

**GET FIT
UGANDA**

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



1 LEVERAGING COMMERCIAL INVESTMENTS
WHAT DOES IT TAKE?

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GET FiT Uganda is a Public-Private Partnership (PPP) programme managed by KfW in cooperation with the Ugandan Government. The Programme leverages commercial investment in small-, and medium sized Renewable Energy (RE) projects in Uganda.

The GET FIT Program is a prototype for a partnership between Government and Development Partners: on one hand a strong commitment from the Government to get sector policy and regulation right and attract private investments; and on the other, an impact-oriented and cost-efficient synergy between Development Partners.



EU AMBASSADOR
Mr. Kristian Schmidt

The Programme is widely viewed as an emerging PPP success story, with Uganda now among the top destinations for renewable Independent Power Producers (IPP) on the continent. In this series of Lessons Learned briefing notes, the implementation team reflects on some of the practical challenges and key success factors associated with the Programme's design and implementation.

We strongly believe that the insights gained from implementation of GET FiT Uganda are relevant for implementation of other PPP infrastructure programmes in Least-Developed Countries (LDCs). This first Lessons Learned briefing note relates to leveraging investment and working in partnership to achieve financial close on a portfolio of renewable IPPs.

WHEN IT COMES TO STIMULATING PRIVATE INVESTMENTS, GET FIT UGANDA APPEARS TO HAVE PUSHED ALL THE RIGHT BUTTONS.

Uganda was recently ranked #7 of 58 countries on Bloomberg's Climate Scope 2016 ranking, beating its neighbour Kenya and the renewable energy heavy-weight Mexico when it comes to the "conditions for renewable energy investment". Besides South Africa, it is the country in Africa with the most IPP plants being constructed – all of which are renewable energy. Under GET FiT, some USD 428 million has been leveraged on USD 104 million of top-up grants, mostly via project finance. Perhaps more important, the Programme has stimulated significant sector reform, reforms that have been truly market tested and will have lasting impacts.

STATUS AS OF JANUARY 2018

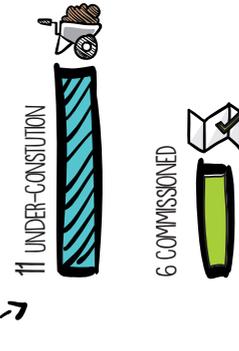


17 PROJECTS

158 MW

773 GWh

6800 JOBS



The long term programmatic nature of GET FiT Uganda has been key to successfully financing a large RE project portfolio.

The Programme has demonstrated the success of simultaneously targeting the regulatory framework, legal documentation and incentives in a concerted effort to pave the way for an entire infrastructure portfolio. This is in contrast to efforts to update just the policy framework with no direct links to projects, an approach that can lead to a duplication of effort developing transaction documents. We argue that the GET FIT partnership is a living demonstration of what can be achieved through an holistic, programmatic approach coordinated between the Ugandan Government and donors, with the resources and staying power to see it through.

Enabling RE project finance deals in LDCs has required sustained efforts.

Achieving financial close on a grid-connected renewable energy portfolio is a case of preventing any weak links in the chain of sector reform, tariff structures, contracts, approval procedures and administrative capacity. This is work that requires sustained and consistent efforts. For example, drawing up bankable agreements that reflect the financial realities of both the off-taker and government; a regulatory environment conducive and supportive to investors; and, of course, the financial incentives that strike the appropriate risk-reward balance.

HOW HAS GET FIT ACHIEVED THESE RESULTS?

1

A predictable and transparent path to realising projects.

A key characteristic of GET FIT is that during the period of implementation, the Programme has been truly inter-woven with the regulator's (ERA) own efforts to stimulate private investment in renewables. The hybrid set-up combining Feed-in Tariffs for Renewable Energy (REFIT) with

competitively allocated grant top-ups by GET FIT has proven highly effective, giving confidence to investors to put in the necessary high-risk upfront development capital. The high degree of consistency and trust between KfW, the GET FIT Secretariat and domestic authorities provides certainty to investors that a successful GET FIT application will result in a signed Power Purchase Agreement (PPA) and financial close.

2

An exceptionally well-targeted and designed subsidy mechanism.

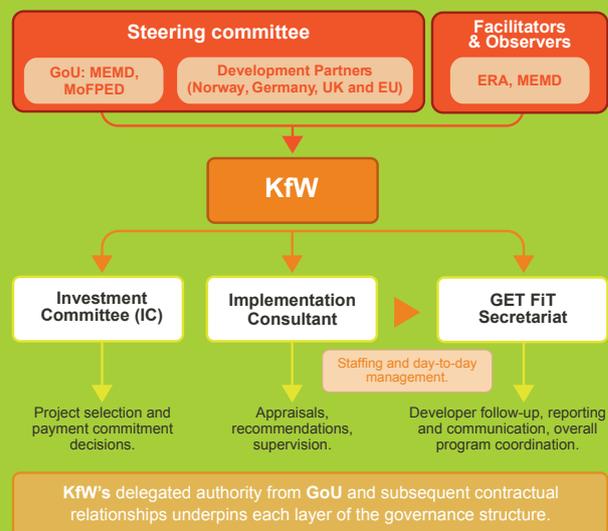
Over the 20-yr PPA period, the GET FIT Premium Payment Mechanism (GFPPM) accounts for 10-15% of a typical project's revenues. However, this support is front-loaded, providing all of the GFPPM revenues in the first 5-years, adjusted to actual production. This structure helps ensure robust cash inflows during early years, giving particular comfort to lenders. As indicated in the figure below, the tariff top-up is estimated to have improved the Financial Internal Rate of Return for 12 of 15 hydropower and biomass projects such that they are now financially viable. As with any REFIT, the most attractive projects may get more support than required to be viable. At the same time, the GFPPM is results-based so a project that fails to perform as expected will get less support, which is a sound self-correcting feature of GET FIT. All in all, the simple, predictable non-discriminatory top-up approach has proven an effective mechanism for attracting investors, especially for small hydropower.

3

An effective implementation structure.

Going from concept to financial close has required sustained efforts by a range of stakeholders. GET FIT has committed significant long-term financial and human resources into the implementation structure, including significant design activities, targeted Technical Assistance, a long-term implementation consultant, an Investment Committee with extensive track-records and a Steering Committee. The long-term commitment and integrated team approach has allowed for the building of trust and good cooperation, and ensured sustained commitment from all the stakeholders. The results-based nature of the GFPPM has ensured that donors, in particular, remain committed and proactive in finding solutions.

Uganda REFIT and GET FIT provides just enough to bring 12 of 15 projects into investment viability



REALITY-CHECKS

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

1 Leverage ratios are important KPIs but do not properly account for the value of reform and lasting impacts.

On the face of it, the 4:1 leverage ratio achieved by GET FIT may be less than those reported by some programmes/ investment vehicles, for example co-investment in a viable project in a middle-income country. The ratio must be seen in the context of the country's starting point, the relevant technologies and overall ambition levels of the programme in terms of lasting impacts. In implementing GET FIT, KfW has gone to work in a strong partnership with the local authorities in a LDC, building the investment case of a portfolio of projects from the bottom-up – stimulating reform, developing bankable documents and realising viable tariffs. Decision makers must therefore consider the achievable leverage ratio in light of the challenges the programme has sought to overcome and the transformational impacts it generates.

2 Public sourced finance and Development Finance Institution (DFI) lending will (and should) continue to play an important role in financing renewables particularly in LDCs.

We argue that the most important distinction is between capital reaping a fair return v. grants, rather than publically v. privately sourced funds. It is important to appreciate that for renewable energy projects looking to achieve 10-15% IRR, about *half of the cost-reflective tariff stems from costs of capital (required rates of return)*. Thus, burdening renewable projects in LDCs with high required rates of return will either make renewables a less attractive source of power and/ or burden the population with higher sector costs. It is important to recognise that in developed countries, public finance has always played a central role in building infrastructure.

Specifically, for GET FIT Uganda:

- I. DFIs have played a critical role during the course of the Programme and proved to be the “path-breakers” as intended by their mandates;

- II. DFI's lending rates, tenors and structure offer a country lower tariffs for infrastructure projects with sovereign risks than would be possible with commercial banks, and it is questionable LDCs should be “expected” to finance their infrastructure with loans from private commercial banks;

- III. While commercial lenders could have potentially stepped up in the absence of DFIs, the projects and ultimately end-users would have had to shoulder higher costs of capital;

- IV. The sources of capital are increasingly complex and intertwined, as are the public v. private classifications, thus blurring the lines and usefulness of classifications;

3 Additional specific financial objectives will increase complexity.

In GET FiT Uganda, most financial structures were quite similar involving private equity and a group of DFI lenders. Objectives that go beyond a financial package that offers the prospect of efficient achievement of financial close will not be realised unless specific conditions and resources are dedicated to them. Examples of alternative objectives that were discussed by various GET FiT stakeholders included: ownership shares by local communities/ individuals; general local content requirements; minimum commercial lending tranches; minimum local funding tranches (e.g. pension funds); rural electrification near the project, and other CSR obligations. To realise any such ambitions the programme design must incorporate them from the beginning.

4 International Environmental and Social standards and financing are closely linked.

Experience from GET FiT Uganda is that developers perceive limited incentives to carry-out high quality E&S documentation and preparations. In this regard, the GET FiT Programme has not only upheld IFC Performance Standards as requirements but also effectively gave a financial incentive in the form of the GFPPM. More generally, in terms of expecting international E&S standards in LDCs, donors must be prepared to put in considerable effort and cost-sharing resources – as these will not be fulfilled without such external support. Furthermore, as international standards are ultimately “imposed” by the international community it is arguably a reasonable cost to be carried by funders. Even with the DFI involvement in senior debt, the GET FiT implementation team had to be far more involved in ensuring IFC Performance Standards were met than what was expected at the outset.

KEY LESSONS

Concluding remarks to potential funders of future programmatic PPPs targeting leverage and long-term policy impacts:

No Short-cuts.

In terms of making infrastructure projects in LDCs bankable and leaving a lasting impact, there are no short cuts or innovative mechanisms that allow development partners to avoid long-term commitment or putting in place the right human resources.

Move from “private” investment to a broader “commercial” investment definition.

Especially in infrastructure in LDCs, goal hierarchies which target private financing are likely to be premature and potentially costly for utilities and/or end-users.

Scalability of the GET FiT top-up design.

The GFPPM mechanism has proven to be well designed and targeted, and has been flexibly applied to both REFiTs and a solar auction. In terms of developed countries shouldering some of the cost burden of

renewables and emission avoidance, this is a strong candidate-model for scaling up climate financing.

Development partners cannot be spectators.

Successful investors recognise that they cannot simply invest and await a return. Governments seeking development support need to work closely with prospective donors and donors should not expect to simply grant, monitor and evaluate. A defining aspect of GET FiT has been the active engagement of donors in appreciating challenges and contributing to solutions in a coordinated fashion under the umbrella of the Steering Committee. In this manner, GET FiT has ensured true sector coordination and a platform for active donor participation.



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.

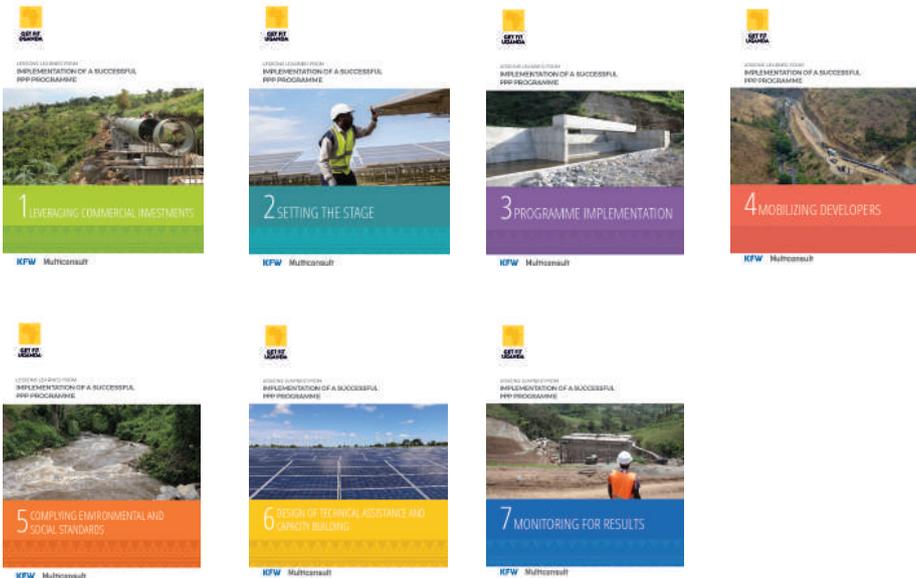


GET FIT Secretariat @ ERA House

Plot 15 Shimon Road, Nakasero | P.O. Box 10332 | Kampala, Uganda

Email: secretariat@getfit-uganda.org | web : www.getfit-uganda.org

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