Asia Regional Workshop on
Strengthening Public-Private Partnerships
for
Sustainable Electricity and Energy Efficiency
New Delhi, India
The Oberoi Hotel
November 27-28, 2014

- 100 participants from 12 countries: India, Myanmar, Sri Lanka, Malaysia, Maldives, China, Bangladesh, Nepal, Bhutan, Japan, France, Canada
- Participating GSEP companies: EDF, Kansai, SGCC, Tepco

Workshop Objectives:
- To stimulate discussions and share perspectives on concrete ways and means to promote effective Public-Private Partnerships for sustainable electricity/energy efficiency projects
- To help in the implementation of international best practices in PPPs for the electricity sector.
- To identify enabling policies and regulations that best promote the deployment of renewable and low carbon emitting energy sources and energy efficiency and grid modernization

Main Conclusions from discussion:

General conclusions:
- Majority of countries are facing same challenges: national budget constraints with growing electricity demand and needs to deliver essential services to their population. With PPPs, private sector stakeholder can help fill the gap.
- A successful PPP is defined as a win-win situation for all stakeholders involved in the agreement, including affected stakeholders such as consumers. It needs to be beneficial for all.
- Challenges to PPPs: capacity and management issues, bid process management, land acquisition, lack of understanding of PPP structure and uneven allocation of risk. Trend is to offload risk on the private developer. Financing is not a problem. Banks have enough liquidity to finance. The problem is that there are not enough institutions with the right capacity to absorb the financing and make the PPPs work.
- Capacity-building is a major challenge, in India for example, and must be addressed in order to ensure the sustainability of investments in the power sector.
- Building trust between partners is key and needs to be managed. Even if everything like enabling environments and frameworks, etc are in place, without trust and respect the structure can fail.
- Public acceptance, confidence and trust are built through efficient communications and must be ongoing until project fades. There has to be a ongoing dialogue between all parties beginning from the very start of the project.
• Confidence in PPPs builds as players gain experience in building these structures and doing deals. This workshop served to share this kind of experiences and lessons across countries, which are important even if the environments are different. It is important to know what models are working and which are not. The success of one PPP can have a big impact in the success for other PPPs. Same applies for failures. By managing trust we are managing the continuity, the long term possibility of continuing to perform PPPs.

• PPP are long term commitments by the concessionary and authorities. Success will depend on both parties meeting their expectations and requirements. These needs to be clearly defined from the start. The early stages of any project are the most critical. Much attention must be paid to the early stages of the projects.

• There is no “one size fits all” solution –all solutions must be adapted to the specific environment. But best practices from other places need to be integrated and applied.

**On Legal and Regulatory Frameworks:**

• It is important to have adequate, transparent and stable policy frameworks for both investors and governments.

• Roles need to be well defined. Objectives of private and public partners need to be clear and need to be met in a balanced way.

• Incentives are important, and the right incentives need to be in place.

**On Financing and Risk Allocation:**

• PPP financial instruments need to be tailored to the technologies available, social conditions, etc.

• Financial engineering and architecture is more relevant than anything else to scale up projects.

• Multilateral financial institutions can play an important role in risk mitigation, development of contract structure and financing. They can also play a role in building capacities locally in those fields.

• Accountability and Risk allocation is key. Risks must be allocated to the parties best suited to bear them. You can overwhelm a party by allocating them a risk beyond their capabilities to absorb. Clear distribution of risks and roles is important to establish a successful financial architecture. Public sector needs to provide guarantees and shoulder policy risk.

• Ingredients for bankability: (1) rigorous project development including solving land availability; (2) source data needs to be collected properly; (3) clear expectations and specifications of expected outcomes need to be outlined; (4) all approvals should be obtained before project is out.

• In EE, projects to date have been quite small so for the lender the transaction costs are higher than the expected returns. Options are either to increase scale of projects or use a portfolio that aggregates small projects.

• Performance based mechanisms: need to pay attention to termination payments and need to have clauses of force majeure that do not allow expropriation without termination payments.

• There are enough financial schemes and instruments available but projects need to be well structured and developed. Ideally, lenders should be included early on in the process and involved from the beginning so that they are part of the project appraisal before the bidding itself. This will reduce perception of risk.

• Subsidies from the public side can be necessary to jump start profitability but they need to be used wisely to avoid them negatively affecting the sustainability of the project.
Other conclusions:

- In India, the regulatory framework for the sector has been modified to allow for private sector participation. But not much has taken place in terms of attracting the private sector in the Indian power sector. There are gaps that still need to improve such as more clarity and stability of the regulatory framework. Maharashtra State: one of the most forward-looking in PPPs in India, especially in distribution franchisee model.

- Success factors of PPPs in Sri Lanka: simple approach, acceptable to banks and low transaction costs, resource allocation, and financing mechanisms are in place. Need to make a leveled playing field first but problem is lack of an independent regulator that can help referee the game.

- Malaysia’s experience: moving towards renewable energy (RE) from energy security, energy autonomy and climate change mitigation considerations. Strategic thrusts of the national RE policy showed that even though ideas and regulations existed, implementation was weak. Legal framework that promotes PPP needs to show government’s commitment to PPPs in order to successfully promote them and attract private investors.

- Key elements to get a transmission and distribution deal under PPP and secure private investment: (1) legitimacy of the franchise agreement; (2) A fair and transparent regulatory framework; (3) due diligence; (4) risk identification and mitigation; and (5) partnership with local investors, that can be found by consulting with government in order to find a strong partner.

- Barriers to PPP in energy efficiency: include inadequate capacity of regulators and policy markers, lack of awareness among stakeholders, lack of standardization of processes and contracts, payment security, and high risk-perception from investors.

- In hydropower development, there is a big initial investment needed. Also each plant generally requires custom-made design based on the detailed site study, and land acquisition which if not dealt with can be an important obstacle. The PPP can work in hydro because the private sector can take on technical and commercial risk (seen as controllable by private but uncontrollable by public sector) and the public sector can take the political and legal risk. Private sector can provide commercial management, technology transfer and prompt action. Public sector can guarantee against large-scale risks, social impact mitigation, and simple agreements with private sector.

Recommendation from Participants:

Sharing of best practices is important across countries. There should be a regular exchange of ideas. Proposal is to keep this group as an open forum for exchange and cooperation.