on the SADC Treaty that sets the SADC agenda and is intended to create an enabling environment for economic cooperation among SADC Member States. In addition, SADC Member States have crafted various national energy documents to spur developments in the energy sector with the creation of national agencies to coordinate implementation of agreed activities, projects and programmes. However, a major concern that has been raised at various fora, including the meetings of SADC Energy Ministers, is that regional energy policies and other documents are outdated and need to be reviewed in line with the changing environment for them to remain relevant and useful.

At the institutional level, the Directorate for Infrastructure and Services at the SADC Secretariat is tasked to coordinate developments in the energy sector. In furtherance of economic integration in the energy sector, SADC has also established subsidiary organizations to implement various programmes, projects and activities.

These organizations are the Southern African Power Pool (SAPP), Regional Electricity Regulators Association of Southern Africa (RERA), and the SADC Centre for Renewable Energy and Energy Efficiency (SACREEE).

The SADC Ministers Responsible for Energy form the apex policy body in the regional energy sector, reporting to the SADC Council of Ministers.

SADC Energy Institutional Structure



Source: SACREEE background booklet, 2014

Key Energy Investment Projects in SADC

A number of energy investment projects are being undertaken by SADC Member States and International Cooperating Partners. The Regional Infrastructure Development Master Plan: Energy Sector Plan estimates the total cost of new electricity generation capacity for the region to be in the range US$114 billion to US$233 billion between 2012 and 2027.

The related transmission investment costs to support the new generation capacity are estimated at about US$540 million. The investment in transmission projects does not, however, include planned transmission interconnectors and national backbone lines.

A major challenge is that many of the proposed regional power generation projects are poorly structured and packaged, and therefore fail to attract investment. For example, a number of long-planned projects have failed to take off as the private sector has been reluctant to engage in partnerships with governments mainly due to inappropriate financing formulas.

Most Member States have been slow in putting in place mechanisms that promote private sector participation in the energy sector and therefore improve the attractiveness of the industry for investors. The policy environment in most SADC Member States does not encourage private sector participation in the energy sector.

Opportunities for Investment in the Energy Sector

To showcase some of the opportunities for investment in the energy sector, the region convened a special SADC Investment Forum in Ezulwini, Kingdom of Swaziland, in July 2017. The forum saw SADC present its multi-billion-dollar energy infrastructure development plan to potential funders. The energy investment forum also provided a platform for resource mobilisation for sustainable energy infrastructure development to enable the energy sector to play a vital role towards industrialisation and prosperity of the region.

Key Success factors for Energy Investment in SADC

According to the SADC Investment Forum, the main challenges cited as affecting the successful resource mobilisation or implementation of energy infrastructure projects in the region include the absence of a coherent regional integrated plan and strategy that balances national and regional needs; an increasing focus on self-sufficiency and growing preference for domestic projects to regional projects for security of supply reasons.

Other challenges identified were difficulties in mobilising financing for regional generation and transmission investments due to inadequate project preparation; and the perceived high risk of cross-border projects and capacity constraints at national and regional levels. Some of the key factors attributed to the success of energy investment, which are lacking in some SADC Member States are as follows:

- A clear supporting regulatory framework for energy investment ensuring that there is both political and economic will;

- Support of local businesses and entrepreneurs to participate in energy projects;
- Stimulation by in-country energy regulators to transform the energy market to renewable energy, as most international investors are moving towards climate-friendly investing;
- Favourable tax and duty regimes;
- Laws and regulations that enable ease of doing business for both international and local business players, including the reduction of bureaucracy at key institutions;
- Publicising of in-country success stories and projects to the international community, which is usually done by participation at energy-related forums such as conferences, summits and workshops;
- Strong and effective monitoring, evaluation and reporting processes including the strengthening of in-country skills and project management skills;
- Incentives for Public Private Partnerships and effective management thereof;
- Creation of cost-reflective tariffs that make private and international investment in the energy sector attractive; and,
- Governments that commit their own resources particularly to early-stage projects in order to leverage private financing, thus minimizing risks associated with early stages of project development.

Energy Financing Mechanisms

The sources of finance for energy projects are many. Some of the available energy financing mechanisms include:

- Governments of SADC Member States;
- International Cooperating Partners;
- Introduction of a Regional Export/Import levy;
- Introduction of Tourism levies;
- Official Development Assistance;
- Local and foreign investment;
- Use of debt relief;
- Domestic public finance and savings;
- Public Private Partnerships;
- Domestic financial and capital markets;
- Private equity;
- SADC Regional Development Fund; and
- Venture capital.

However, for the above financing mechanisms to work, there is need for a conducive environment within the region for domestic revenue generation, savings and investments. In this regard, the Revised RISDP 2015-2020 articulates strategic orientation for mobilization of sustainable resources for its implementation, such as the need to maintain sound economic policies, good economic governance and domestic public finance mobilization.

Policy Considerations

The following are some of the key policy considerations for SADC Member States as they seek to promote the development of the energy sector in the region.

- The "regional project" concept needs to be clarified, and there is a need for the development of a framework for the coordination, implementation; championing and financing of these projects. Existing institutions such as the SAPP need to be fully utilised in this regard.
- The SADC region should create an enabling environment for investment in the energy sector at both regional and national levels as investors look for stability, sustainability and returns. The environment should address the unique characteristics of energy sector projects, such long lead-times and high start-up costs.
- New strategic approaches to regional cooperation are needed with a clear regional financing framework to raise funds for project implementation. This should result in coordinated approaches to fundraising at regional, national and utility levels.
- There is need to promote private sector investment in the energy project sector. This can be done through direct investments, syndication with multilateral development banks or Public Private Partnership arrangements;
- Mechanisms need to be developed that will allow the energy investments to access long-term funds, including the development of a diversity of funds through innovative credit structures and co-financing arrangements.
- There is need to review a number of energy-related legal documents, policies, institutional frameworks and strategies that are out-dated and need to be reviewed in line with the changing environment in order to remain relevant and useful.

Conclusion

The implementation of legal documents, policies, institutional frameworks and strategies has been slow at national level, but the region has made significant progress in developing its energy sector. Cooperation among SADC Member States has allowed countries in the region to share surplus energy through the SAPP competitive market. In this regard, full implementation of all agreed instruments will enable SADC to develop its energy sector.

Another important observation is that a number of legal documents, policies, institutional frameworks and strategies are outdated and need to be reviewed in line with the changing environment to enable them to remain relevant and useful. This is very pertinent at this moment in time as SADC has reviewed and revised the RISDP, and has adopted a new strategy and road map for industrialisation.

Studies have also confirmed that development assistance is not panacea for the financing and development of the energy sector in the SADC region. There is need to explore the efficacy of using domestic resource mobilisation strategies to raise money in the local markets through the development of capital markets and using private sector funds. Investment and financing are hampered by a number of barriers, which include low tariffs, poor project reparation, no off-takers that can sign Power Purchasing Agreements under single-buyer models and other required policy/regulatory frameworks. The capacity for project preparation and implementation at utility and Member State levels is still very low.

References

SADC 2015. SADC Industrialization Strategy and Roadmap. SADC Secretariat.

SADC 2015. SADC Regional Indicative Strategic Development Plan – Revised. SADC Secretariat.

SADC 2012. Regional Infrastructure Development Master Plan. SADC Secretariat.

SADC 2010. SADC Regional Energy Access Strategy and Action Plan. SADC Secretariat.

SADC 1996. Protocol on Energy in the SADC Region. SADC Secretariat.

SADC, SARDC 2015. Time to address the power situation in the region. *Southern Africa Today/ SADC Today, Vol. 17 No.5,* SADC, SARDC

SADC, SARDC 2015. Towards SADC cost-effective tariffs. *Southern Africa Today/SADC Today, Vol.17, No.5*, SADC, SARDC.

SADC, SARDC 2013. Regulatory and Policy Incentives: Towards SADC energy security. *Southern Africa Today/SADC Today, Vol.15.No. 4,* SADC, SARDC.

This policy brief is produced by SARDC through the project on Communicating Energy in Southern Africa supported by the Austrian Development Agency (ADA)/ Austrian Development Cooperation (ADC). Responsibility for the content of this brief lies entirely with the authors. The information and analysis does not reflect the official opinion of the ADA/ADC. *July 2017*

SARDC
Southern African Research and Documentation Centre

Julius K. Nyerere House
15 Downie Avenue, Belgravia, Harare, Zimbabwe
Tel +263 4 791141 Email sardc@sardc.net
Website www.sardc.net Knowledge for Development

Austrian Development Cooperation