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GRADUATE SCHOOL OF BUSINESS

EXECUTIVE MASTER OF BUSINESS ADMINISTRATION

RESEARCH TITLE:

An investigation into the challenges faced by Independent Power Producers
in starting up business operations in Zimbabwe (2009-2014)

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BY

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ABSTRACT

Zimbabwe is in an electricity crisis. The country is generating an average of 1300MW of electricity against a peak demand of 2200MW. The government effected reforms to liberalize the sector so as to allow private players called Independent Power Producers (IPPs) to enter the sector and complement efforts of ZESA, the state utility. However, five years after licensing, the majority of IPPs are yet to start-up their operations. Thus this study sought to investigate the challenges faced by IPPs in establishing their operations in Zimbabwe (2009-2014). An exploratory research design was used. Primary data was collected using questionnaires and interviews. Secondary data was used to complement primary data to do extensive theoretical and empirical literature review on the subject. The study revealed that Zimbabwe is employing a hybrid single buyer market structure. The key success factors for IPPs were access to finance, an enabling political environment, legislation, policies and regulation, and the independence of the regulator, ZERA. The majority of IPPs were experiencing political, Policy, and Social start-up challenges; Market, Commercial and Economic start-up challenges; Technical and physical challenges. The study also found that construction and completion risk; enforcement risk; Regulatory risk; sovereign risk; force majeure and change in law risks; technology risk; market demand risk to be the significant perceived risks. The study concluded that the major challenges faced by IPP start-ups were: lack of political commitment, regulatory approval inefficiencies, lack of regulatory clarity, high sunk costs of starting up, large capital outlay for power projects, lack of access to debt and equity financing, unattractive electricity prices and tariffs and the reliance on generation technologies that have not reached commercial maturity. The study recommended the government to fully liberalize the electricity sector by unbundling ZESA. Government should also allow ZERA full regulatory independence and expedite the gazetting of critical legislation and policies. The study also recommended the establishment of a “one-stop shop” for IPP establishment. ZERA should commission a system development plan and adopt international competitive bidding. IPPs were encouraged to form an association so as to coordinate their efforts. Further research can be done on the challenges faced by operational IPPs and renewable energy enterprises.