

**GET FIT
UGANDA**

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



4 DEVELOPER ENGAGEMENT

HOW TO ATTRACT, SELECT, AND INCENTIVISE PROJECTS

DEVELOPER ENGAGEMENT

How to attract, select, and incentivise projects

The requirements for fulfilling the objectives and expectations of a PPP programme will be broadly similar irrespective of the industry. The key is understanding the marketplace and tailoring the programme to attract and select suitable candidate projects, and incentivise developers to fulfil the objectives. This Lessons Learned briefing note outlines the approach and experiences of GET FiT Uganda in engaging the marketplace and overseeing the implementation of projects within time-bound targets.



"The close follow up and support from GET FiT of our project has greatly contributed to improving project quality, both in terms of planning and execution".



Asa Katama
Project Manager
Nkusi Hydropower Project

Engaging the marketplace:

Building industry awareness of GET FiT Uganda was key to attracting a pool of developers, adequate in number and capacity to implement the projects within the time constraints of the Programme. Developers were invited to submit tenders for GET FiT support through an initial round of Request for Proposals (RfP). The Programme's initial project portfolio from this first RfP comprised mostly projects that had already started development but that had stalled due to insufficient investment viability under the existing feed-in tariff scheme. The cumulative installed capacity of the projects that satisfied the minimum threshold for support in the first round did not fulfil the GET FiT's target of 170 MW, and additional RfP rounds were therefore conducted in order to build a strong pipeline of candidate projects.

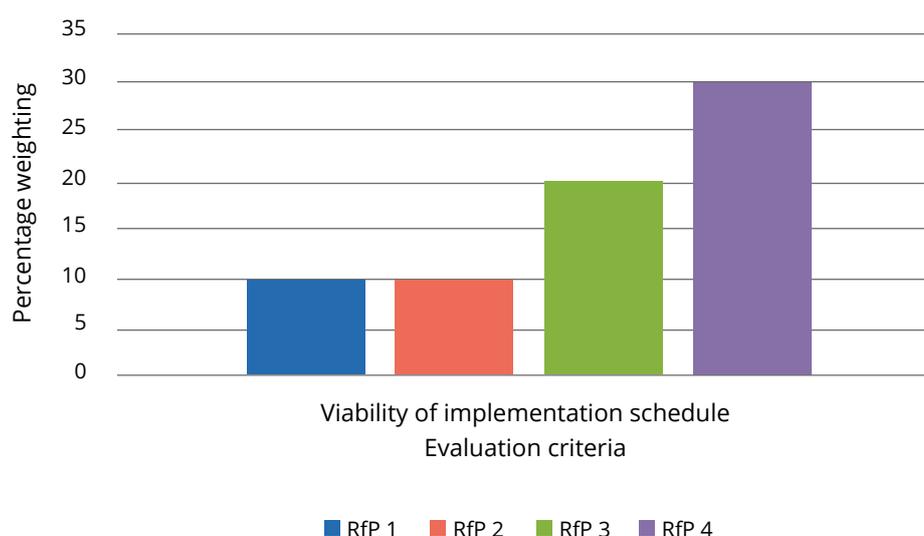
The improved investment attractiveness in Uganda created by the GET FiT enabling framework stimulated both established actors into action and attracted new players through the RfP rounds. Suddenly, investors were willing to put in the upfront development investments required to bring the projects towards financial close. Constellations of foreign investors, local developers, consultants and eventually contractors were formed.

Selecting the best candidate projects:

The project evaluation criteria were key to selecting strong candidate projects as well as developers with the capability to deliver. For GET FiT Uganda, projects were evaluated with respect to their technical feasibility and the status and maturity of engineering development; the environmental and social setting of the projects and management of potential impacts; the competence and capacity of developers to deliver commercially viable projects of a similar nature and size; and the financial and economic viability of the projects. A wide variation in the quality and completeness of proposals was observed.

The pool of developers remained largely unchanged between RfP rounds and projects that had failed to satisfy the criteria during the first RfP were resubmitted, taking account of earlier GET FiT comments. As a result, the understanding of GET FiT's requirements generally improved, as did the technical scoring of proposals. Compliance with environmental and social (E&S) requirements in particular was consistently poor and demonstrated a lack of experience with the IFC Performance Standards. Project evaluation criteria were also adjusted between successive rounds in order to guide developers on the aspects that were of particular importance in terms of reinforcing technical feasibility and constructability. The outcome of these measures was submissions that more closely aligned with expectations.

Project evaluation criteria through the RfP Rounds



The relative weight of evaluation criteria was adjusted between the RfP rounds. The increasing and eventually high weight of 'implementation schedule viability' reflected the increasing importance of a credible development- and construction timeline to complete the construction within the GET FIT window of support.

Incentivise developers to fulfil programme objectives:

With an enabling framework in place, it was essential to follow through during implementation of the Programme with oversight processes and the availability of sanctions to keep developers and projects on track. During GET FIT Uganda, it was evident that developers and contractors had their own competing internal targets and constraints that did not always align with those of the Programme. The capacity and competence of the developers to implement projects also varied substantially across the portfolio, and deficiencies were apparent at various levels of the developers' organisations. It was essential, therefore, that the management of the GET FIT Programme had sufficient mandate and contractual tools to effectively guide the implementation of projects within the time-bound constraints of the Programme. For selected projects, this included:

- Increasing the frequency of construction supervision visits at the developer's cost; and/or
- Enforcing a temporary suspension in construction, to allow improvements to be implemented in construction planning or practices; and/or
- Imposing a financial penalty in the form of a subsidy reduction.



REALITY-CHECKS

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

1 A thoughtfully designed programme does not guarantee the expected market response.

With an enabling framework in place there was an expectation of attracting experienced, reputable international developers and high quality submissions. In reality, there was a wide variation in the experience of developers, particularly with respect to awareness and understanding of E&S requirements, and the quality of submissions. It is important to appreciate that whilst an enabling framework is an essential starting point, natural market conditions will dictate the response to the programme. In essence, the type and experience of developers attracted to GET FiT partly reflect the risk-reward ratio of implementing projects in a Least Developed Country.

2 Pipeline development takes time.

The engineering development and overall maturity of projects proposed during the initial RfP round was, in many cases, not sufficient to merit the support of GET FiT. The Programme's target for installed capacity was not fulfilled and developers were invited to resubmit improved proposals during subsequent RfP rounds, based on further investigations, studies, and project development. Four RfP rounds were eventually undertaken with relatively few newcomers (developers and projects) between the successive rounds. This reflects the relatively short durations between the successive RfPs and demonstrates that sufficient time must be allowed in order for a strong pipeline of candidate projects to be developed and reach maturity prior to the appraisal phase.

3 This is not a beauty contest.

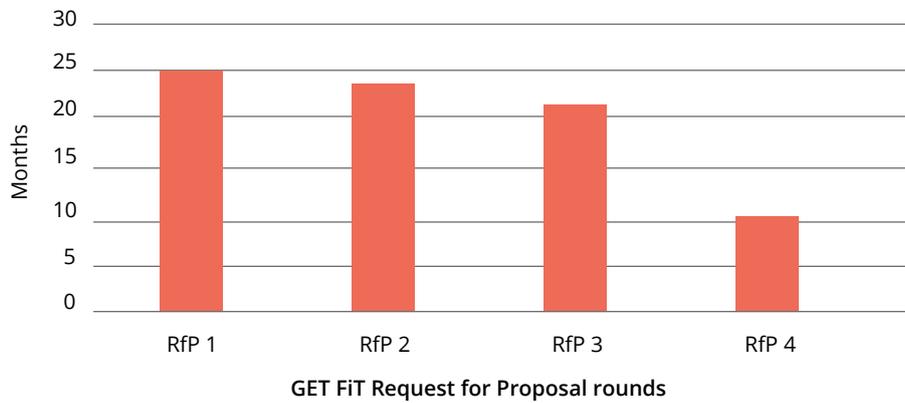
Expectations for best-in-industry design and construction practices are not appropriate for PPP programmes in Least Developed Countries. The quality of studies and engineering solutions need only be commensurate with the aims of the programme and maximising the bang for buck. In the context of GET FiT Uganda, maximising the power output of the available resources for the least cost, whilst also complying with minimum Programme expectations such as satisfying the IFC performance standards, was a successful outcome.

The quality of project designs and construction practices observed during implementation varied between the projects, however, and the design approach and standards adopted between the different developers also varied. Whilst this in itself was acceptable, having a minimum set of technical standards, requirements, and expectations in place may have been beneficial in terms of reviewing and accepting submissions across multiple projects and technologies (in the case of GET FiT Uganda, hydropower, solar PV, and biomass).

4 The type of technology to be implemented may affect the project risk profile and the willingness of developers to commit resources early.

Small hydropower projects are more complex in design than alternative technologies such as solar PV, and the due diligence process to achieve financial close is therefore more involved and time consuming. In this context, commencing the construction of a small hydropower project on equity, prior to achieving financial close, is a major financial risk to developers. Substantial upfront delays in commencing construction were observed on several hydropower projects in the portfolio as a result of delays in achieving financial close, which could not be readily managed or penalised within the executed Programme agreements. As the GET FiT Programme matured, hydropower projects that were selected for financial support at a later stage were required to commence construction on equity, and to sustain construction activities until financial close was achieved.

Average time between GET FiT approval and construction start for hydropower projects



Substantial delays in commencing construction were observed for the hydropower projects in the portfolio. However, the average time to construction start from the time the projects were selected for financial support, went down in the successive RfP rounds. Selection criteria favouring projects with more viable implementation schedules, combined with requirements to start construction on equity, reduced the delay in the later RfP rounds.



KEY LESSONS

Be clear on selection criteria.

Take time to understand the strengths and weaknesses of the market and select evaluation criteria that align with the aspirations of the programme and the maturity and capacity of the market. Evaluation criteria should address the technical and commercial viability of the candidate projects as well as the capacity of the individual developers to comply with programme expectations. Clearly define minimum expectations such as key milestone dates for construction commencement/conclusion and requirements for commencing construction on equity. Provide detailed guidance on evaluation criteria where appropriate to ensure awareness and understanding of the key issues within the context of the programme setting (such as with IFC Performance Standards for GET FiT Uganda). Don't be afraid to adjust criteria and be flexible with the evaluation approach if the programme will benefit.

Consider standardising minimum technical requirements.

Defining minimum technical requirements will improve clarity for developers, in terms of understanding minimum programme expectations, and will likely yield efficiency gains in terms of reviewing and accepting submissions across multiple projects and technologies. The benefits of pursuing such an approach should be balanced against allowing flexibility in the developers' approach and not stifling innovation.

Allow time for candidate projects to reach maturity.

Create awareness as early as possible through a targeted marketing campaign and allow sufficient time for a mature pipeline of projects to evolve before evaluating proposals. Candidate projects should be given time to procure good quality investigations and studies and to develop considered engineering design concepts and construction approaches. A strong initial pipeline of projects will provide the best opportunity to achieve targets (installed power capacity in the case of GET FiT) with least tendering effort. A strong pipeline also allows a

credible reserve list of projects to be established, to which surplus funding could be directed in the event that such becomes available.

Consider investing in early pipeline development and requiring Early Contractor Involvement (ECI).

Confidence in the design concept and construction approach is essential for minimising delays to financial close and construction progress. In this regard, good quality investigations and studies, and developing a sound construction approach within the context of the site specific characteristics, is essential. Consider allocating funds to a Front End Engineering Design (FEED) study phase that occurs either between the RfP and evaluation of proposals, or following an initial appraisal phase and shortlisting of candidate projects. Where developers do not have in-house construction capability, the involvement of an ECI contractor (preferably their preferred EPC Contractor) during the FEED phase will bring substantial benefits to concluding on the design and construction approach and minimising the risk of large scale changes later.

Integrate sufficient tools during programme development to provide flexibility and control during implementation.

GET FiT management must have sufficient mandate and control to steer the implementation of candidate projects and ensure that objectives and expectations are fulfilled. Sanctions, appropriately tailored, can incentivise developers to fulfil their obligations in accordance with the programme agreements and to resolve issues that arise during project implementation. Incorporate flexibility within agreements from the start to financially incentivise developers, such as a subsidy reduction mechanism related to performance or non-compliances and the imposition of additional supervision visits at the developer's cost.

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.

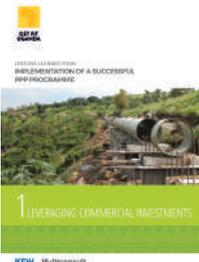
The main objective of GET FIT Uganda is to assist the country in pursuing a climate resilient low-carbon development path resulting in growth, poverty reduction and climate change mitigation. The Programme is fast-tracking a portfolio of 17 small-scale renewable energy (RE) generation projects, promoted 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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