

Terms of Reference “ToR” for Consultant to conduct non-payment risk assessment for IPPs in Malawi

1 Introduction

1.1 InfraCo Africa

InfraCo Africa Ltd. (IA – www.infracoafrica.com) is part of the Private Infrastructure Development Group (PIDG - www.pidg.org) a publicly funded organisation which helps finance infrastructure in frontier markets, to promote economic development and combat poverty. InfraCo Africa’s mandate is to mobilise investment by providing risk capital to early-stage infrastructure projects in sub-Saharan Africa. InfraCo Africa prioritises those projects in Least Developed Countries (LDCs), Other Low-Income Countries (OLICs) or fragile states and in the water, power and transport sectors.

InfraCo Africa is considering developing several grid-connected power generation projects in Malawi: potentially including solar photovoltaic, wind and marine heavy fuel oil engines. The intended offtaker is the national utility, ESCOM, and payments would be made either partially or fully in USD. This study is intended to determine ESCOM’s capacity to pay for the capacity charges and energy generated from these projects, by reviewing ESCOM’s financial viability and the limited access to foreign reserves in country. Additionally, the study is intended to investigate financial support structures that operate in Malawi and can be utilized to mitigate identified non-payment risks and local banking capacity that might be mobilised to allow a partial local currency tariff.

1.2 Marine Engine Power Plant

On behalf of IA, a thermal power plant is being developed in Malawi. Commercial operation is due to commence in 2019, and the offtaker would be ESCOM, who are expected to pay monthly in USD (estimated annual amount on the order of tens of millions of dollars, to be disclosed upon signing of an NDA).

1.3 PV Power Plant

Together with IA, JCM Matswani Solar Corp Limited (JCM - a project company owned by JCM Clean Power Development Fund LP and its local partner Matswani) is developing a solar PV project in Malawi. This is expected to occur over two phases with commercial operation of phase I due to commence in 2018. ESCOM will be paying monthly for the electricity generated from this project in MWK, and IA would thereafter convert the MWK to USD prior to repatriation of funds (the estimated annual USD equivalent is on the order of millions and will be provided upon signing of an NDA).

2 Contractor Requirements

IA wishes to carry out a study to determine the likelihood of ESCOM honouring its payments to these projects, assuming a commitment under a negotiated Power Purchasing Agreement (PPA). This should

include as a minimum ESCOM credit risk (based on a forecast of its current and new capacity, costs, debt service, tariff and revenues), a government of Malawi credit risk, as well as a review of convertibility risk given all outstanding government commitments in USD and expected commitments in the future (resulting from project pipelines). Furthermore, it wishes to gain an understanding of the financial support structures that currently exist in country or that may be available to use in mitigating non-payment risks, including but not limited to government guarantees, or other insurance products.

InfraCo Africa, as a donor funded company, have strict anti-bribery and corruption requirements. Therefore, our advisors are required to comply with the operating policies and procedures (as applicable to the scope of work and services of a consultant) of our parent organisation the Private Infrastructure Development Group (PIDG) which can be found at:

<http://www.pidg.org/resource-library/operating-policies-and-procedures>

We can consider standard consultancy terms but they will need to be modified to incorporate this requirement.

3 Scope of Work

Where insufficient data is available suitable assumptions for the missing data shall be made, and all assumptions used in deriving the analysis should be stated explicitly in the report.

The Consultant is expected to undertake the following:

- i. A study of ESCOM's payment track record and investigation of its' financial viability, including analysis of its historic and forecast long-term cashflows and financial standing (10-15 years forecast);
- ii. Compile a list of current financial commitments and liabilities of the government in addition to those expected in the future (e.g. resulting from project pipelines and other government plans);
- iii. Research on the availability of USD in country and convertibility risk. This includes a review of the fiscal situation of Malawi, dollar denominated loans that the Government has obligations to service, deposits in the Reserve Bank of Malawi, trends in foreign capital flows, as well as an understanding of the ease with which commercial banks exchange Kwacha for USD;
- iv. Investigation of possible arrangements to ensure a portion of dollar reserves in the economy will be used for PPA payments. This will also require review of transfer risk, *i.e.* any exchange rate controls, and any laws and regulations for repatriating profits and US dollars out of Malawi;
- v. A review of trends in foreign capital flows;
- vi. In consideration of all of the above, an assessment of the likelihood of ongoing regular payments to an IPP in Malawi from ESCOM;
- vii. Assessment of the Government of Malawi's ability to honour a termination payment guarantee, in the event that one is triggered for Buyer Default;
- viii. Research into the availability of finance from local banks, including the amount and tenor; and
- ix. An examination of other financial support structures that currently exist in Malawi or that could be used to mitigate offtaker and/or currency risk, such as currency guarantors (excluding other PIDG facilities such as GuarantCo).

4 Data Collection & Analysis

It is expected that the Consultant will source their own data from public and private sources which they believe to be reliable and accurate. In completing this study, it is expected that the Consultant will review documentation pertaining to the country's policies, laws and regulations concerning foreign capital flows, and will conduct consultations with key stakeholders in country. Such stakeholders include, but are not limited to, PRI and risk guarantee underwriters, government representatives and other foreign investors.

5 Overall coordination

The overall coordination for this assignment lies with Jon Carrick (jcarrick@infracoafrica.com, T: +44 (0)20 3597 5408).

6 Schedule

- Notification of intent to submit a proposal shall be received by December 15th, 2017
- Proposals shall be submitted by January 5th, 2018
- A kick off meeting should be held within a week of contract signature
- The draft report should be submitted four to six weeks after the kick off meeting
- A meeting shall be held to discuss the draft report
- The final reports should be submitted two weeks after the receipt of consolidated comments

7 Deliverables

- Draft and final report
- Notes of meetings