

**GET FiT
UGANDA**

LESSONS LEARNED FROM
**IMPLEMENTATION OF A SUCCESSFUL
PPP PROGRAMME**



2 SETTING THE STAGE THE BUILDING BLOCKS OF A SUCCESSFUL PPP PROGRAMME

SETTING THE STAGE

The building blocks of a successful PPP programme









Public-Private Partnership (PPP) programmes resulting in successful enabling frameworks for private investments in Renewable Energy (RE) are few and far between. In order to prove successful, the framework must be built from the bottom-up. This Lessons Learned briefing note outlines how GET FiT Uganda put in place the appropriate “building blocks” of a successful programme and how the GET FiT approach can inform future efforts in other countries.

NUMEROUS BUILDING BLOCKS MUST COME TOGETHER TO ENABLE A SUCCESSFUL PPP PROGRAMME.

The experience from GET FiT Uganda awards the implementation team the hindsight to reflect on these building blocks and their relative importance in terms of a successful programme. Drawing on this experience KfW commissioned a study of 10 African countries¹ in 2015-16 to assess the prospects of establishing a new GET FiT Programme. The assessment was based on a set of criteria that were considered to be representative along five dimensions (column headings in table below) intended to constitute the full range of essential building blocks for a successful RE PPP programme. The specific strengths and weaknesses of a country’s framework provided the starting point for determining the probability of success, the scale of the effort required and the specific instruments relevant for the programme.

¹ Multiconsult ASA and Frankfurt School



		Dimension 1	Dimension 2	Dimension 3	Dimension 4	Dimension 5
COUNTRY		RE potential and power market situation	Legal/ regulation/ policy/ framework	IPP pipeline	Financial landscape	Implementation consideration
	Readiness	●	●	●	●	●
	Outlook	➔	➔	➔	➔	
	Readiness	●	●	●	●	●
	Outlook	➔	➔	➔	➔	
	Readiness	●	●	●	●	●
	Outlook	➔	➔	➔	➔	
	Readiness	●	●	●	●	●
	Outlook	➔	➔	➔	➔	
	Readiness	●	●	●	●	●
	Outlook	➔	➔	➔	➔	
	Readiness	●	●	●	●	●
	Outlook	➔	➔	➔	➔	
	Readiness	●	●	●	●	●
	Outlook	➔	?	?	➔	
	Readiness	●	●	●	●	●
	Outlook					

READINESS ASSESSMENT CRITERIA

Dimension 1 - RE Potential and Power Market Situation	
1	There is technical feasibility for grid-connected RE IPPs, preferably near grid and load centres.
2	There is strong economic justification for promoting the scale up of grid/connected RE IPPs.
3	The power sector is largely financially sustainable; revenues from end-consumers are in line with the cost structure of the sector.
4	Important institutions are capable and well-staffed to fulfil their missions and to interact with the private sector. A RE champion exists.
Dimension 2 - Legal/regulatory/policy framework for RE and IPP	
5	There are limited and surmountable fundamental legal, regulatory and/or policy gaps for enabling RE IPPs.
6	Policy-making, target-setting and decision making pertaining to renewable energy promotion as well as donor interventions are well coordinated.
7	Relevant institutions are empowered to make required changes to the framework and have convening power for cross-institutional arrangements/processes.
8	The bureaucratic and licensing frameworks are well coordinated, transparent and expedient.
9	A standardised bankable PPA, which should allow for project finance solutions in S/M RE IPPs, should be attainable with limited efforts.
10	Off-taker risk is limited or possible to mitigate.

Dimension 3 - IPP Pipeline

- | | |
|----|---|
| 11 | The country has a track record with S/M RE IPPS. |
| 12 | There is a pipeline of well-developed S/M RE IPPS. |
| 13 | The market offers a number of competent local developers and is attractive for regional/international developers. |
| 14 | There is a genuine interest amongst policy makers to support RE IPPS and to see the best projects realized. |

Dimension 4 - Financial landscape

- | | |
|----|---|
| 15 | The country is generally attractive for FDI, with a private sector oriented Government. |
| 16 | The established local and/or regional financial sector is relatively mature, offering potential for commercial finance for RE IPPS (including appropriate tenor and decent financing costs under project finance transactions). |



Four critical questions were assessed in order to determine whether a GET FiT type PPP programme could provide the decisive support to a specific country:

1

Are efforts to introduce RE Independent Power Producers (IPPs) ultimately underpinned by economic viability – i.e. is there a strong economic case to be made?

2

Is there a sufficiently strong policy and regulatory starting point that time-bound results are possible?

3

Is there sufficient high-level political will to create the enabling environment for private investments?

4

Is there a strong case to be made in terms of donor value-for-money – will a donor contribution do more than just subsidise private investors, and instead improve competitiveness of renewables, reduce climate change impacts and/ or lead to a transformational change?

If the answers to these questions are largely “yes”, then a PPP programme similar to GET FiT has a good starting point for success. If not, the programme implementers are likely to face an uphill battle the entire way.

Below, we reflect on these four questions in light of lessons learned from Uganda.



Certain weaknesses in the policy framework governing the renewable energy sector in Uganda had become a road block for faster realisation of vast renewable energy potential in Uganda. The timely intervention of KfW with the GET FiT mechanism addresses almost all the impediments for sector growth.



THE FUNDAMENTAL BUILDING BLOCKS IN UGANDA

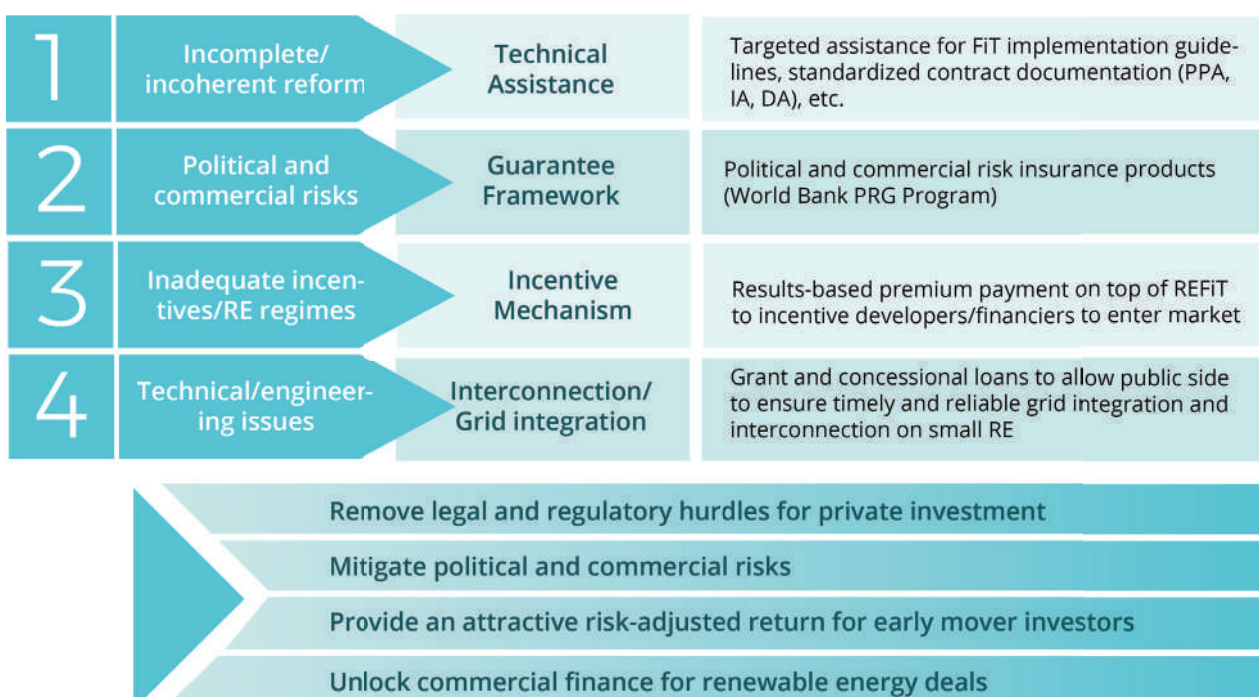
1 Economic viability was assured by an imminent power shortage and generally good renewable sources.

As a result of power and fuel supply shortages between 2006-2008, Uganda saw its GDP growth drop from 6-6.5% to 4.5%, costing the economy hundreds of millions of dollars. During and following this period, Uganda entered into agreements to purchase expensive emergency fossil-fuel based generation. With the prospect of rapidly growing electricity demand and the commissioning of large hydropower schemes still years away, the regulator, ERA, was determined to avoid a repeat of shortages in power supply. KfW and its partners were offering a pragmatic and long-term solution to this challenge through fast-tracking a portfolio of small renewable energy projects. With substantial resources for small hydro, biomass and solar power projects, there was a short- and long-term economic case to be made for establishing the enabling framework. The recent memory of a national power crisis was a powerful motivation at all levels of government to drive the Programme forward.

2 Decades of sector reform and private investment focus provided a reasonable starting point for targeted support.

Prior to the development of the GET FIT Programme, the Ugandan power sector was among the most liberalised on the continent in terms of unbundling and private sector participation. Nonetheless, the framework for IPPs was patchy with key bankability gaps, there was a lack of standardisation and a lack of coordination among sector stakeholders and development partners. GET FIT was able to build on the relative strengths of the framework while providing highly targeted assistance to fill in gaps, primarily under the guise of the transaction documents.

THE GET FIT UGANDA TOOL BOX – TARGETING SPECIFIC GAPS



3 The sector regulator ERA (Electricity Regulatory Authority) assumed full ownership of the Programme targets and became a true “champion” of the Programme.

Through the course of implementation, hurdles were encountered at all levels of government and in government policy. Providing a sovereign guarantee, and the exact nature of this guarantee, is always a contentious issue. The correct design and application of tax incentives can take a project from the red to the black in financial viability terms. ERA guided the Programme through this maze of approvals and no-objections which could not be done by a development partner or a consultant.

“Norway is proud to be a partner in the GET FiT Uganda Programme. Its success in leveraging private investments in the Ugandan renewable energy sector using limited donor funding is a model example of how smart development assistance can be done. Through its stimulation of private investments the programme fits perfectly with the Norwegian strategy for development assistance to renewable energy.



Hans Peter Christophersen
Energy Councillor, Royal Norwegian Embassy
in Uganda

4 The looming power deficit combined with a commitment to cost-reflective REFiTs provided a strong case for development assistance.

The near-term outlook for the sector, including prospects of renewed electricity shortages and expensive, polluting thermal power production, galvanised a sense of urgency around results. This provided a good case for development assistance. However, lasting impacts have really emerged due to the commitment by both the electricity regulator and KfW to see the reforms, standardised agreements and REFiT adjustments through to fruition. Without such commitment, it is likely that prospects of national power shortages alone would have been insufficient for ensuring the emergence of a truly functional IPP framework. Indeed, while short-term crises partly present an opportunity to pursue reform, the GET FiT experience is that the commitment and staying power of the Programme “champion” is decisive for ensuring meaningful and long-lasting impacts – plus value-for-money for development partners.



REALITY-CHECKS

Experience from implementation has revealed several reality-checks that should inform future designs and implementation of PPP programmes.

1 **There are no short-cuts for market testing transaction documents.**

Power Purchase Agreements (PPAs) and Implementation Agreements cannot be developed by ministries, regulators, development partners or consultants in isolation – the signatory counterparts must be directly and continuously involved. This may seem obvious but there are many examples of stranded processes where documentation is prepared in isolation and often not to a bankable standard. Consequently, the off-taker may not sign the documents, or the Ministry of Finance cannot accept guarantee clauses.

Short-cuts can turn into dead-ends. In Uganda, the development of the standardised documents had many iterations and involved extensive market testing, taking nearly two years to achieve signing. As this is an intensive, costly and long process, it is only really justified when targeting standardised agreements and a portfolio of projects, as well as creating a basis for other countries' efforts.

2 **Each country's starting-point is different and the tool-boxes have to be tailored.**

It could be difficult to find a market at a similar level of liberalisation or a "champion" as empowered and engaged as ERA in Uganda. In each country, the policy gaps, institutional framework, donor landscape, etc. will all be different. Nonetheless, it is important that a holistic PPP programme maintains its fundamental approach of identifying and targeting the critical policy, institutional and financial gaps preventing the timely implementation of the privately-promoted infrastructure.

3 **In markets with immature project portfolios, the path to construction can be long.**

In Uganda, significant hydro, biomass and solar potential had been identified and studies carried out prior to the development of the GET FiT Programme. Notably, a robust pipeline of relatively mature projects was identified, several of these already having obtained development permits and/or licences. This existing pipeline turned out to be essential to ensuring progress and eventual success in GET FiT Uganda. Despite the existence of this pipeline, the Programme had to overcome challenges and delays associated with bringing the projects up to a sufficiently mature level of technical and E&S preparedness to allow for financial close. To ensure a pipeline of projects, particularly hydro- or biomass, development partners should look to stimulate market activity immediately, potentially in parallel with efforts to establish the programme.

4 **Taking charge with regards to grid integration of the RE portfolio.**

The GET FiT Uganda experience demonstrated that even in a relatively advanced power market, it was very challenging to ensure grid connection of the portfolio. There is a risk that this may result in congestion, losses and/or even significant deemed-energy charges for the utility. For a PPP programme targeting such a large RE portfolio, a systematic and proactive approach is necessary from the start, driven by the network operator. Initially, grid infrastructure planning and investments required by the project portfolio was largely considered Government responsibility outside the scope of the GET FiT Programme (although highlighted as a key risk to be closely monitored). During implementation, it became increasingly clear that a stronger level of coordination was needed, supported by additional funding. Future programmes may benefit from a more integrated approach on proactive and coordinated planning of associated infrastructure, or inclusion of necessary infrastructure into the projects.

KEY LESSONS

Key lessons to inform the future planning of PPP programmes, with the aim of achieving enabling frameworks for commercial infrastructure investments:

Open discussions at the early stages.

Discuss the hard commercial realities with the off-taker, the Ministry of Finance, etc. at early stages. Take the time to build a common understanding and rely on external experts to build this understanding. Critical issues are more easily absorbed and dealt with early – as they will form the foundation of the transaction documents. It is critical that a PPP programme is truly woven into the over-arching ambitions of the country.

A successful enabling framework requires that a bankable set of transaction documents is institutionalised.

Efforts to get the standardised transaction documents will be expensive, intensive and at times tedious. However, this is where the entire enabling framework becomes solidified and formalised; where the sector fundamentals, risk allocations and incentives are brought together, negotiated in detail and ultimately form the basis of a bankable agreement. It is truly the center piece of the Programme.

In Uganda, KfW was instrumental in ensuring that local building blocks materialise into a viable programme and actual investments.

Critical long-term tasks include managing stakeholders to pull in the same direction, pulling in appropriate views and expertise at the right times, and ensuring fiduciary controls. Thus, having a credible international implementing institution with the proper mandate involved, in addition to the local champion, is key to successfully implementing the PPP programme.

While GET FiT Uganda focused on providing a REFiT top-up to incentivise private investment, it is equally applicable to consider a “buy-down” for the utility to make RE IPPs competitive/affordable.

The GET FiT Premium Payment Mechanism is generally referred to as a “top-up” to bring returns up to acceptable levels for the private sector and promoting increased REFiTs in host countries. In some cases, REFiTs may be at or near cost reflective levels but the utility reluctant to lock into relatively high-cost dollar-based 20-yr PPAs. This would imply that donors could consider a “buy-down” (rather than a top-up) which would target the affordability of RE for utilities rather than lifting returns to acceptable levels for investors. Interventions targeting a “buy-down” could be justified by the reflection that high-risk premiums in LDCs and dollar-based PPAs put capital intensive renewables initially at a disadvantage to fossil fuels, thus potentially calling for international cost-sharing over the medium to long term. In these cases, development partners could assist to bridge the gap, realise projects, contribute to reducing risk premiums and ultimately helping find middle ground on a reasonable tariff structure and level, and thus assist countries to make a transition to RE IPPs. As opposed to Uganda, this would imply a true cost-sharing model not motivated by a medium-term goal of increasing REFiTs, but improving attractiveness of RE IPPs and lowering risks by means of demonstration IPPs. In this regard, a GET FiT type mechanism could be an effective channel for large scale climate finance which shares the cost burden of RE with LDCs.

ABOUT

The GET FIT Uganda Programme was officially launched on May 31st 2013. The Programme, which was jointly developed by the Government of Uganda, the Electricity Regulatory Agency (ERA) and KfW was designed to leverage commercial investment into renewable energy generation projects in Uganda. GET FIT is being supported by the Governments of Norway, the United Kingdom and Germany as well as EU through the EU Africa Infrastructure Fund. Multiconsult ASA of Norway is the Implementation Consultant.

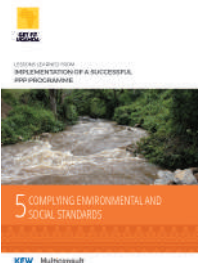
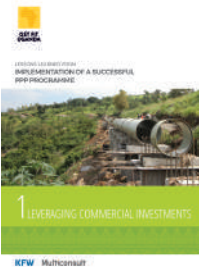
The main objective of GET FIT Uganda is to assist the country in pursuing a climate resilient low-carbon development path resulting in growth, poverty reduction and climate change mitigation. The Programme is fast-tracking a portfolio of 17 small-scale renewable energy (RE) generation projects, promoted by private developers and with a total installed capacity of 158 MW. This will yield approximately 770 GWh of clean energy production per year and leverage close to MEUR 400 in investments for RE generation projects with a limited amount of results-based grant funding.

A more comprehensive description of the tools and approaches applied by GET FIT is found on www.getfit-reports.com.



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