Sponsored briefing: Independent power projects in Africa

Miranda's Nuno Cabeçadas (*pictured, left*) and Renato Almeida (*pictured, right*) discuss trends and developments in Angola and Mozambique

Throughout the world, one of the main goals of different governments and industry is to enhance the use of renewable energy. Africa, in general, is no exception, particularly Angola and Mozambique. In effect, in these two countries' governments are working towards the promotion and acceleration of private and public investment in new renewable energy. As spelled out in the Angola Energy 2025 programme, one of the goals is to generate effective conditions of investment in new renewable energy, eliminating or dramatically reducing the distortion introduced by subsidies to fossil fuels, offering a suitable payback to investments, an appropriate mitigation of risks and a regulation that eases implementation and commits investors.

The Angolan legal infrastructure for the development of this strategy was recently strengthened with the enactment of a new Law on Public-Private Partnerships (Law No. 11/19, 14 May 2019) and regulations thereof (Presidential Decree No. 316/19, 28 October 2019). These statutes have set a new basis for the development of PPP projects in the country and, particularly, for the enhancement of independent power projects (IPPs). The legal and regulatory framework has clarified what is perhaps the most important feature of this kind of project – risk allocation – by providing for a risk allocation matrix that includes seven categories: (i) demand risk; (ii) land use and site risk; (iii) project and construction risk; (iv) financial risk; (v) operation risk; (vi) legislative and institutional risk; and (vii) political risk.

Furthermore, a clear sign evidencing and confirming the Angolan strategy was recently made public through the award of the first Angolan IPP project to Eni, the Italian oil major. This groundbreaking approval is expected to be the first of additional measures in the area of regulation, where new and specific legislation for the attribution of concessions and licensing of renewable projects is expected to occur.

A similar route is being pursued by the Mozambican government, which has already approved in the past projects concerning the construction of gas-fired power plants, a number that is expected to hike as soon as gas from the Rovuma Basin projects becomes available. While most of the power currently generated is still from hydroelectric projects, several government-sponsored studies identified that coal, gas and renewable energy sources will play a significant role in the future, especially in what concerns natural gas, which is expected to provide up to 44% of total energy generation in the next decade.

The legal and regulatory framework for PPPs and IPPs in Mozambique has been in place since 2011/2012, when the PPP Law (Law No. 15/2011, of 10 August 2011) and the PPP Regulations (Decree No. 16/2012, 4 July 2012) were enacted. These diplomas provide a modern and stable regime perceived as solid by both lenders and sponsors.

Things have indeed played out quite well in Mozambique. Though facing some bumps in terms of its macroeconomic performance, the country presents a successful track record in the implementation of IPPs. Examples include a 45 MW gas-to-power plant commissioned back in 2014 using the government's royalty gas from the Pande and Temane fields, and a 40 MW solar plant, developed and operated by Scatec Solar and financed by the International Finance Corporation in 2017.

In terms of regulatory approach, the objective in both countries is to create a simplified and integrated regime for the attribution of concessions for the financing, construction and operation of renewable energy projects, namely the sale and export of electricity and/or natural gas. The strategies being pursued involve the private participation in all segments of the business chain, meaning that not only the production but also the distribution and transportation will be open for future negotiations, as well as the provision of energy services for off-grid rural areas.

The reforms that are currently being implemented will pave the way for PPP projects. Both governments are committed to set up a less cumbersome framework in what concerns the contract models and institutional framework governing PPP projects, while at the same time recognising that the establishment of subsidised tariffs for new renewable energy connected to the grid and the obtainment of a payment guarantee from the state will continue to play an important component for the attraction of investors. In the end, the energy gap should progressively be reduced and the current (still) modest rates of access to power are expected to steadily increase over the next few years, promoting both industrial and economic development and the standard of living of the population.