



# STRATEGIC PLAN 2020 - 2024





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# Foreword by the Board Chairperson



It is with great pleasure and excitement that I present the Malawi Energy Regulatory Authority (MERA) Strategic Plan for the period 2020-2024.

This Strategic Plan builds on the many achievements attained in the previous Plan (2014-2018) and the lessons learned to-date, and positions MERA in the present. Thus, the 2020-2024 Strategic Plan provides a firm way-forward for our country's energy future.

One outstanding feature of this Strategic Plan is the tackling of the structural challenges we have faced over the years in pursuit of regulating energy for sustainable development. There are clear signs of progress being made to end electricity outages, we are diversifying our sources of energy, and we have completely done away with shortage of fuel in the country. The future for Malawi is bright.

MERA's functions have grown as the energy market has evolved and national energy legislation and rules expanded. Our operating environment is becoming increasingly complex; and new products, services and technologies are emerging, changing the way consumers produce, buy and use energy. Innovative ideas have allowed new business models to develop that are reshaping the energy market.

In the previous Strategic Plan period, the country witnessed several structural changes including the unbundling of the Electricity Supply Corporation of Malawi (ESCOM) into two separate companies: one responsible for Transmission, Distribution, System Market Operations, and Single Buyer (ESCOM); and the other for Generation (Energy Generation Company, (EGENCO)). We have also witnessed an expansion of the Liquid Fuels and Gas industry, including the operationalization of the Strategic Fuel Reserves. This was also the time we developed a lot of regulatory frameworks to help level the playing field, at the same time giving hope to the consumers.

Time has now come to build on these foundations and make a better future for our children and generations to come. We want to create an Energy Secure Nation, one that will lead to increase in energy use to power the economy.

In the next five years, the Malawi Energy Regulatory Authority will be guided by four Strategic Pillars of (1) Energy Secure Nation, (2) Financial Sustainability, (3) Efficient and Effective Service Delivery, and (4) Public Trust. These strategic pillars show the lead role that MERA will play as a regulator in partnership with industry players and other Government agencies.

This will lead MERA "To be a recognized global leader in energy regulation," hence our new Vision.

I am confident that the Authority and its dedicated staff will continue to meet the needs of the Malawians and serve in the public interest.

**Rt. Rev. Dr. Joseph Paul Bvumbwe**  
**BOARD CHAIRPERSON**

# Preface by the Chief Executive Officer



NERA is an Energy Sector Wide Regulator mandated by the four Energy Laws namely the Energy Regulation Act (2004), the Electricity Act (2004), the Rural Electrification Act (2004) and the Liquid Fuels and Gas (Production and Supply) Act (2004).

The Laws mandate NERA to regulate the energy sector in Malawi in a fair, transparent, efficient and cost-effective manner for the benefit of the Malawi economy, using the various regulatory tools and regulations that guide our operations.

This Strategic Plan is therefore a perfect tool that embodies the aspirations that we will be actualizing in the period 2020-2024. The Strategic Plan will guide the activities of NERA as we seek to contribute to Malawi Government's development agenda, which identifies energy as a strategic sector that should be managed in a manner that facilitates economic development.

Thus, this Plan is a summation of our ambitions and a declaration of our belief in ourselves as a team to achieve the goals we have set out. It is also a statement of the potential we see in this country in the sectors that fall under our mandate. This Strategic Plan will guide NERA in pursuit of its mission of regulating energy sector for sustainable development in accordance with international best practices.

We have given ourselves a challenge and we are up to it. We are a people who believe in possibilities and our abilities. Whatever target we

have set ourselves, be assured that we will deliver because failure is not an option.

This plan is a product of extensive stakeholder consultation and it has established a framework for monitoring and evaluating performance. In preparing this Strategic Plan, the Authority undertook a situational analysis in order to better understand the environment in which NERA operates. NERA, being an active player in the regional energy market, and in line with international best practice, needs to constantly benchmark its performance against other regional energy regulators.

In our evaluation, it transpired that the Strategic Goals and Objectives continue to reflect the direction of the Authority and continue to speak to the future of the energy policy of our country. The key pillars contained in this plan still effectively capture our priorities and methods for attaining further success.

The 2020-2024 Strategic Plan outlines the key strategies, activities, risk management, and capabilities we will use to achieve our purpose, and describes our operating environment and performance measures. NERA will continue to work towards clear and measurable targets. We will be assessing our performance on an annual basis to ensure maximum performance on the agreed deliverables.

We will continue to build on our strong reputation for being an expert, independent and trustworthy regulator to instil public confidence in the sector. We will continue to rely on NERA's statutory establishments and enabling regulations to meet the pressing energy needs of our time. In executing our mandate, we will continue to balance the competing needs and interests of both licensed entities and consumers, and fulfil our role as an independent energy regulator.

I believe that this strategy will go a long way towards ensuring that we execute NERA's mandate and enhance regulation of the energy sector.

**Collins Magalasi, PhD**  
**CHIEF EXECUTIVE OFFICER**

# CHAPTER ONE

## MANDATE, INSTITUTIONAL FRAMEWORK AND CONTEXT

- Rationale for the Strategic Plan
- Strategic Planning Process
- History of MERA
- Mandate
- Purpose of MERA
- Services
- Institutional Structure of MERA



# 1.0 MANDATE, INSTITUTIONAL FRAMEWORK AND CONTEXT

## 1.1 Rationale for the Strategic Plan

The 2014-2018 Malawi Energy Regulatory Authority (MERA) Strategic Plan has now lapsed. In view of this a strategy to guide our operations in the next five years is now an imperative. The new plan will cover the period 2020- 2024. The plan articulates the strategic direction of MERA in view of the envisioned changes in the operating environment. The regional and national economy is expected to continue path of slow growth occasioned by recent shocks in the global economy. This will negatively impact Malawi's economy, occasioning a slowdown in growth sectors. The consequence of this will be low energy uptake and therefore low collections from levies and licenses. This plan is therefore crafted to be a strategic guide to the Authority in view of national and international environmental challenges.

The strategic plan has taken stock of the institutional policy context to ensure strategic actions have been proposed to be in tandem with Government policy and legal provisions.

## 1.2 Strategic Planning Process

Management hired an international consulting firm to facilitate the creation of a future desired by the Board, secretariate and all stakeholders. This Plan is therefore a sum of our individual and collective thinking. The process to develop the plan was consultative and participatory. Management created a steering committee composed of senior staff to lead the strategic thinking process. This Team also acted as a bridge between the Board, Management, Staff and other stakeholders. The steering committee produced the working documents that served as inputs for the staff consultation process.

The staff inputs led to the production of a draft plan for Board and Management consultation process. The outcome from this process formed the basis of other stakeholder consultations in Blantyre, Lilongwe and Mzuzu. The consultants facilitated the drafting of the final strategic plan, which was presented to Management for validation. The Board approved the Plan for implementation. This Plan captures our ambition as we seek to fulfill the national aspirations as captured in our legal mandate.

## 1.3 History of MERA

The establishment of MERA was based on a need to ensure a planned and coordinated approach to regulating the country's energy sector. The Energy Policy of 2003 articulated the need for energy regulation arrangements at the time to make them cost effective and efficient. The challenges identified included housing of the legal instruments governing energy sub sectors (electricity, liquid fuels, and gas, bio-mass, renewable energy and coal) in different institutions that did not often synchronize their activities.

Prior to formation of MERA, The National Electricity Council (NECO) was responsible for regulating the electricity sub-sector, while Petroleum Control Commission (PCC) was responsible for regulating liquid fuels and gas.

This means that the fragmented institutions, in some instances, only had one monopoly to be regulated. This dissonance in action created need for an independent energy regulatory agency to replace NECO and PCC to ensure the energy sector was appropriately regulated. To this end, the Government set out to reform the sector, by among other things, (a) The formulation of an Energy Framework Law in the form of an Energy Regulation Act and related sub sector legislation, including the Electricity Act, the Rural Electrification Act, the Liquid Fuels and Gas Act, to provide a legal basis for improved energy sector governance; and (b) the establishment of a sector wide Energy Regulator to regulate all commercial energy supply industries. Therefore, MERA is a creation and outcome of the Energy Policy of 2003.

## 1.4 Mandate

MERA is a body corporate established under the Energy Regulatory Act No. 20 of 2004. It is the Energy Sector Wide Regulator with the mandate to regulate the energy sector in Malawi in a fair, transparent, efficient and cost-effective manner. In this way, MERA's activities will benefit consumers, operators and the economy in general. This mandate is derived from the Energy Laws in general and the Energy Regulation Act in particular. Specifically, the mandate includes:

1. Receive and process license applications for energy undertakings;
2. Grant, revoke or amend licenses granted under the Act and Energy Laws;
3. Approve tariffs and prices of energy sales and services;
4. Monitor and enforce compliance by licensees with licenses granted under the Act and the Energy Laws;
5. Develop and enforce performance and safety standards for energy exploitation, production, transportation and distribution;
6. Prescribe and collect fees, charges, levies or rates under the Energy Regulation Act and Energy Laws;
7. Arbitrate commercial disputes under the Act and Energy Laws; and do all such things as are necessary or incidental or conducive to the better carrying out of the functions of the Authority provided for in the Act and Energy Laws;
8. Promote the interests of consumers of energy with respect to energy prices and charges and the continuity and quality of energy supply;
9. Monitor the efficiency and performance of energy undertakings, having regard to the purpose for which they were established;
10. In conjunction with other relevant agencies, monitor the levels and structures of competition within the energy sector in order that competition in, and accessibility to, the energy sector in Malawi should be promoted;
11. Facilitate increasing access to energy supplies;
12. Promote energy efficiency and energy saving;
13. promote consumer awareness and education;
14. promote the integrity and sustainability of energy undertakings and seek to ensure that energy undertakings, whilst providing efficient service, are able to finance the carrying on of the activities which they are licensed or authorized to carry on;
15. In conjunction with other relevant agencies, formulate measures to minimize the environmental impact of the exploitation, production, transportation, storage, supply and use of energy and enforce such measures by the inclusion of appropriate conditions to licenses held by energy undertakings;
16. Promote the exploitation of renewable energy resources; and
17. Taking all such measures as are necessary to fulfill the above purposes through regulations to be made under this Act or the Energy Laws.

## 1.5 Purpose of MERA

The purpose of the Authority is to regulate the energy sector in line with the provisions of various energy laws of Malawi and relevant Protocols and Agreements.

## 1.6 Services

In order to fulfill its mandate, MERA provides the following regulatory services:

- i. Electricity and renewable energy undertakings;
- ii. Liquid fuels and gas energy undertakings;
- iii. Provision of energy economic regulation;
- iv. Provision of energy legal regulation;

In addition to the regulatory services, the following support services are provided

- i. Public relations and consumer affairs;
- ii. Financial management activities;
- iii. Human resource and administration services;
- iv. Procurement services; and
- v. Internal audit services.

## **1.7 Institutional Structure of MERA**

The Board of MERA as stipulated in Section 4 of Energy Regulation Act, 2004 comprises five appointed members and three Ex-Officio members. The five Board Members including the Chairperson and the Vice Chairperson are appointed by the President, and confirmed by Parliament, for a tenure of three years. The three Ex-Officio members comprise the Secretary for Energy, the Director of Energy Affairs and the Chief Executive Officer of MERA. The Secretary to the Treasury and Department of Statutory Corporations (DSC) also sit on the Board of MERA as co-opted members.

The Secretariat headed by the Chief Executive Officer supports the Board of Directors in the execution of its mandate. The Secretariat is organized into five directorates, namely, Economic Regulation, Legal and Company Secretarial Services, Finance, Liquid Fuels and Gas, and Electricity and Renewable Energy. MERA has a staff establishment of 90 located in Lilongwe (Headquarters), Blantyre and Mzuzu.

### **Organization**

MERA carried out a functional review in 2018. The review recommended that the Secretariat should be organized into the following Directorates, Divisions and Section

#### **Directorates**

- i. Electricity and Renewable Energy;
- ii. Liquid Fuels and Gas;
- iii. Economic Regulation;
- iv. Legal Services and Board Secretarial Services;
- v. Finance.

#### **Divisions**

- i. Monitoring & Evaluation;
- ii. Internal Audit and Risk Management;
- iii. Human Resource and Administration;
- iv. Information and Communication Technology;
- v. Consumer Affairs and Public Relations;
- vi. There are two regional offices; regional office north located in Mzuzu and regional office south located in Blantyre.

#### **Section**

Procurement Section.

## **1.8 Sustainable Development Goals (SDGs)**

The global SDG number seven that states; “ensure access to affordable, reliable, sustainable and modern energy” is of relevance to MERA. Energy is central to nearly every major challenge and opportunity the world faces today. This includes job creation, security, climate change and food production or increasing incomes; access to energy for all is essential. Focusing on universal access to energy, increased energy efficiency and the increased use of renewable energy is of importance to the world today and in the foreseeable future.



Currently, it is estimated that there are approximately 3 billion people who lack access to clean-cooking solutions and are exposed to dangerous levels of air pollution worldwide. Additionally, slightly less than 1 billion people are functioning without electricity and 50% of them are found in Sub-Saharan Africa alone. Therefore, there is need for increased public and private investments in energy production. Consequently, focus on regulatory frameworks and innovative business models to transform the world's energy systems for sustainable development is a strategic imperative.

## 1.9 Vision 2020

Malawi's Vision 2020 advocates for the provision of efficient energy supplies as a key pre-requisite for achieving economic development and middle-income status. Two strategic issues are identified as strategic drivers to achieve this vision: a) promoting efficient electricity supply and distribution and b) improving supply of petroleum products.

The Vision recognises several strategic challenges among them: The inadequacy of the supply of modern energy systems and the limited access to modern energy services, high cost of energy service production, unreliability of supply due to monopolistic market structures, underdeveloped services, and lack of competition among other challenges. These issues necessitate the need for an effective energy regulator to ensure entities in the sector operate in a manner that benefits the consumer. The outcome for this regulation is to ensure affordable prices and guaranteed supply of energy to the economy

## 1.10 Malawi Growth and Development Strategy (MGDS) III

The MGDS III is premised on a vision of building “a productive, competitive and resilient nation.” It covers the period 2017-2022, meaning it creates an overlap with the vision 2020. The MGDS III is built around a theory of change that ‘by producing the preconditions necessary to long term productivity, competitiveness and resilience, the MGDS III will move Malawi towards its ultimate goal of becoming a technologically advanced, middle income nation.’ The MGDS III is built around three strategic pillars as follows:

- Sustainable inclusive growth (SDGs to be impacted on directly: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 13 and 16).
- Inclusive and Human Capital Development (SDGs to be impacted on directly: 1, 2, 3, 4, 5, 6, 7, 8, 12, 15 and 16).
- Resilient People and institutions who can withstand economic and environment shock transformation (SDGs to be impacted on directly: 1, 2, 3, 4, 5, 6, 7, 14 and 15)

### The following are the Key Priority Areas (KPAS):

- KPA 1: Agriculture, water development and climate change management
- KPA2: Education and Skills Development
- KPA3: Energy, Industry and Tourism Development
- KPA4: Transport and ICT Infrastructure
- KPA5: Health and Population

It is important to note that sustainable energy supply for national development has been given a lot of weight as an enabler and driver of development processes (as KPA 3). This places MERA at the centre of this national priority due to its importance as an energy regulator.

### **1.11 Public Service Reforms Commission (2017)**

The completion report of the Public Service Reform Commission gives a broad overview of the results achieved and challenges that lie ahead. There has been a creation of electricity transmission and distribution from current Electricity and Supply Company of Malawi (ESCOM). The Electricity Amendment Act (2016) separated energy generation from transmission and distribution. MERA reviewed and submitted several pieces of draft legislations: Liquefied Fuels and Gas Regulation Amendment (2017), and Strategic Fuel Reserves Regulations (2018). MERA's performance is rated as satisfactory by the Public Service Reform Committee (PSRC).

### **1.12 National Energy Policy for Malawi (2018)**

Malawi is pursuing an integrated energy policy that recognizes developments in the energy sector as having an important bearing on economic development initiatives of the country. There is the need to fully exploit the energy potential that exists, as well as the need to fully involve the private sector in energy development and delivery. Other important considerations include the emergence of regional trading opportunities as a result of globalization and regional integration and growing international concerns over environmental issues.

The objectives of Malawi's Energy Policy are as follows:

- i. Improve efficiency and effectiveness of the commercial energy supply industries;
- ii. Improve the reliability and security of energy supply systems;
- iii. Increase access to affordable and modern energy services;
- iv. Stimulate economic development and rural transformation for poverty reduction;
- v. Improve energy sector governance; and
- vi. Mitigate environmental, safety, health impacts of energy production and utilization.

### **1.13 Integrated Resource Plan (2017)**

The Integrated Resource Plan (IRP) is a least-cost investment plan in generation, transmission and demand side measures covering a 20-year period between 2017 and 2037. The main purpose of the IRP is to help make decisions concerning investments that should be initiated in the coming 3-5 years. The generation investments identified by the IRP study may be implemented by the private sector or EGENCO. If they are developed by the private sector, they will sell their output to the Single Buyer function within ESCOM under long-term Power Purchase Agreements. If developed by Independent Power Producers selling to ESCOM, ESCOM, Department of Energy Affairs and MERA will need to be assured that these are the least-cost investment options. Similarly, if they are developed by EGENCO, these entities will also need to be assured that these investments are least-cost. Transmission investments will be made by the Transmission Licensee within ESCOM and these investments must also be the least-cost options. This is therefore the primary purpose of the IRP-to identify the generation and transmission projects that are least-cost and that should be developed by ESCOM or by IPPs with long-term contracts with the Single Buyer.

Another purpose of the IRP is to consider unsolicited power plants that may be developed by IPPs. These will again sell their output to the Single Buyer. MERA and Department of Energy will need to be assured that these will not cause an increase in electricity costs and corresponding increases in prices that must be charged to end-users.

### **1.14 Southern African Development Community (SADC)**

The main objectives of Southern African Development Community (SADC) are to achieve economic development, peace and security, and growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa, and support the socially disadvantaged through Regional Integration. These objectives are to be achieved through increased Regional Integration, built on democratic principles, and equitable and sustainable development.

The overall aim of the Southern African Development Community (SADC) is to achieve Regional Integration and Eradicate Poverty within the Southern African region. To achieve these goals, Member States need to work together harmoniously in achieving effective results on common problems and issues. In order to enable this kind relationship, several legal and institutional instruments have been put into place to guide and standardize the work of SADC with Member States. One of these instruments is the SADC Protocols, which enshrine the aims of the Community by providing codes of procedure and practice on various issues, as agreed by Member States.

A Protocol is a legally binding document committing Member States to the objectives and specific procedures stated within it. In order for a Protocol to enter in to force, two thirds of the Member States need to ratify or sign the agreement, giving formal consent and making the document officially valid. Any Member State that had not initially become party to a Protocol can accede to it at a later stage.

For an amendment to be made to a Protocol any Member State may propose the amendment to the Executive Secretary of SADC for preliminary consideration by Council after all Member States have been notified. The amendment to this Protocol can then be adopted by a decision of three quarters of the Member States of SADC.

A provision for any disputes arising from the application or interpretation of a Protocol is made by referring grievances to the SADC Tribunal if they cannot be resolved amicably through regular diplomatic channels. Currently, SADC has 26 Protocols, including those that have not yet entered into force. To see a list of all SADC Protocols, and access the individual documents, please refer to the Protocols section of the Documents and Publications Menu of SADC.

## 1.15 Southern African Power Pool (SAPP)

The SAPP was created in August 1995 at the SADC summit held in Kempton Park, South Africa, when member governments of SADC (excluding Mauritius) signed an Inter-Governmental Memorandum of Understanding for the formation of an electricity power pool in the region under the name of the Southern African Power Pool. The ministers responsible for energy in the SADC region signed the Revised Inter-Governmental Memorandum of Understanding on 23 February 2006.

The SAPP is governed by four agreements: the Inter-Governmental Memorandum of Understanding which enabled the establishment of SAPP; the Inter-Utility Memorandum of Understanding, which established SAPP's basic management and operating principles; the Agreement Between Operating Members which established the specific rules of operation and pricing; and the Operating Guidelines, which provide standards and operating guidelines.

The SAPP has twelve member countries represented by their respective electric power utilities organized through SADC.

The SAPP has four working committees: the Environmental Sub-Committee, the Markets Sub-Committee, the Operating Sub-Committee and the Planning Sub-Committee under a Management Committee which in turn reports to the Executive Committee. The Markets Sub-Committee is a new sub-committee that was created in April 2007 following the signing of the Revised Inter-Utility Memorandum of Understanding by the SAPP Executive Committee on 25 April 2007. Also created in April 2007 is the Coordination Centre Board to govern the activities of the SAPP Coordination Centre.

The SAPP coordinate the planning and operation of the electric power system among member utilities.



## **1.16 Regional Energy Regulatory Authority (RERA)**

The Regional Energy Regulatory Authority of Southern Africa (RERA) formerly the Regional Electricity Regulators Association (RERA) is a sub-organization of SADC States for the cooperation of their national electricity and energy regulatory authorities. The Secretariat is in Windhoek, Namibia. The objective of this international organization is to harmonize policies, legislation, standards and regulatory procedures and to ensure effective co-operation between Member States. The current status of RERA is to include all other subsector energy elements.

The Regional Energy Regulatory Authority of Southern Africa (RERA) develops guidelines for cross-border electricity trade and investment between Member States and thus establishes the framework for the respective national regulatory authorities.

The organization was founded by SADC energy ministers on July 12, 2002 at a conference in Maseru, Lesotho.

Their creation is based on NEPAD agreements and several multilateral agreements:

1. SADC Energy Protocol, 1996;
2. SADC Energy Cooperation Policy and Strategy, 1996;
3. SADC Energy Sector Action Plan, 1997;
4. SADC Energy Activity Plan, 2000;
5. RERA officially started its activities in Windhoek on September 26, 2002.
6. The organization was registered under Namibian law on 3 October 2003.
7. The SADC Regional Energy Access Strategy and Action Plan of March 2010 stated their intention to extend the scope of the RERA to other energy sources

# REVIEW OF 2014 – 2018 STRATEGIC PLAN

## CHAPTER TWO

- MERA Performance Against Strategic Goals
- Challenges Faced in Implementing the 2014 - 2018 Strategic Plan

## 2.0 REVIEW OF 2014 – 2018 STRATEGIC PLAN

### 2.1 Introduction

The review of the 2014 - 2018 MERA Strategic Plan was aimed at identifying key issues that emerged during its implementation and those that will still need to be addressed in the new Strategic Plan.

This chapter documents achievements against each of the seven (7) Strategic Goals of the 2014- 2018 Strategic Plan:

- i. Strengthened Regulatory Framework for Optimum Delivery of Regulated Services
- ii. Facilitate Increased Electricity Supply
- iii. Enhanced Conducive environment for Security of Fuel Supply
- iv. Enhanced Financial Sustainability
- v. Improved Stakeholder Understanding of MERA Roles and Mandate
- vi. Strengthened Institutional Capacity, and
- vii. Strengthened Research in Energy Technologies.

The achievements documented here are based on consultations with MERA Stakeholders across the country and MERA staff.



## 2.2 MERA Performance Against Strategic Goals

The achievements made by MERA are analyzed against strategic objectives under each of the 7 strategic goals:

• **Table 1: MERA Performance**

STRATEGIC GOAL	STRATEGIC OBJECTIVES	ACHIEVEMENTS
1. Strengthened Regulatory Framework for Optimum Delivery of Regulated Services	<p>1. Streamline the Fuel Review Process</p> <p>2. Improve Enforcement Mechanisms for fuel and gas sector and electricity and renewable energy sector.</p>	<p>1. The following frameworks were developed:</p> <ul style="list-style-type: none"> <li>• Tariff Methodology.</li> <li>• Review of Liquid Fuels and Gas (LFG) regulations.</li> <li>• Ethanol Pricing</li> </ul> <p>2. The following frameworks were developed for electricity and fuel sectors</p> <ul style="list-style-type: none"> <li>• Grid Code Review.</li> <li>• Market Rules.</li> <li>• Legislation enabling Independent Power Producers to operate.</li> <li>• Investment and Information submission requirement</li> <li>• Key Performance Indicators (KPI's) for performance monitoring.</li> <li>• Transportation of bulk fuel.</li> <li>• Emergency Response Plan.</li> <li>• Construction guidelines.</li> <li>• Strategic Fuel Reserve regulations.</li> <li>• Licensing regulations.</li> <li>• Transmission connection agreements.</li> <li>• Power Purchase Agreements (PPA's) review</li> <li>• Development of rural service station model</li> <li>• Development of mini-grid</li> </ul>

STRATEGIC GOAL	STRATEGIC OBJECTIVES	ACHIEVEMENTS
2. Facilitate Increased Electricity Supply	1. To facilitate improved efficiency in generation, transmission and distribution	<ol style="list-style-type: none"> <li>1. MERA reviewed and approved Power Purchase Agreements (PPA's) to increase electricity supply</li> <li>2. MERA facilitated an increase in the use of renewable energy by households and businesses</li> </ol>
	2. To develop and improve frameworks for increased generation and expansion of transmission and distribution capacity	<ol style="list-style-type: none"> <li>1. There is an overwhelming registration of Independent Power Producers following facilitation of the development of electricity generation, transmission and distribution policy tools.</li> </ol>
3. Enhanced Conducive Environment for Fuel Supplies	To ensure uninterrupted fuel supplies	<ol style="list-style-type: none"> <li>1. MERA conducted diversified route assessment for fuel supplies</li> <li>2. Developed a framework and regulations of the Strategic Fuel Reserve operations</li> <li>3. Contributed to increased fuel storage capacity by licensing operators</li> <li>4. MERA has contributed to increased stock days cover from 15 days to 60 days</li> <li>5. Through licensing, MERA has contributed to an increase in coverage of service stations in rural areas.</li> </ol>
4. Enhanced Financial Sustainability	1. To optimize income sources	<ol style="list-style-type: none"> <li>1. MERA has increased its licensing base thus contributing to higher revenues</li> <li>2. MERA has widened its revenue base by investing surplus funds.</li> <li>3. MERA has reduced the period of credit period from 45 days to 30 days</li> <li>4. MERA has instituted cost reduction measures such as reducing on hire of vehicles and sharing ICT and other resources.</li> </ol>

STRATEGIC GOAL	STRATEGIC OBJECTIVES	ACHIEVEMENTS
	2. To diversify income sources	1. MERA is building an office complex which will have some extra office space for rental to other institutions.
5. Improved Stakeholder Understanding of MERA Roles and Mandate	1. To enhance MERA's image	1. MERA developed and launched the Customer Service Charter 2. Continued information dissemination through media channels such as electronic, print and radio 3. Hosting of press conferences and Media training on MERA's mandate 4. MERA website regularly updated with information on regulatory tools and decisions on various regulatory matters.
	2. To maximize opportunities for Corporate Social Responsibility	MERA undertakes Corporate Social Responsibility activities.
6. Strengthened Institutional Capacity	1. To recruit, develop and retain high caliber staff 2. To review modalities for implementing the Strategic Plan 3. To develop a robust record management and archive system 4. To develop a regulatory impact assessment framework 5. To strengthen the organizational arrangements through policies and management information systems (MIS)	1. Training in Power Sector Reforms 2. Unbundling of the Technical Services Directorate into two separate Directorates. One dealing with Electricity and Renewable Energy and the other dealing with Liquid Fuels and Gas. 3. Reviewed Conditions of Service 4. A Functional Review of MERA was undertaken by an independent consultant. The report was discussed and adopted by the MERA Board. Now being implemented.



STRATEGIC GOAL	STRATEGIC OBJECTIVES	ACHIEVEMENTS
		5. Developed a Fraud and Anti-corruption policy. A whistleblower policy was also developed. 6. Staff development was enhanced 7. Salary structure was reviewed. 8. Various policies were reviewed and new ones developed. 9. Management Information System phase one was implemented.
7. Strengthened Research in Energy Technologies	1. To develop controls for energy technologies 2. To increase the level of research in energy related affairs 3. To increase the capacity of MERA to facilitate research in energy 4. To disseminate best practices in energy technologies	Very little achievement was recorded in the energy technologies research.

## 2.3 Challenges Faced in Implementing the 2014 - 2018 Strategic Plan

Despite the above mentioned achievements, MERA faced a number of challenges in the course of implementing the 2014 – 2018 Strategic Plan. These have been classified in the following categories:

- Bureaucracy
- Finance
- Stakeholder Engagement
- Institutional Capacity
- Corporate Governance
- Energy Infrastructure and Regulatory Tools
- MERA's role as an Arbitrator
- Nature of MERA's Regulatory Practice
- Positioning MERA in the new Energy Market Structure, and
- MERA in the regional context.

### 2.3.1 Bureaucracy

MERA experienced delays in approval of proposed amendments to the Liquid Fuel and Gas Act, legislation to reduce levy credit period; and policies and administrative frameworks. Other delays related to Board Appointments, lack of implementation of the Bulk Purchase Procurement of fuel leading to high landed costs.

### 2.3.2 Finance

The challenges MERA faced related to inadequate financial resources, partly due to late or non-remit-tance and under declaration of levies by some major industry players. This was also compounded by MERA's inability to optimize license fee collection as billing is not yet automated.

### 2.3.3 Stakeholder Engagement

MERA undertook many initiatives to inform, educate and communicate with its many stakeholders. Despite these efforts, there is still some lack of clarity on MERA's roles and mandate. As a result, some stakeholders have unrealistic expectations of MERA. Further, some stakeholders also perceive that MERA is biased towards other regulated industry players. All these have tended to cast MERA in a negative light from stakeholders' point of view. MERA witnessed some negative advocacy undertaken by some Civil Society Organizations' and even Court Injunctions.

### 2.3.4 Institutional Capacity

During the period under review, MERA's staff compliment did not match the pressure of work. This affected the quality of services delivered. In addition, MERA did not have the capacity to undertake research on Energy Technologies.

### 2.3.5 Corporate Governance

During the last plan period, MERA took several initiatives to enhance corporate governance. MERA developed the following policies:

- Fraud and Corruption Prevention policy
- Whistle Blower policy
- Risk management Policy.

MERA has also established the following:

- Institutional Integrity Committee
- Risk Management Section within Internal Audit

In addition to the above, MERA engages External Auditors and Government Auditors and Procurement Auditors.

These initiatives are in line with international best practices of good corporate governance. However, there some perceptions by stakeholders about MERA's overall corporate governance.

These include the following:

- i. MERA's perceived lack of consistency in the application of its own laws and regulations,
- ii. Inadequate enforcement of laws leading to low compliance levels among industry players,
- iii. Perception of Regulatory capture by some big industry players,
- iv. Perceived lack of transparency in the review of energy prices,
- v. Perceived inadequate consultations with stakeholders especially with regard to energy projects,
- vi. Perception of political interference in the management and operations of MERA,

These perceptions by stakeholders may have created an unfortunate impression of poor corporate governance. This may have damaged the image of MERA in the standing of citizens, employees and potential investors among others groups. These issues will be addressed in the current plan.

### 2.3.6 Energy Infrastructure and Regulatory Tools

Another challenge that MERA faced in enforcement of its regulations is that some of the installed infrastructure countrywide is old. For example, MERA has modern construction standards for Petrol Stations. Yet a number of these stations were constructed a long time ago. So for MERA to enforce the new construction standards in this case is problematic. This contributes to low compliance levels by some industry players.

### 2.3.7 MERA as an Arbitrator

MERA has a complaints handling system which requires that aggrieved consumers should first report to the licensed energy supplier. MERA then requests the Licensee to provide feedback on how the consumer complaint was handled. This system has not gone down well with consumers who feel that MERA should take a pro-active stance and intervene on their behalf. As a result, some aggrieved consumers have stopped complaining preferring to “suffer in silence” but still believing that MERA has let them down.

### 2.3.8 Nature of MERA’s Regulatory Practice

Global practices in energy regulation indicate that there are 4 main types:

- Command and Control
- Self-Regulation
- Incentive Based Regulation, and
- Market Controls.

Command and Control regulation relies on legal standards which allow, prohibit or force certain activities to be undertaken. The same law also provides for sanctions to be meted out if standards are not complied with.

Self-regulation allows industry players or trade associations to develop their own rules (code of practice) on how to conduct their business. The association also monitors and enforces these rules, even where there is some form of Government oversight.

Incentive based regulation is based on “rewards and sanctions”. It views regulation as a “transaction” between the regulator and the regulated entity. Energy players may be given incentives such as subsidies to undertake a certain activity deemed to be socially beneficial. The benefit could also be taxes to limit or stop an undesirable activity. Market controls involves regulation based on competition laws (usually to level the playing field and /or prevent monopolies from emerging), regulation by contract and disclosure regulation.

Among these four types, MERA practices more of the Command and Control regulation than others. The advantages of Command and Control regulation includes the following: -

- It sets out clearly defined limits hence enabling decisive action against noncompliance; and
- It is amenable to fair and rapid implementation

The Command and Control regulation also has several disadvantages including: -

First, it requires very close working relationship between the regulator (MERA) and the regulated entities. An example is where MERA would ask for performance information from the regulated entity. In the long run, this close working relationship may easily lead to Regulatory Capture - A case of familiarity breeding contempt.

Second, command and control regulation can easily stifle an industry which is experiencing rapid technological changes like the energy sector. Since command and control regulation relies on existing laws, the speed of changing the laws does not match the speed at which the technological changes are taking place in the industry. This may make regulation to be ineffective.

Third, sheer volume and complexity of laws and regulations tends to lead to problems of enforcement. This is mainly because laws and regulations may not have been framed to encompass all possible activities being undertaken by industry players.

### **2.3.9 MERA and the New Energy Market**

Over the past 4 years, the energy industry in Malawi has witnessed transformation of epic magnitudes. This transformation has taken place within the ambit of the Government's Public Sector Reforms Programme which started in 2015. The reforms are being championed by the Office of the President and Cabinet through the Public Sector Reforms Management Unit.

In the Energy sector, the reforms led to the review of the Energy policy and Energy Law to address problems of unreliable power supply. As such, the Electricity Amendment Bill (2016) led to the unbundling of electricity generation from transmission and distribution. A new company called Electricity Generation Company (EGENCO) was created. The Electricity Corporation of Malawi (ESCOM) remained with transmission and distribution functions. It also led to the liberalization of the market to allow Independent Power Producers (IPP) to invest in the industry.

The Government also created the National Oil Company (NOCMA) in December 2010 to manage a strategic fuel reserve facility and promote upstream oil and gas exploration among other functions.

MERA developed regulations and guidelines for bulk procurement of fuel. MERA drafted the Liquid Fuel and Gas (Production and Supply) Regulations which designated NOCMA as the strategic fuel reserve agent in Malawi effective July 2018.

The implication of the above reforms is that MERA needs to reposition itself to effectively handle its roles and responsibilities in a vastly changed energy market. Among other issues, MERA needs to enhance its capacity not just in staff numbers but also the requisite competencies to be a truly effective regulator. In addition, MERA has to rethink its regulatory practice. MERA should progressively move away from the command and control type to a self-regulatory one. This will require to be studied carefully to come up with the best mode of transitioning.

### **2.3.10 MERA in the Regional Context**

MERA is an active player in the regional energy market. In line with international best practice, MERA needs to constantly benchmark its performance against other regional energy regulators.

With the strong political will from the Government, MERA can continue to operate more independently.

### **2.3.11 Emerging Issues**

In this section, we present issues which need to be considered going forward.

- i. The need to develop more frameworks to support the unbundled electricity market in Malawi such as a charter for Independent Power Producers.



- ii. Greater efforts at promoting the use of alternative energy sources at household level, for example, gas as a clean fuel for cooking.
- iii. Facilitating the coverage of retail service stations in rural areas
- iv. Implementing the transportation regulatory framework
- v. Implementing an optimal route mix i.e. road and rail modes for transporting fuel
- vi. Automating the licensing and billing functions
- vii. Enhanced stakeholder engagement especially information, communication and education by implementing MERA's Communications Strategy
- viii. Enhance MERA's image as a responsible corporate citizen by publicizing its Corporate Social Responsibility activities
- ix. Operationalizing the client service charter by reengineering critical core business processes, staff training and reviewing and simplifying application forms
- x. Enhanced staff capacity for undertaking research of new Energy Technologies
- xi. MERA to enhance training of industry players on a continuous basis
- xii. Enhanced Corporate Governance.



# CHAPTER THREE

## SITUATIONAL ANALYSIS

- PESTEL Analysis: An Overview.
- SWOT Analysis
- The Linkage
- Stakeholder Analysis and Management
- Emerging Strategic Issues

## 3. SITUATIONAL ANALYSIS

### 3.1 Introduction

In order to better understand the environment in which MERA operates, it became imperative to undertake a situational analysis. This was done using the PESTEL and SWOT analysis tools. PESTEL was conducted at three levels – international, regional and national. Later, PESTEL and SWOT were merged so as to isolate which factors presented either an opportunity or a threat to MERA.

Stakeholder analysis was also undertaken. In addition, stakeholder consultations were held in the three regions of Southern (Blantyre) Central (Lilongwe) and Northern (Mzuzu).

On the basis of the situational analysis, a number of critical issues were identified. These were later clustered into four Strategic Pillars for MERA's Strategic Plan.

### 3.2 PESTEL Analysis: An Overview.

The following is the analysis of how the external environment could impact the management and operations of MERA during the period 2020 - 2024.

PESTEL FACTOR	ISSUES
1. Political	<ul style="list-style-type: none"> <li>• The Trump Effect</li> <li>• War on Terror</li> <li>• Brexit</li> <li>• China Africa Relations</li> <li>• Government support to the Energy Sector</li> </ul>
2. Economic	<ul style="list-style-type: none"> <li>• Financing Global Climate Change programmes</li> <li>• Interest rates</li> <li>• Investments</li> <li>• Exchange rates</li> <li>• Trade Wars</li> </ul>
3. Social	<ul style="list-style-type: none"> <li>• Rapid population growth</li> <li>• Demand for Energy</li> <li>• Impacts on the environment</li> </ul>
4. Technological	<ul style="list-style-type: none"> <li>• Capacity for research</li> <li>• Energy Mix</li> <li>• Developments in ICT</li> <li>• Developments in the Transportation sector</li> </ul>
5. Environmental	I. MGDS III II. Renewable sources of Energy
6. Legal	<ul style="list-style-type: none"> <li>• Bureaucracy</li> <li>• Anti-Money Laundering Act</li> </ul>

The following section provides detailed analysis of each factor:

### 3.2.1 Political

The analysis points to a very fragile business environment over the 5-year plan period. The global political and economic landscape has changed drastically – thanks in part to the “Trump effect”. The USA President has almost single handedly dictated the pace and direction of the change. The “Make America Great Again” and “America First” campaigns have contributed to the reduction of American aid to developing countries. This has started to affect ongoing projects including those in the energy sector.

The continued fight against terror has contributed to reduced financial inflows to the developing world, some of which could have been in the energy sector.

The uncertainty over Brexit will most likely make the United Kingdom look inwards in an attempt to minimize the negative effects of withdrawing from the European Union. The United Kingdom has in the past been a traditional supporter of its former African colonies of which Malawi is one of them. This policy shift could also lead to reduced investments in Africa. The energy sector may not be spared. A countering effect to the above, is the growing relationship between China and Africa. The Chinese economy is officially the second biggest in the world. Chinese investment in Africa has been concentrated in infrastructure. The energy sector could also benefit from Chinese investment.

The Government has shown its support to the Energy sector especially through the Public Sector Reforms Programme. The passing of various pieces of legislation that has created new opportunities for investment in the Energy sector is testimony of this commitment.

### 3.2.2 Economic

Financing climate change mitigation globally is likely to suffer with the USA announcement of pulling out of the Paris Accord. Consequently, Malawi, like other African countries, must enhance domestic resource mobilization.

It is encouraging that the Reserve Bank announced early in 2019 a reduction in policy rate from 16% to 14.5% and the Lombard rate from 200 basis points to 40 basis points. The consequent drop in commercial bank interest rates from 26% to 14.9% is expected to spur borrowing by private investors some of whom could invest in the energy sector. However, this drop in interest rates must be accompanied by a reduction in the spread i.e. the margins between deposits and lending. Currently, deposits attract an average of 2.6% per annum whilst borrowing attracts 14.9% interest.

This has the potential of discouraging borrowing especially by small scale investors. This would negate the anticipated increase in borrowing hence make little impact on new investments in all areas of the Malawi economy. This would be in direct contrast to the MGDS III expectations on Domestic Resource Mobilisation. MGDS III anticipates increased resource mobilization based on expanding revenue by stimulating investment in economic activities. Fewer investments would lead to reduced tax base. In turn, this would mean less revenues accruing to the Government hence reducing its ability to invest in development projects including in the energy sector.

The exchange rate of the Malawi Kwacha to the United States Dollar is an important factor for MERA’s pricing of energy. There has been some semblance of stability in the exchange rate movement so far this year. The Government seems to be on course to maintaining the macroeconomic fundamentals.

The Trade Wars instigated by America will contribute to increasing the cost of doing business globally. It may also contribute to increases in oil prices particularly the sanctions America is imposing on Iran. This would mean Malawi spending more on oil imports. Such increased oil prices would call for using the most cost-effective routes for transporting fuel into Malawi so as to reduce the in bond landed costs. It is instructive that the Malawi Government has developed a Transport Master Plan 2017 – 2037. This plan envisages



investments in rail and maritime transport modes so as to reduce costs and ease pressure on roads. The implication for MERA is the need for continuous route assessment with a view to selecting the most appropriate ones.

On a more positive note, OPEC is reviewing its production cut agreement. This agreement entailed cutting oil production by 1.2 million barrels per day from January 2019 up to June 2019. Once the cut is relaxed, we would expect oil supply to increase hence contributing to a drop in prices.

### **3.2.3 Social**

Malawi's population is estimated at 17.5 million and is projected to grow to 19.4 million by 2022. The rapid population growth will translate into high energy demand especially at household level. As such, the energy sector must scale up efforts in expanding the country's energy mix so as to meet the anticipated demand for energy as Malawi steadily moves to a middle-income economy. Whereas the demand for electricity is 600 megawatts, Malawi only produces about 351 megawatts.

Another effect of the rapid growth in population is the impact on the environment. As people seek livelihoods, issues such as cutting down of trees for wood fuel and building houses near water catchment areas. The former effect would also contribute to deforestation hence affecting rainfall patterns. Reduced rainfall would then negatively impact on electricity generation and supply from hydropower sources.

### **3.2.4 Technological**

There is an urgent need for MERA to strengthen its capacity to carry out research especially on Energy Technologies. The knowledge so generated could benefit the country in terms of improved efficiency and increased use of clean energy products.

Developments in Information and Communications Technology (ICT) provide an opportunity for MERA to improve efficiency of operations. In addition, ICT has the potential of improving the efficiency of the Supply Chain in the energy sector in terms of access to and sharing of information.

The transport sector is developing very rapidly. This is so especially in energy sources for traction. Electric cars and solar powered vehicles are becoming commonplace in the developed countries. Soon, these developments will reach Africa. Already in Uganda, for example, they are experimenting with a solar powered bus for public transportation. In the city of Osaka in Japan, one company, Genepax is experimenting on a car using water to generate electric power. The energy generator takes out the hydrogen from the water, releases electrons and finally generates electric power. The car runs at 80km per hour. Service stations will in future also be selling water as an energy source for cars.

### **3.2.5 Environmental**

The Malawi Growth and Development Strategy III 2017 – 2022 whose theme is “Building a Productive, Competitive and Resilient Nation” is premised on 5 Key Priority Areas; Agriculture, Water Development and Climate Change Management; Education and Skills Development; Energy, Industry and Tourism Development; Transport and ICT Infrastructure; and Health and Population.

There is a clear link between the first and third priority areas. Water development and climate change have an impact on energy development. This calls for policies and strategies to counter the negative impacts of climate change. Of special mention is the importance of scaling up efforts in developing projects in Renewable Energy sources. This also calls for intensified public- private partnerships instead of leaving the burden solely on the Government.

### 3.2.6 Legal

Bureaucratic delays in changing proposed amendments to the Energy laws and regulations can make MERA ineffective as a Regulator. This is because technological changes will take place faster than the law changes. In as much as the country welcomes investment in the energy sector, it is imperative to ensure the effective implementation of the Financial Crimes Act and other legislations against money laundering.

### 3.3 SWOT Analysis

Below is a summary of MERA's internal strengths and weaknesses and the opportunities and threats in the external environment.

INTERNAL STRENGTHS	ELABORATION
MERA was established by statute.	<ul style="list-style-type: none"> <li>The Energy Regulation Act of 2004 gives the mandate to regulate the energy sector using other Energy Laws and Regulations.</li> </ul>
Self-sustaining organization	<ul style="list-style-type: none"> <li>Permanent dedicated levy to finance the operations of the Authority.</li> <li>Completion of own office accommodation</li> <li>Other sources of financing such as Office Complex rentals.</li> </ul>
Existence of Corporate Governance Structures.	<ul style="list-style-type: none"> <li>Independent Board of Directors and its Committees</li> <li>Competent Secretariat</li> </ul>
Qualified professional staff	<ul style="list-style-type: none"> <li>Academic qualifications at PhD, Masters, Bachelors, Diplomas, professional levels in disciplines appropriate for energy regulation;</li> <li>Staff with vast experience and membership to professional bodies;</li> </ul>
Effective operational systems	<ul style="list-style-type: none"> <li>Clear operating procedures, policies and standards</li> </ul>
Member of regional and international energy regulatory bodies	<ul style="list-style-type: none"> <li>Membership to RERA, AFUR, RAERESA for benchmarking with international best practices</li> </ul>
Clear reporting and differentiation of responsibilities in the organizational hierarchy	<ul style="list-style-type: none"> <li>Functional organizational structure,</li> <li>Clear Job descriptions</li> <li>Annual Work plans for each Directorate</li> </ul>
Well established advisory committees. Potential to retain qualified staff	<ul style="list-style-type: none"> <li>Low staff turnover</li> <li>Motivated staff</li> </ul>
National presence.	<ul style="list-style-type: none"> <li>Offices in all the three regions of the country- Southern, Central and Northern.</li> </ul>

INTERNAL STRENGTHS	ELABORATION
Inadequate interaction and engagement with customers and industry players	<ul style="list-style-type: none"> <li>Customers not satisfied with MERA's Services</li> <li>Inordinate delay in making decisions on regulatory matters.</li> <li>No consideration of the implications/ impact of MERA decisions on Consumers and Licensees.</li> <li>Inadequate staff complement.</li> </ul>
Limited capacity to monitor every energy undertaking	<ul style="list-style-type: none"> <li>Existence of many unlicensed operators in the industry</li> <li>Failure to inspect/check compliance by licensed operators</li> <li>Incomplete database of all energy operators</li> </ul>
Inadequate consultation with existing major stakeholders when engaging in a project	Lack of clear engagement framework with stakeholders.
Gaps, duplication and conflicting legal framework	<ul style="list-style-type: none"> <li>Multiple authorities confusing operators in the industry.</li> <li>Lack of clarity of certain provisions in the governing legislation.</li> <li>Current gaps in the legislation create uncertainty and leads to lack of compliance.</li> </ul>
Inadequate teamwork	<ul style="list-style-type: none"> <li>Lack of coordination of activities within Directorates/Sections</li> <li>Inadequate number of Management, Staff and executive committee meetings</li> </ul>
Inadequate Staff Welfare provisions	<ul style="list-style-type: none"> <li>Limited programmes to support Staff welfare activities</li> </ul>

EXTERNAL OPPORTUNITIES	ELABORATION
The energy sector is attractive to investors	<ul style="list-style-type: none"> <li>• Cost recovery tariff has been put in place.</li> <li>• Enabling legal framework – has been formulated and assented to.</li> <li>• Reasonable return on investment- can be earned by investors due to an enabling environment as stated above i.e. cost recovery tariff and enabling legal frame.work</li> </ul>
Wide labour market from which it can recruit personnel	<ul style="list-style-type: none"> <li>• Able to attract experienced, professional and qualified staff.</li> <li>• Availability of tertiary institutions providing specialized energy related courses.</li> </ul>
Linkages to regional and international bodies	Membership to regional bodies e.g. RERA, AFUR and RAERESA

EXTERNAL THREATS	ELABORATION
Lack of compliance to regulations by some players	<ul style="list-style-type: none"> <li>• Noncompliance with licensing conditions</li> <li>• Big monopolies – threat to enforce ment-regulatory Capture</li> <li>• Inadequate enforcement provisions and tools in the regulation.</li> <li>• Prevalence/dominance of illegal operators.</li> </ul>
Government bureaucracy and interference into organization's plans.	<ul style="list-style-type: none"> <li>• Delays in approval processes by other stakeholders such as law reviews and gazetting of regulations;</li> <li>• Government interference with matters that are within the Secretariat's mandate</li> </ul>
Political influence	<ul style="list-style-type: none"> <li>• Interference by political figures in MERA's decision making processes, i.e. license application.</li> </ul>
Land linked	<ul style="list-style-type: none"> <li>• Potential risk of security of energy supplies arising from disruptions in the existing supply chain.</li> </ul>



### 3.4 The Linkage

In the following section, we link PESTEL and SWOT Analyses

Issues and developments that are likely to impact negatively or positively on MERA's capacity to achieve Strategic Objectives	Effects of changes in terms of Opportunities and Threats to MERA	
PESTEL FACTOR	OPPORTUNITIES	THREATS
<b>Political</b> <ul style="list-style-type: none"> <li>• War on Terror</li> <li>• Brexit</li> <li>• Government support</li> </ul>	<ul style="list-style-type: none"> <li>• Government to explore alternative sources of investments in energy sector</li> </ul>	<ul style="list-style-type: none"> <li>• Possible disruption in oil supplies due to American sanctions on Iran. This could lead to a rise in oils prices on the international market thus affecting the In Bond Landed costs of fuel.</li> </ul>
<b>Economic</b> <ul style="list-style-type: none"> <li>• Financing Global Climate Change programmes</li> <li>• Interest rates</li> <li>• Investments</li> <li>• Exchange rates</li> <li>• Trade Wars</li> </ul>	<ul style="list-style-type: none"> <li>• Government to explore alternative sources of funding climate change programmes</li> <li>• The steady exchange rate of the Malawi kwacha to the US Dollar and its possible appreciation in future could reduce the In Bond Landed cost of fuel. This would be an immense boost to economic development in Malawi.</li> <li>• If the spread is narrowed, it could attract small scale investors to borrow funds for energy projects</li> </ul>	<ul style="list-style-type: none"> <li>• Inability to secure funding for climate# change programmes.</li> <li>• Climate change to have a negative impact on the energy sector in Malawi</li> <li>• The exchange rate depreciating against the US Dollar leading to high import costs of fuel.</li> <li>• The spread remaining big leading to small scale investor's inability to borrow funds for energy projects. Negative impact on the country's Energy Mix</li> </ul>

<p>Social</p> <ul style="list-style-type: none"> <li>• Rapid population growth</li> <li>• Demand for Energy</li> <li>• Impacts on the environment</li> </ul>	<ul style="list-style-type: none"> <li>• Increased population will demand more energy especially at household level</li> <li>• Malawi moves to middle income level. The growing middle class will be better able to afford energy.</li> <li>• Some of this middle class will become entrepreneurs hence increase the demand for energy for their businesses.</li> <li>• Higher energy consumption leading to higher levies for MERA in the long run.</li> </ul>	<ul style="list-style-type: none"> <li>• Rapid population growth leading to environmental degradation in pursuit of livelihoods</li> <li>• Possible encroachment at water catchment points thus affecting sources of water supply for hydropower generation</li> <li>• Cultural beliefs and literacy levels may hinder adoption of clean energy sources like gas for cooking at household levels</li> <li>• Cases of vandalism, theft of power cables, transformers may become more common- thus affecting operations of one of MERA's major customers, ESCOM</li> </ul>
<p>Technological</p> <ul style="list-style-type: none"> <li>• Capacity for research</li> <li>• Energy Mix</li> <li>• ICT</li> <li>• Developments in Transportation</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced capacity to conduct research leading to knowledge sharing</li> <li>• More efficient and high-quality energy products leading to high consumption rates</li> <li>• Developments in Transportation such as Electric cars and Hybrid cars (electric and fuel) leading to demand for energy. MERA should create an enabling environment for electric and hybrid cars.</li> <li>• More efficient communication facilitating information sharing.</li> <li>• Enhanced supply chain management due to greater use of ICT.</li> <li>• MERA using ICT for billing and invoicing for levies.</li> </ul>	<ul style="list-style-type: none"> <li>• No or little uptake on research results</li> <li>• Possible resistance to adopting new energy products</li> <li>• Cybercrimes</li> </ul>

<b>Environmental</b> <ul style="list-style-type: none"> <li>• MGDS III</li> <li>• Renewable Energy Sources</li> </ul>	<ul style="list-style-type: none"> <li>• Intensified search for solutions mitigates negative impact of climate change for the energy sector</li> <li>• Environmental Impact Assessments for all new energy projects</li> </ul>	<ul style="list-style-type: none"> <li>• Inability to mobilize adequate resources to mitigate climate change on energy sector</li> </ul>
<b>Legal</b> <ul style="list-style-type: none"> <li>• Bureaucracy</li> <li>• Anti-Money Laundering</li> </ul>	<ul style="list-style-type: none"> <li>• MERA should engage and sensitize the Government on the negative impact of delays in approving proposed amendments to legislation on the energy sector.</li> <li>• Assurance that only genuine and clean investors participate in the energy sector</li> </ul>	<ul style="list-style-type: none"> <li>• Delays in approvals of amendments making MERA's Regulatory oversight ineffective.</li> <li>• Weak enforcement of laws leading to influx of illegal operators in the energy sector</li> </ul>

### 3.5 Stakeholder Analysis and Management

Stakeholders were engaged as part of the process. This led to the following needs and expectations for the period 2020 -2024:

- i. MERA should be seen to be independent and unbiased in decision making
- ii. Timely processing of requests
- iii. Enhance information communication and education of stakeholders especially regarding to MERA roles and functions
- iv. Strict enforcement of Safety Standards
- v. Increased research activities in energy sector
- vi. Collaborate with Malawi Bureau of Standards in regulating importation of supplies of Renewable energy products
- vii. Continuous Professional Development of Energy Industry players
- viii. Consistency in the application of Regulations
- ix. Transparency and openness
- x. Improved efficiency in operations.

The stakeholder analysis undertaken indicates that MERA has several very influential stakeholders. Many of these stakeholders have very high interest in the work of MERA. In this regard, MERA will continue to engage them to leverage their contributions. This Strategic Plan will be the main platform for engagement.

A stakeholder map which summarizes the various relationships is shown below.

SECONDARY PRIORITY- HIGH POWER, LOW INTEREST	TOP PRIORITY – HIGH POWER, HIGH INTEREST
<ul style="list-style-type: none"> <li>• Comptroller of Statutory Corporations</li> <li>• Ministry of Labour</li> <li>• Ministry of Justice and Constitutional Affairs</li> <li>• Road Traffic and Safety Services</li> <li>• Anti-Corruption Bureau</li> <li>• DHRMD</li> <li>• National Audit Office</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Natural Resources, Energy and Mining</li> <li>• Department of Energy Affairs Ministry of Finance</li> <li>• Competition and Fair-Trade Commission</li> <li>• Consumer Affairs of Malawi (CAMA)</li> <li>• RERA</li> <li>• AFUR</li> </ul>
LOW PRIORITY- LOW POWER, LOW INTEREST	SECONDARY PRIORITY- LOW POWER, HIGH INTEREST
<ul style="list-style-type: none"> <li>• National Construction and Industry Council</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Transport</li> <li>• Reserve Bank of Malawi</li> </ul>
<ul style="list-style-type: none"> <li>• National Commission for Science and Technology</li> <li>• National Statistical Office</li> <li>• MEJN</li> <li>• Electrical Contractors Association of Malawi</li> <li>• Road Transport Operators Association</li> <li>• TEVETA</li> <li>• Atomic Energy Regulatory Authority (AERA)</li> <li>• Malawi Environmental Protection Agency (MEPA)</li> </ul>	<ul style="list-style-type: none"> <li>• Malawi Bureau of Standards</li> <li>• Ministry of Trade</li> <li>• Tertiary Institutions</li> <li>• Independent Power Producers</li> <li>• International Haulage Brokers</li> <li>• Afrox Malawi</li> <li>• Ethanol Industry</li> <li>• Oil Marketing Companies</li> <li>• Single Buyer (ESCOM)</li> </ul>

MERA will disaggregate the map and engage each stakeholder in their own right. Four main strategies will be used:

- Consultations and Feedback
  - o Consultations and Feedback will be through surveys and focus group meetings
- Involvement and Collaboration
  - o Involvement and Collaboration will be through workshops, polls and fora.
- Information Sharing
  - o Information sharing will be through Annual Reports, Website, Newsletters and Media Conferences.
- Engagement and Empowerment.
  - o Engagement and Empowerment will be conducted through open dialogue, joint planning sessions and “one –on- one” meetings.

### 3.6 Emerging Strategic Issues

On the basis of the institutional analysis - PESTEL, SWOT and linkage of the two, the following strategic issues were identified:

- The country’s electricity generation is over reliant on hydro power sources. As such, low rainfall leads to inadequate capacity hence load shedding;

- High losses in transit fuel much in excess of the internationally acceptable standard of 0.5%
- MERA should enforce compliance of the Law regarding levy remittance;
- To improve efficiency in revenue collection, MERA should automate its invoicing system for levies and optimize license fees collection;
- MERA should strive to have alternative sources of revenue;
- Need for Frameworks for approval processes in the development and review of regulatory frameworks;
- MERA should do all it can to ensure a level playing field and encourage competition in the energy sector;
- There is need for improving enforcement mechanisms as some industry players are operating illegally i.e. Unlicensed operators;
- Streamlining the energy pricing review mechanisms to ensure predictability of energy decisions;
- There is need to continue creating a conducive environment to attract more investment in the energy sector. This should be targeted at both domestic and foreign investors;
- MERA should increase its staff complement and competencies to match the increased workload;
- MERA must engage the Government over the lengthy consultation process in approval policies and administration frameworks;
- Business Process Re-engineering must be conducted regularly to enhance efficiency;
- MERA should enhance use of ICT in its operations.





# STRATEGIC DIRECTION

Vision: “To be a recognized global leader in energy regulation.”

Mission: “Regulating the energy sector for sustainable development in accordance with international best practices.”

- **Values**

Transparency:

Accountability:

Responsiveness:

Integrity:

Professionalism:

Impartiality:

Teamwork:

- **Strategic pillars and strategic objectives**

Strategic pillar 1: Positive Contribution towards an Energy Secure Nation

Strategic Pillar 2: Financial Sustainability

Strategic Pillar 3: Efficient and Effective Service Delivery

Strategic Pillar 4: Public Trust

## CHAPTER FOUR

## 4.0 STRATEGIC DIRECTION.

**Vision:** “To be a recognized global leader in energy regulation.”

**Mission:** “Regulating the energy sector for sustainable development in accordance with international best practices.”

### 4.1 Values:

- **Transparency:** We shall deliver our duties and responsibilities openly and give reasons for any administrative decision and actions if required.
- **Accountability:** We shall be responsible and accountable to the government and the public for our decisions and submitting to whatever scrutiny appropriate to our office.
- **Responsiveness:** We shall listen to our Customers and treat them with dignity and respect
- **Integrity:** We shall put the interests of our customers above our own and shall conduct ourselves in a manner that is above reproach
- **Professionalism:** We shall carry out our duties with high degree of expertise, skill and competence while maintaining high ethical standards
- **Impartiality:** We shall exercise fairness in adjudicating on matters based on approved policies and regulations without bias and prejudice
- **Teamwork:** We shall achieve our goals by embracing diversity and supporting each other.

### 4.2 Strategic Pillars and Strategic Objectives

The plan is organized around four strategic pillars as follows:

**Strategic pillar 1:** Positive Contribution towards an Energy Secure Nation

**Strategic Pillar 2:** Financial Sustainability

**Strategic Pillar 3:** Efficient and Effective Service Delivery

**Strategic Pillar 4:** Public Trust

The following is the justification for each pillar and in terms of what MERA’s contribution would be and why it is important for the organisation to make investments in this area. The strategic pillars show the lead role that MERA will play as a regulator in partnership with industry players and other Government agencies. Three pillars are internal to MERA and support the core pillar: MERA’s contribution to an energy secure nation. This reflects the importance that the energy sector enjoys under Malawi Growth and Development Strategy (MDGP) III.

#### 4.2.1 Strategic pillar 1: Positive Contribution towards an Energy Secure Nation

Malawi’s energy sector will keep undergoing a transformation as the country races towards a middle-income status. This growth will lead to increase in energy use to power the economy.

The energy mix is also expected to undergo further rebalancing to include new and renewable energy sources. This environment will pose a challenge to the energy sector players and also MERA as a regulator. MERA’s regulation of the industry should result into predictable and reliable energy supplies to ensure the country has energy security in terms of supply, quality and distribution.

In the complex and rapidly evolving energy marketplace, environmental scanning is necessary to ensure that market rules are effective and practicable for those who must follow them. MERA monitors market activities and conducts audits of regulated entities to understand the factors affecting compliance and facilitate compliance through information sharing, feedback, and practical recommendations.

The following were identified as the Strategic Issues that will require attention during the plan period:

- What is the Impact of load shedding due to inadequate capacity in electricity generation and supply?
- Why is Malawi experiencing high losses in transit fuel?
- What should be done to reduce the delays in approval processes in the development and review of regulatory frameworks?
- Why is there inadequate innovations and research in the energy sector? What is the impact on service delivery?
- What should be done to create a level playing field and encouraging competition in the energy sector?
- What should be done to improve enforcement mechanisms?
- What should be done to make the energy pricing review mechanisms more predictable?
- How do we make the investment climate in the energy sector attractive?

Under this pillar, the following strategic objectives will be pursued:

1. Increase compliance with Energy laws to detect and deter market manipulation to create a level competitor environment
2. Promote the development of safe, reliable and secure energy infrastructure that serves the public and consumer interest
3. Minimize risks to the public in energy infrastructure development in compliance with energy and environmental laws.
4. Implement a predictable and reliable pricing mechanism that promotes transparency in decision making.

#### ***4.2.1.1 Strategic Objective 1.1: Increase compliance with Energy laws to detect and deter market manipulation to create a level competitor environment***

The Energy laws, along with other statutory authorities, give MERA oversight and enforcement responsibilities that focus on increasing compliance of regulated entities and detecting and deterring market manipulation.

Within the compliance focus of this objective, MERA gathers information about and analyzes market fundamentals, behaviour, and other trends in order to take proactive steps to reduce the probability that violation of applicable laws, regulations, or market rules will occur. MERA also polices compliance programmes and employs a robust audit programme to identify problems and provide recommendations to improve compliance. In addition, MERA makes market and audit data transparent to the public and market participants so that market efficiency is promoted, and anomalies and areas of concern may be identified and reported.

Fraud and market manipulation pose a significant threat to the markets overseen by MERA, and the financial harm imposed by such actions ultimately is borne by consumers. To detect and deter fraud and market manipulation, MERA uses market surveillance and other sources to identify indications of misbehavior. MERA then conducts investigations, and, when appropriate, exercises the Authority's civil penalty authority to discourage violations. Promoting compliance and inhibiting market misconduct strengthen markets, increases market confidence, and supports the Authority's goal of ensuring that rates, terms, and conditions of jurisdictional energy services are just, reasonable, and not unduly discriminatory or preferential.

#### ***4.2.1.2 Strategic Objective 1.2: Promote the development of safe, reliable and secure energy infrastructure that serves the public and consumer interests***

The nation's demand for energy will continue to grow, requiring the expansion of the infrastructure that provides that energy. This relates to the Infrastructure for which MERA approval is required (in future this may include natural gas pipelines and other fuel storage projects (LNG facilities). These facilities are critical to meet the nation's growing energy needs.

Ensuring the development of safe, reliable, and secure infrastructure that provides energy for consumers at a reasonable cost is a significant, multifaceted challenge. Interest in developing more hydropower projects has also increased. Hydropower facilities provide renewable and domestic energy. MERA's role as an independent regulatory agency includes both the review of infrastructure projects as well as the minimization of risks to the public in the operation of the infrastructure. To promote safe, reliable, and secure infrastructure, MERA shall ensure the sustainability and safety of energy projects and throughout their entire life cycle; oversee the development and review of, as well as compliance with, mandatory reliability and security standards for the bulk-power system.

#### ***4.2.1.3 Strategic Objective 1.3: Minimize risks to the public in energy infrastructure development in compliance with energy and environmental laws.***

The Energy laws, among other statutory authorities, charge MERA with ensuring that energy infrastructure, once approved, continues to operate safely and reliably. Failure of Liquefied Natural Gas or hydropower infrastructure due to structural issues, unsafe operations, natural disasters and physical attacks, or other hazards can result in loss of life as well as negative environmental and economic consequences.

In addition, MERA has the authority with respect to oversight on reliability standards for the energy system and oversight of electric reliability. In fulfilling these responsibilities, it is critical that the authority minimises risks to the public associated with MERA-jurisdictional energy infrastructure. MERA achieves this objective through a range of activities. MERA conducts timely safety reviews and inspections with rigorous requirements, thereby advancing the safety of the energy system. MERA also oversees the development and review of mandatory reliability and security standards for the energy system, as well as compliance with these standards. In addition, MERA collaborates with regulated entities and other government agencies to identify and seek solutions to threats to MERA-jurisdictional infrastructure, facilitating proactive efforts that prevent or mitigate loss or damage.

#### ***4.2.1.4 Strategic Objective 1.4: Implement a predictable and reliable pricing mechanism that promotes transparency in decision making.***

The nation's security and economic prosperity depends on maintaining economically efficient, safe, reliable, and secure energy services at a reasonable cost for consumers. MERA's regulation ensures just and reasonable levies, tariffs, terms, and conditions for regulated services. In carrying out its regulatory role, MERA uses a range of legal instruments as well as market oversight and enforcement. This is done in an open and transparent manner.

Electricity, natural gas, and oil are vital resources that fuel economic activity and help to meet the nation's energy needs. Through the Energy laws, MERA has authority to regulate the energy sector players. MERA carries out this responsibility by issuing orders and policies that continually balance three important interests: protecting energy consumers against excessive prices, overall impact on the economy and providing an opportunity for regulated entities to recover their costs and earn a reasonable return on their investments.

In exercising its authority, MERA ensures that interested stakeholders have the opportunity to provide their views. Stakeholder engagement and transparency help MERA establish regulations and revised laws that result in just, reasonable, and not unduly discriminatory or preferential tariffs/levies, terms, and conditions.

## 4.2.2 Strategic Pillar number 2: Financial Sustainability

The financial sustainability strategy must consider the short- and long-term financial needs of MERA. In recognition of the importance that financial stability gives to MERA operations, more efforts will be made during the plan period to increase and diversify MERA's revenue base. The real needs of regulated entities, consumers and the general public will have to be met in a balance that is always challenging. MERA as a public institution collecting public funds and regulating a key sector of the economy must strive to be accountable as a good steward.

The operations of MERA are funded based on both percentage amounts and not on quantum basis. This makes the income to MERA to fluctuate on basis of both revenue and volumes of imported products by the regulated entities. In addition to this, MERA has a single stream revenue from fees and levies. The financial sustainability initiatives must try to diversify the revenue base. All efforts will be made during the plan period to ensure that MERA attains some level of financial sustainability. The following are the strategic issues that need to be addressed during the plan period:

- Inability to optimize license fees collection due to system operation challenges
- Lack of other alternative sources of revenue besides levies and license fees
- Enforce compliance of the Law regarding levy remittance
- Inefficiency in revenue collection

The strategic objectives to be achieved under this strategic pillar are:

1. To increase collection rates by strict enforcement of compliance of the law regarding levy remittances
2. Increase revenue generation base by growing new income generation streams
3. Promote efficiency and effectiveness in financial resource mobilization and adherence to budget plans.

### ***4.2.2.1 Strategic objective 2.1: To increase collection rates by strict enforcement of compliance of the law regarding levy remittances and improve efficiency on revenue collection.***

Levies are a major source of revenue that supports MERA's operations. This source is guaranteed under the Energy Laws. The Law stipulates that all licensees shall remit levies to MERA within 45 days from the date of sale of energy products. Some licensees however do not comply with this provision hence affecting the available cash flows to MERA which in turn affect implementation of planned activities.

### ***4.2.2.2 Strategic Objective 2.2: Increase revenue generation base by growing new and additional income generation streams***

MERA relies heavily on fuel levies and levies from regulated entities. Moving forward in the next five years, ways and means will be explored to increase the revenue base. This will strengthen the financial base of the Authority and help to ensure predictability and sustainability of operations. Under this strategic objective, efforts will be deployed towards achievement of financial sustainability.

### ***4.2.2.3 Strategic Objective 2.3: Promote efficiency and effectiveness in financial resource utilization and adherence to budget plans***

The Authority will develop and implement financial policies, controls, budgets and the management of MERA's accounting systems and related services to ensure prudent management of the Authorities financial resources including assets and levies. Efficiency in billing and revenue (fees and levies) collection, expenditure control, sourcing finance for project investments, financial management and reporting including budgeting and forecasting financial requirements besides providing financial advice to management will be enhanced. Under this strategic objective, MERA will ensure value for money in all operations is achieved to serve the public interest.





### 4.2.3 Strategic Pillar 3: Efficient and Effective Service Delivery

During the plan period MERA will ensure that all support and administrative systems respond to the business needs to increase customer satisfaction. MERA will achieve organizational excellence by using resources effectively, adequately equipping employees for success, and executing responsive and transparent processes that strengthen public trust.

The public interest is best served when the Authority operates in an efficient, responsive, and transparent manner. The Authority will pursue this objective by maintaining processes and providing services in accordance with governing statutes, authoritative guidance, and adopting best practices.

The Authority's staff, while serving in different functional offices and locations, will work collaboratively and execute processes that work in concert with each other to produce the high-quality results expected by the regulated entities and citizens. The Authority will use its resources efficiently, empower its employees, and earn the public trust.

The following are the strategic issues that need to be addressed during the plan period:

- Strengthen staff competencies and skills to increase institutional capacity
- MERA remuneration be benchmarked against the market and regulated entities for motivation
- Engage Government Departments and Agencies regarding lengthy consultation process in approval of policies and administration frameworks
- Improve business processes through technology
- Improve operational and service efficiency
- Improve data and information security
- Recruit, develop and retain high caliber staff
- Provide conducive working environment

In view of the above, the following strategic objectives will be achieved to increase operational efficiency and effectiveness.

1. To strengthen institutional capacity through staff recruitment, capacity development and staff motivation to meet evolving market challenges.
2. Implement and deploy modern information communication technologies to meet market demands
3. Improve the work environment to increase efficiency and staff motivation

#### ***4.2.3.1 Strategic Objective 3.1: To strengthen institutional capacity through staff recruitment, capacity development and performance management to meet evolving market challenges.***

On an annual basis, MERA allocates a significant portion of its budget to strengthen its institutional capacity; learning and growth; and best in class processes and directly cover the compensation costs of its employees. Given this investment, MERA will place extremely high value on its employees and is focused on ensuring that employees have a performance management system that clarifies expectations, removes barriers to performance and engagement, and provides useful, honest and timely feedback that supports employee effectiveness.

To enable the effective execution of performance expectations and responsibilities, MERA provides technology, employee development and training programs, and health and wellness programs. Regular performance appraisals indicate how well employees are performing against expectations and objectives, identify performance issues and obstacles, and provide honest and timely feedback that enables performance improvement.

As MERA faces new and increasing challenges, the demands on offices and employees continue to grow. To keep up with this scenario, the Authority will provide support that addresses internal needs (learning and growth; and best in class business processes) and enables organizational excellence. MERA will achieve this objective by providing processes and services that help office leadership prioritize resource allocations, make prudent investments that yield returns that directly benefit the agency's mission, and use resources in an efficient manner. These processes and services also help management meet statutes that require the Authority to recover its operating costs from the entities it regulates and do so in a manner that avoids unnecessarily increasing the cost of energy to consumers.

#### ***4.2.3.2 Strategic Objective 2: Implement and deploy modern information communication technologies to meet market demands 3.***

The advances in information technology will usher in the virtual organisation where space is no longer physical. This will have a deep impact on how MERA regulates the industry and how it does business internally and with its customers. The block chain technologies, artificial intelligence and internet of things will impact organisations in ways not imagined before. During the plan period, MERA will invest in new ICT capabilities to cope with a changing business environment. MERA is regulating an industry that is sophisticated. As such, the Authority has to keep pace to remain effective. The next five years will witness growth and innovations in the ICT sector that MERA needs to take advantage of.

#### ***4.2.3.3 Strategic Objective 3: Improve the work environment to increase efficiency and staff motivation***

Exciting and enabling working environment will spur efficiency in service delivery as members of staff will be motivated. MERA will construct the modern Office Complex that provides modern office features and ample office space for members of staff, and office facilities for health and wellness activities as well as lactating room.

The Authority will ensure that there is secure, convenient and safer working environment for its staff to align with the local and international regulations and best standards.

#### **4.2.4 Strategic Pillar 4: Public Trust**

MERA will learn public trust and understanding of its activities by promoting transparency, open communication, and exemplifying high standard of ethics. Trust and understanding will increase acceptance of MERA decisions and reduce the potential for the public to dispute MERA decisions and regulations. MERA's proactive communication, along with an online presence and timely responses to inquiries, foster awareness and understanding of the Authority's activities. The Authority also advances this objective by maintaining internal processes and services that ensure adherence to statutes, regulations, and self-imposed standards. In addition, MERA will provide training and guidance to promote an ethically informed workforce.

The following strategic issues have been highlighted for action during the plan period:

- Negative advocacy by stakeholders impacting on the image of MERA
- Information asymmetry between MERA and Stakeholders on developed policies and frameworks
- Stakeholders perception that MERA is biased towards other regulated entities
- Lack of clarity on stakeholders' role on implementation and solicitation of energy projects

In view of the above, the following strategic objectives will be pursued over the plan period:

1. Increase compliance by identifying anomalies and potential improvements, and through stakeholder education and outreach.
2. Improve public relations programmes to the regulated entities, consumers and the public
3. To improve Inter-institutional cooperation, coordination and communication to strengthen service delivery.
4. Improve corporate governance systems

During the plan period, there is need to change the public's negative perception on the integrity of MERA employees. Efforts will be deployed to ensure that public confidence in MERA is restored. The following strategies will be implemented to achieve this:

- Enhance transparency in MERA processes;
- Develop a complaints procedure charter and increase access to the leadership of the MERA to deal with specific complaints;
- Introduce public awareness campaigns to educate members of the public on their rights and obligations and MERA procedures and processes



- Periodical sensitization of employees on ways and means of avoiding corrupt practices such as, soliciting or receiving bribes for service delivery and the consequences thereof
- Development of the Code of conduct and Ethics and sensitization of employees
- Training programmes will be available and will include topics such as ethics and accountability.

#### *4.2.4.1 Strategic objective 4.1: Increase awareness about MERA's role and mandate*

Transparency in energy regulation is an integral part of building Public Trust. However, transparency is to be buttressed by initial understanding of the regulators mandate. Transparency and open communication will ensure that regulated entities and other stakeholders have access to timely and accurate information about the Authority's activities. Public discontent with MERA's decisions emanates from lack of understanding of MERA's role and mandate and limited appreciation of the regulator's procedures and processes. This calls for MERA to create widespread understanding of its activities and generate support for its decisions. This can be achieved through enhanced dissemination of information, visibility, and improved stakeholder and public engagement. Measuring public awareness and confidence in MERA will help the Authority identify information gaps, formulate and implement more effective stakeholder and public awareness initiatives.

The strategic objective 'increase awareness about MERA's role and mandate' will be pursued through the following:

- Enhanced stakeholder sensitization on MERA regulatory oversight role
- Creation of partnerships and networks for disseminating information
- Operationalization of the Client Service Charter by re-engineering processes, training staff.
- Acceleration of implementation of MERA Corporate Social Responsibility
- Development of Communications and stakeholder engagement strategy
- Conducting Customer Perception Surveys on a regular basis.

#### *4.2.4.2 Strategic objective 4.2: Improve complaints handling and customers' understanding of their rights and responsibilities*

MERA is mandated to resolve or mediate consumer complaints against licensees in the energy sector. Delayed complaint resolution erodes consumer trust in the regulator. This exacerbates the culture of forbearance which prevents consumers from seeking MERA's complaints resolution services and in turn can encourage poor service and complacency from the licensees. Improved complaints handling, therefore, does not only seek to address challenges facing individual customers/consumers but also encourages licensee improved service delivery.

Inadequate consumer awareness on their rights and obligations contributes towards low levels of complaints lodged with the licensees themselves and the regulator. Consumer education and awareness programmes will empower consumers/customers to demand quality service from licenses as well as stimulate consumer compliance with their obligations. Specifically, strategies to be implemented for improved complaints handling and consumers' understanding of their rights and obligations include:

- Implement complaints handling mechanisms and protection of energy consumers in order to meet their needs.
- Develop and maintain internal processes and services that promote high standards of ethics
- Conduct sensitization meetings with consumers & disseminate messages through traditional and new media channels
- Conduct Knowledge Attitude and Practices (KAP) Survey
- Explore opportunities to engage more effectively with the public and enhance public participation in MERA proceedings through its online applications and website.
- Focus on deploying more flexible, multimodal mechanisms to enhance communication with the public and other stakeholders

#### 4.2.4.3 Strategic objective 4.3: Improve corporate governance systems

Corporate governance in energy regulation is an integral part of building a Public Trust. This strategic objective can be achieved by the following strategies:

1. Operationalize the works of the Institutional Integrity Committee (IIC)
2. Implementation of the Fraud and Corruption Prevention Policy
3. Operationalization of Tip Off Anonymous reporting and the Fraud Management Committee
4. Develop and Operationalize a Risk Management Policy.
5. Establish Risk Management Section
6. Provide Assurance to the Board of the Effectiveness, Risk Management and Internal

### 4.3 Strategic Plan Implementation Matrix 2020-2024

STRATEGIC PILLAR 1: POSITIVE CONTRIBUTION TO AN ENERGY SECURE NATION					
STRATEGIC OBJECTIVE	STRATEGIES	KEY PERFORMANCE INDICATOR	TARGET		ACTIVITY CHAMPION
			BASELINE	STRETCH	
1. Increased compliance with Energy Laws and regulations, detection and deterrence of market manipulation to create a level playing field	Regular review of laws, regulations and standards and penalties for non-compliance	Liquid Fuels and Gas Act and Energy Regulation Act reviewed and in use	Ministry notified and process has started	Act reviewed	DLABS
		Updated Energy efficiency guidelines, Electricity Reliability Standards and Metering Standards developed and in use	Energy Regulation Act in place	Electricity Reliability Standards and Metering Standards approved, gazetted and in use by 2020	DLABS
	Develop Energy Laws and associated Regulations and Standards.	Availability of Renewable Energy Act and Regulations;	National Energy Policy in place	Board approved Energy Efficiency guidelines and in use	DLABS
	Energy Strategy developed	% compliance with laws, regulations and standards	National Energy Policy in place	Enacted Renewable Energy Act and Regulation in operation.	DLABS
				Approved Renewable Energy Regulations	DLABS
		Availability of an IPP Procurement Service Charter ;	IPP Procurement framework developed	Enacted PPP Act that includes IPP procurement	DERE
				Board Approved IPP Procurement Charter in use	



	Energy Strategy developed	% compliance with laws, regulations and standards	National Energy Policy in place	Enacted Renewable Energy Act and Regulation in operation.	DLABS
				Approved Renewable Energy Regulations	DLABS
			IPP Procurement framework developed	Enacted PPP Act that includes IPP procurement	DERE
				Board Approved IPP Procurement Charter in use	
			Grid Code operational	Electricity Regulation approved, gazetted and in use.	DLABS
				Board approved Electricity codes in use	
		Rural Electrification Act and Incorporating Mini-Grid Framework	Amended Electricity Act 2010	Reviewed Electricity By-Laws approved by the Board gazetted and in use.	DLABS
			Approved Mini-grid framework		
			Rural Electrification Act 2004 in place	Enactment of reviewed Rural Electrification Act in use	
	Regular review of laws, regulations and standards and penalties for non-compliance	% of prosecutions against non-complying regulated entities Updated laws, regulations, standards and penalties in use.	90%	100%	DLABS
Stricter enforcement of laws, regulations and standards	Stricter enforcement of laws, regulations and standards				
Develop LFG Regulations	Develop LFG Regulations	% of regulated entities complying	84%	% of regulated entities complying	84%

	Greater use of Information technology fuel level sensing and in transit tracking of fuel supplies	% of in- transit fuel losses within acceptable limits	>0.5	≤0.5	DFG
	Promote greater use of Alternative Sources of Energy	% of the energy mix from alternative Sources of Renewable Energy	7	12	DERE
2. Promote the development of safe, reliable and secure energy infrastructure along the supply chain that serves the public consumer interest	Stricter enforcement of laws, regulations and standards	% of regulated entities complying;	70%	90%	DFG - Fuels DERE – Electricity
	Enforce compliance to standards along the liquid fuels and gas supply chain through Continuous review of the Liquid fuel and gas operations.	Number of compliance assessments done per year.	2	4	DFG
		% of compliant regulated entities	50	80	DFG
		Number of standards developed to guide operations along the supply chain	2	5	DFG
	Ensure availability of adequate infrastructure to achieve security of supply in the country (e.g. Storage facilities	% of licensees complying to storage capacity requirements.	10%	50%	DFG
		Increased fuel in days cover storage capacity in line with regulations.	30 DAYS	60 DAYS	DER
	transport facilities, retail service stations)  Diversify energy products to ensure optimum product mix	% cover of rural service stations developed in the country	20%	30%	DFG
		% uptake / Consumption of alternative fuel sources i.e. LPG and biofuels	1	3	DFG
		Number of regulatory frameworks and standards developed for alternative energy sources.	1	5	DFG

	Diversify product supply sources to ensure sustainability of supply through diversified routes and transportation mix	Number of alternative routes and supply ports	1	3	DFG
		Road freight rates reviewed per annum	3	5	DER
	Ensure efficient operations along the supply chain to reduce the landed cost of fuel	Number of reported accidents and incidents along the fuel supply chain.	7	3	DFG
		% of reduced in transit losses	0.5%	0.3%	DER
	Enhanced compliance to quality standards along the supply chain	Number of quality monitoring compliance assessments conducted	2	4	DFG
		% of compliant samples to quality standards	60%	80%	DFG
3. Promote the development of safe, reliable and secure energy infrastructure that serves the public consumer interest	Increase use of Alternative Sources of Energy				
		% increase in Public awareness carried out on efficacy of renewable energy technologies;	5%	90%	CPRM
	Continued technical audits and compliance monitoring on energy players	% of energy players complying with the Grid Code;	25%	80%	DERE
	Improved efficiency in Energy undertakings	Number of meetings regarding Grid Code and Market Rules Administration	4	4	DERE
	Investigate accident occurrence	% of Investigations of accidents occurrence in the energy supply industry.	100%	100%	DERE
	Develop and implement Bulk Procurement System regulations and guidelines	Availability of bulk Procurement System regulations and guidelines developed and implemented	0	1	DER

4. Implement a predictable and reliable pricing mechanism that promotes transparency in decision making.	Regulatory Audits on Energy Supply industry.	Number of audits conducted	2	4	DER
	Implementation of time-table for price approval Review of energy prices in accordance with Energy Pricing methodologies	% of satisfied stakeholders	50%	80%	DER
		Number of price reviews	12	12	DER

## STRATEGIC PILLAR NUMBER 2: FINANCIAL SUSTAINABILITY

1. To increase collection rates by strict enforcement of compliance of the law regarding levy remittances and improve efficiency in levy collection	Review timelines for the remittance of fees and levies	Reduction of Number of Levy collection days	45 days	30 days	DOF
	Automate licensing and billing functions	% of licensing and billing functions automated	0%	100%	DOF
	Enhance regulatory audit of the energy supply industry	Number of Regulatory audits	1 per month	1 per month	DOF
	Regular review of Energy fees and charges	Reviewed energy fees in use	2008	2020	DOF
		Legislation changed to incorporate new rates of fees and charges	2008	2020	DOF
2. Increase revenue generation base by growing new and additional income generation streams	Finalize construction of MERA office complex by 2020.	Construction of the MERA office complex completed.	45%	100%	DOF
	Designs and construct the Regional Office South by 2023	% construction		100%	DOF
	Investments of surplus funds	% of surplus funds invested	60%	100%	DOF
3. Promote efficiency and effectiveness in financial resource utilization and adherence to budget plans	Develop annual business plans	Business plans in place	1	1	DOF
	Produce monthly management accounts / reports comparing actual performance against plans	Monthly management reports	12	12	DOF
	Review and develop internal controls in cash management	Internal controls in place	100%	100%	DOF

## STRATEGIC PILLAR NUMBER 3: EFFICIENT AND EFFECTIVE SERVICE DELIVERY

STRATEGIC OBJECTIVE	STRATEGIES	KEY PERFORMANCE INDICATOR	TARGET		ACTIVITY CHAMPION
			TARGET	STRETCH	
1. Strengthen institutional capacity through staff recruitment, capacity development and staff motivation to meet evolving market challenges.	Implement competitive recruitment process	% of vacant positions filled	5%	0%	HRAM
		% of Staff Retention	95%	99%	HRAM
		Number of Staff given annual meritorious awards in excellent level of performance.	40	50	HRAM
	Regular review of conditions of service and policies	Number of policies developed and/or reviewed	6	10	HRAM
	Continuous upgrade of staff skills to match the changing competence requirements of MERA	% of Staff attending short- and long-term training	60%	100%	HRAM
	Implement the Performance Management System (PMS)	Revised PMS be implemented in the second year of Strategic Plan that will enhance overall staff productivity at the end of strategic plan period through PMS, Learning and Development, Resource Availability, Organizational Culture among others.	Current PMS	Revised PMS	HRAM
	Implement the Strategic Plan through the Individual Performance Agreement;	Annual PMS implemented in the final month of Financial Year in July leading to % increase in staff productivity	85%	100%	HRAM



	Implement the Functional Review	% of Individual Employee Work-plans linked to Strategic Plan.	0	24	HRAM
		Number of new positions filled			
2. Implement and deploy modern Information Communication technologies to meet market demands	Implement and Review Management Information Systems	% increase in ICT infrastructure and systems support services provided	20%	80%	ICT Manager
		% increase in on-the-job ICT training provided	30%	100%	ICT Manager
		% uptime of all computers and related	10%	98%	ICT Manager
		hardware			
	Implement and Review data, and information security measures	% of Modern and up to date ICT systems and services	40%	95%	ICT Manager
	Enhance use of Information technology in service delivery	Security of network and internet systems	80%	100%	ICT Manager
	Manage MERA ICT related Projects, corporate website and other online services	Operational, updated and dynamic MERA website`	90%	100%	ICT Manager
	Implement Business Continuity and Disaster recovery mechanisms	Availability of critical systems and data through online and offline technologies such as Work Folders, One Drive achieved	o	100%	ICT Manager
		Offsite Disaster recovery site in place and functional	o	100%	ICT Manager
3. Improve the work environment to increase efficiency and staff motivation	Construct Office Complex;	% of staff accommodated in modern offices;	60%	100%	HRAM
	Provide secure, convenient and safer working environment;	% of staff provided with modern ICT gadgets and office furniture;	70%	100%	HRAM

	Enhance use of HR Information System.	% of staff accessing bio data information and employee self-service (ESS)	100%	100%	HRAM
	Promote employee relations	Number of labour related workshops for staff union members conducted annually;	1	2	HRAM
	Implement the Workplace Health and Wellness Programs	Number of health and wellness programs in place.	3	5	HRAM
		% of Workshops under MBCA attended	100%	100%	
4. Improve User (internal customer) satisfaction to increase productivity	Minimize product/ service delivery lead times.	% of on time delivery	5%	90%	PO
	Right first-time full deliveries	% of full deliveries	5%	98%	PO
	Acceptable quality goods and services delivered.	% of rejected items	5%	100%	PO
	Compliance with procurement regulations	% of budgeted items procured.	70%	100%	PO
	Develop and review internal procurement policy and guidelines.	Availability of internal procurement policy and guidelines.	Nil	1	PO

## STRATEGIC PILLAR NUMBER 4: PUBLIC TRUST.

STRATEGIC PILLAR 1: POSITIVE CONTRIBUTION TO AN ENERGY SECURE NATION					
STRATEGIC OBJECTIVE	STRATEGIES	KEY PERFORMANCE INDICATOR	TARGET		ACTIVITY CHAMPION
			BASELINE	STRETCH	
1. Increase awareness about MERA's role and mandate	Enhance stakeholder sensitization on MERA regulatory oversight role	% of stakeholders who can correctly state MERA's role & mandate	50%	70%	CPRM
	Create partnerships and networks for disseminating information	% of Functional Partnerships developed	35%	90%	CPRM
	Operationalize the Client Service Charter by re-engineering processes and training staff.	% of clients satisfied with MERA services	70%	90%	CPRM
		% of stakeholders who perceive MERA to be accountable, transparent and ethical in business undertakings	68%	80%	CPRM
	Implement MERA Corporate Social Responsibility	% of planned Corporate Social Responsibility programmes successfully implemented	30%	80%	CPRM
	Conduct Customer Perception Survey	Number of Customer Perception service delivery report	1	2	CPRM
2. Improve complaints handling and consumers' understanding of their rights and responsibilities	Implement complaints handling mechanisms and protection of energy consumers in order to meet their needs.	% of consumer complaints resolved within the stipulated time frame	70%	90%	CPRM
	Conduct sensitization meetings with consumers & disseminate messages through traditional and new media channels	% of stakeholders aware of their rights and responsibilities	50%	70%	CPRM

3. Improve Corporate governance systems	Operationalize the works of the Institutional Integrity Committee (IIC)	Operationalize the works of the Institutional Integrity Committee (IIC)	5	5	ICC Chair
	Implementation of the Fraud and Corruption Prevention Policy	No of annual programs to Publicize the policy through radio and electronic media	3	5	IAM
	Operationalization of Tip Off Anonymous reporting and the Fraud Management Committee	% of number of reported fraud cases fully investigated	70%	100%	IAM
	Develop and operationalize a Risk Management Policy.	Risk Management Policy Developed and operationalized	0	1	IAM
	Establish Risk Management Section	No. of staff employed in the risk management section	0	2	CEO
	Provide assurance to the Board of the effectiveness of governance, risk management and internal	No of annual Internal Audit Reports to the Board (quarterly)	1	1	IAM
		% of Internal Audit Recommendations accepted by the Board	60%	90%	IAM

## 4.4 Monitoring and Evaluation Methodology

The Monitoring and Evaluation of the MERA Strategic Plan will follow the Implementation Matrix outlined above.

- i. Identification of MERA Strategic Pillars. These are the outcomes which will ultimately lead to impacts for which MERA wants to be held accountable for their achievement.
- ii. Identification of MERA Strategic Objectives (SO's) for each Strategic Pillar. These are the outputs which when collectively achieved, will contribute to the achievement will show the progress MERA is making towards achieving Strategic Objectives and ultimately Strategic Pillars.
- iii. Identification of Key Performance Indicators (KPI's) for each Strategic Objective.
- iv. Identification of Baseline data. This data shows the prevailing situation prior to the implementation of the MERA 2020/2024 Strategic Plan. In this case, the base year is 2019. Baseline data is useful for developing targets. This is because a target is made up of a baseline indicator plus the desired level of improvement. This makes it easier for MERA to assess if an improvement has taken place and by how much it is compared to the baseline or original situation. When targets have been formulated in this manner, it becomes easier to make comparisons
- v. Determining the frequency of Monitoring and Evaluation of MERA interventions. This maybe quarterly, annually or any other period deemed suitable for MERA.
- vi. Identification of Data Sources. These are sources where MERA will get information needed to mea

sure the Key Performance Indicators. Such sources include surveys, programme reports.

The MERA Monitoring and Evaluation framework is paradigm shift from a project and programmatic to Strategic Pillars / Outcome based. This framework is Results Based and focuses on the achievement of higher-level objectives and outcomes rather than lower level ones of inputs and activities.

### 4.4.1 Monitoring

Monitoring is a continuous process of systematically collecting data on a set of specified indicators. The main objective is to measure the progress programme interventions are making in achieving Strategic Objectives and ultimately the Strategic Pillars in the MERA Strategic Plan. Monitoring focusses on the efficiency of programme implementation.

### 4.4.2 Evaluation

Evaluation, on the other hand, is a systematic and objective assessment of an on-going, completed programme or policy design in terms of achievement of the desired results. Evaluation focuses on the effectiveness of programme implementation.

The Table below gives a summary of Monitoring and Evaluation:

Table 4.1 Monitoring and Evaluation: What and Why.

S/N	ASPECT OF MONITORING AND EVALUATION	WHEN CONDUCTED	OBJECTIVES
1.	MONITORING	<ul style="list-style-type: none"> <li>Continuously and regularly during implementation of the MERA Strategic Plan 2020/2024</li> </ul>	<ul style="list-style-type: none"> <li>Continuously and regularly during implementation of the MERA Strategic Plan 2020/2024</li> </ul>
2.	EVALUATION	<ul style="list-style-type: none"> <li>Conducted at different times during the implementation of the MERA 5-year Strategic Plan. i.e.                             <ol style="list-style-type: none"> <li>Before programme intervention (ex-ante)</li> <li>During implementation of programme interventions</li> <li>Mid way during implementation of programme interventions</li> <li>At the end of the implementation of the 2020/2024 MERA Strategic Plan, and</li> <li>Afterwards to determine the sustainability of impacts of achieving the Strategic Pillars (ex post).</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>To check the relevancy, efficiency, effectiveness impact and sustainability</li> <li>To improve the quality of programme interventions by taking corrective action, and</li> <li>To accumulate lessons to inform future planning within MERA.</li> </ul>

## 4.5 Critical Success Factors

The successful implementation of this Strategic Plan will depend on the following factors:

### 4.5.1 Leadership and Organizational Commitment

The following critical success factors will be required:

- Commitment and focus
- Flexibility to accommodate and manage change
- Value for money service delivery

### 4.5.2 Stakeholder and Employee Engagement

The following critical success factors will be required:

- MERA Senior Management
- MERA Staff who should be committed and motivated
- Licensees
- Suppliers
- Investors

### 4.5.3 Innovation

The following critical success factors will be required:

- Enhanced capacity for research and development
- New and demand driven energy products





# CHAPTER FIVE

## FINANCING AND RESOURCE MOBILIZATION FRAMEWORK

- Financing and Resource Mobilization Framework
- Financial Performance Review
- Projected Income and Expenditure
- Projected Funding Mix (Sources of Income)
- Estimated Cost for implementing the Plan
- Financial Sustainability.
- Investment Strategy
- Risk Management

## 5.0 FINANCING AND RESOURCE MOBILIZATION FRAMEWORK

### 5.1 Financial Performance Review

MERA financial performance was satisfactory during the strategic plan period 2014 to 2018 constantly achieving surpluses as can be seen in summary of Income and Expenditure presented in Table 1 below.

**Table 1: Income and Expenditure Summary 2014 to 2018**

S/N	DETAILS	2014 MK'000	2015 MK'000	2016 MK'000	2017 MK'000	2018 MK'000	Period Total
1	Total Income	1,817,188	2,766,460	4,259,220	5,326,332	6,802,266	20,971,466
2	Total Expendi- ture	(1,074,043)	(1,393,112)	(2,328,227)	(3,110,006)	(3,637,873)	(11,543,261)
3	<b>Surplus</b>	<b>743,145</b>	<b>1,373,348</b>	<b>1,930,993</b>	<b>2,216,326</b>	<b>3,164,393</b>	<b>9,428,205</b>

The total income grew from MK1.82 billion to MK6.80 billion during the period 2014 to 2018. MERA's major source of financing the Strategic plan for the period 2014 to 2018 was fuel levy which represented about 72% of the total income. In July 2015, there was a shift from absolute figure to ad valorem computation of fuel levy. This led to a change in computing fuel levy on percentage basis which contributed to the increase in the levy. Electricity and Gas levies represented 17% of total income. License fees and other income contributed about 2% and 9% respectively during the period.

### 5.2 Projected Income and Expenditure

MERA projects to have a positive performance during the plan period 2020 to 2024. The forecasted recurrent expenditure is planned to grow by an average of 10% annually. Table 2 below presents the projected Income and Expenditure summary for the plan period 2020 to 2024.

**Table 2: Projected Income and Expenditure the period 2020 to 2024**

ITEM	2020 MK'000	2021 MK'000	2022 MK'000	2023 MK'000	2024 MK'000	PLAN PERIOD
Income	8,256,375	8,806,737	5,913,198	10,287,508	11,110,505	47,974,327
Recurrent expenditure	(5,929,645)	(6,522,609)	(7,174,870)	(7,892,357)	(8,681,593)	(36,201,074)
Capital expenditure	(1,500,000)	(1,100,000)	(2,200,000)	(2,300,000)	(2,400,000)	(9,700,000)
Surplus	826,730	1,184,126	138,328	95,151	28,916	2,273,253

### 5.3 Projected Funding Mix (Sources of Income)

MERA has permanent dedicated levies to finance the various operations in accordance with the law. It is the levies that provide the bulk of the financial resources required for MERA's operations. The reliance on levies is expected to continue during the plan period. Table 3 below present the main sources of financing for the plan period and the projected income.

**Table 3: Projected Financing (Income Sources) Mix for the period 2020 to 2024**

S/N	Pillar	2020 MK'000	2021 MK'000	2022 MK'000	2023 MK'000	2024 MK'000	Total for Plan Period
1	Fuel Levies	6,152,400	6,644,592	7,176,159	7,750,252	8,370,272	36,093,675
2	Electricity and Gas Levies	1,500,720	1,515,727	1,667,300	1,834,030	2,014,450	8,532,227
3	License Fees	63,255	66,418	69,739	73,226	76,887	349,525
4	Other Income (Finance Income/ Interests/ Rent etc.)	540,000	580,000	600,000	630,000	648,900	2,998,900
	<b>Total</b>	<b>8,256,375</b>	<b>8,806,737</b>	<b>9,513,198</b>	<b>10,287,508</b>	<b>11,110,509</b>	<b>47,974,327</b>

## Some Key Assumptions for Income Projections

The income projected are based on the following key assumptions: -

- Fuel levies are assumed to grow by 8%. This has been the trend in the past
- Electricity levies are assumed to grow by 10% in line with the planned tariff increase as well as new connections
- License fees are assumed to grow by 5% in line with the past trends
- Other income is assumed to grow in line with projected surplus cash flows and current investment return levels.

## 5.4 Estimated Cost for implementing the Plan

About MK36.2 billion will be required to implement the Strategic plan 2020 to 2024. Table below presents the summary of the projected total expenditure for implementing each of the four strategic pillars.

**Table 2: Projected Income and Expenditure the period 2020 to 2024**

S/N	Strategic Pillar	2020	2021	2022	2023	2024	Total for Plan Period
		MK'000	MK'000	MK'000	MK'000	MK'000	MK'000
1	Positive contribution to an energy secure nation	2,673,142	2,614,806	3,146,287	3,585,801	4,073,578	16,093,614
2	Financial sustainability	1,637,150	1,964,580	2,025,300	2,165,046	2,316,599	10,108,675
3	Efficient and effective service delivery	1,400,191	1,680,229	1,732,160	1,851,680	1,981,298	8,645,558
4	Public trust	219,162	262,994	271,123	289,830	310,118	1,353,227
	<b>Total</b>	5,929,645	6,522,609	7,174,870	7,892,357	8,681,593	36,201,074

## 5.5 Financial Sustainability.

MERA's income is mostly dependent on the legislated levies. MERA will therefore seek to strengthen financial sustainability through the following measures: -

- Increase collection rates by strict enforcement of compliance of the law regarding levy remittances
- Increase revenue generation base by growing new and additional income generation streams
- Promote efficiency and effectiveness in financial resource utilization and adherence to budget plans
- Implement effective risk management measures
- Promoting an ethical culture, good governance, transparency and accountability

## 5.6 Investment Strategy

The economic environment in Malawi presents investment opportunities that could be explored by MERA in the long term as well as medium/ short term. MERA projects to have average annual cash and cash equivalents of more than MK2.3 billion during the plan period. Some of these funds will be held in trust for various government agencies and MERA is expected to remit to the relevant agencies within 7 days. Some funds are managed by MERA on behalf of agencies. Given the nature of the operations and in line with MERA's Investment policy, MERA's investment strategy will be biased towards the short term near cash financial instruments. In this regard MERA will continue to invest in term deposits with a diversified portfolio of financial institutions.

On the long-term investments, MERA will continue with the construction of MERA office complex at the headquarters in Lilongwe. Further investment in office complexes will be made for regional offices which will have some space for renting.

## 5.7 Risk Management

This section focuses on key risks at the strategic level. These risks will be regularly monitored and reported on during the Board meetings. It is noted that since new risks may emerge, management will keep assessing the environment in which MERA operates and update the risk register and bring to the attention of the Board any new strategic risks that emerge during the implementation of the plan.



## RISK MANAGEMENT MATRIX

S/N	RISK FACTORS	LIKELIHOOD	IMPACT	SEVERITY	MITIGATION
1	<b>Environmental risks</b> <ul style="list-style-type: none"> <li>Unfavourable climatic and weather conditions leading to erratic rainfall hence low electricity generation and supply. This would impact on MERA revenues/ levies from ESCOM</li> <li>Increased pressure on the environment due to rapid population growth rates. This would lead to accelerated deforestation as people search for wood fuel as a source of energy. Yet MERA is promoting the use of clean energy such as gas for cooking.</li> </ul>	3	4	12	<ul style="list-style-type: none"> <li>Encourage afforestation and avoid further deforestation</li> <li>Encourage use of alternative fuel to wood</li> <li>Support research in new energy technologies</li> </ul>
2	<b>Planning and Implementation Risks</b> <ul style="list-style-type: none"> <li>Compromised product / service quality due to noncompliance with operational standards in the supply chain. This could be partly due to old infrastructure</li> </ul>	3	5	15	<ul style="list-style-type: none"> <li>Enforce compliance to the remittance of levies by all regulated entities</li> <li>Carry out effective and independent regulatory audits</li> <li>Awareness campaign about the fraud and Corruption Policy and encourage people to report any malpractice</li> <li>Strengthen Risk Management processes by establishing a Risk management Section</li> </ul>
3	<b>Budgetary and Financial Risks</b> <ul style="list-style-type: none"> <li>Energy supplies falling short of industry and domestic requirements due to the country's poor energy mix</li> <li>Delays in receipt of fuel levy</li> <li>Major fuel importing enterprises not remitting the levies within the stipulated number of days.</li> <li>Failure to ensure total collection due to defaults or discrepancies.</li> <li>Fraud and corruption leading to ineffective assets and other resource utilization and financial loss</li> </ul>	4	4	16	



4	<b>Political interference</b> <ul style="list-style-type: none"> <li>In energy price setting</li> <li>Recruitment of senior members of staff</li> <li>Red tape may scare investors in the energy sector delaying financing of projects</li> </ul>	5	5	25	<ul style="list-style-type: none"> <li>Strengthen Legal Instruments that ensure MERA is independent</li> <li>Continue to lobby for the appointment of independent and professional non-political Board members</li> </ul>
5	<b>Business Continuity</b> Loss of Data and Information due to fire, Water, Cyber Attacks, Theft, Crashing of Machines, Sabotage Failure of Operational Systems Succession Planning	3	5	15	<ul style="list-style-type: none"> <li>Installing anti-virus software and setting up firewalls and keeping them updated</li> <li>Have secure login system in place to protect passwords</li> <li>Have a reliable offsite backup system</li> </ul>
6	<b>Technological Risks</b> <ul style="list-style-type: none"> <li>Absorption of available technology</li> <li>Lack of integration</li> <li>Technology obsolescence due to rapid changes</li> <li>Lack of capacity to use the technology by staff</li> </ul>	4	4	16	<ul style="list-style-type: none"> <li>training and capacity building</li> <li>Adopt use of user-friendly technologies and systems</li> <li>Regular replacement of old infrastructure</li> </ul>
7	<b>Governance and Reputational Risks</b> <ul style="list-style-type: none"> <li>Non-compliance with regulations, laws, and other mandatory MERA obligations.</li> <li>Application of MERA Fund resources towards non qualifying programmes</li> <li>Fraud, corruption, unethical behaviour and misconduct or major irregularity of staff.</li> <li>Perception of poor governance and accountability leading to reputational risk</li> <li>Failure to enforce the laws to the regulated entities</li> <li>Management override of internal controls</li> </ul>	4	5	20	<ul style="list-style-type: none"> <li>Operationalize risk management policy.</li> <li>Strengthen the capacity of internal audit division</li> <li>Effective Internal Audits</li> <li>Effective internal controls</li> <li>Encourage institutional integrity committee activities.</li> </ul>

8	<b>Human Resources Risks</b> <ul style="list-style-type: none"> <li>Employee Motivation</li> <li>Inadequate institutional and staff capacity (complement and competence) to deliver on the expected services</li> <li>Recruitment of staff without integrity</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>Enhance Conditions of Service review, salary restructure, and improve working environment.</li> <li>Invest in staff development programs.</li> <li>Align strategic training needs with training plans.</li> <li>Promote Soft Skill training.</li> <li>Promote Institutional Integrity Committee activities for staff.</li> <li>Review organizational functionalities and reporting lines.</li> <li>Promote regional skill development with regional energy regulators</li> <li>Lobby for development of long-term training development partners.</li> </ul>
9	<b>Legal and Compliance Risks</b> <ul style="list-style-type: none"> <li>Ineffective procurement processes due to noncompliance with the procurement laws and guidelines. This may result in financial loss and increased reputational risk</li> <li>Unsatisfactory regulatory environment</li> </ul>	4	5	20	<ul style="list-style-type: none"> <li>Enforce compliance with procurement and other laws by imposing stern punishment for any noncompliance and miss-procurements</li> <li>Encourage and instill compliance culture within the hierarchy by setting the compliance tone at the top</li> </ul>

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