PACE – Public Private Partnerships for Community Electricity

Access and Sustainability

Workshop Proceedings

Thursday 11th December 2003

Napier Suite, One Birdcage Walk, London

Mike Bess, a Director of ESD Ltd, is a leading expert in rural electrification. He opened the meeting with a brief history of electrification, both in the North and South. In the context of the global movement towards energy sector liberalisation, he explained why decentralized electricity generation is becoming the only way that electricity can feasibly be delivered to rural communities in the developing world. Accompanied by government decentralisation, this presents new, yet challenging opportunities for the public and private sectors, both of whom have important roles to play in delivering electricity to rural communities.

The DFID-KaR funded PACE project has had a dual focus: Identifying the key actors, recognising their potential roles in electrification, and building capacity to fulfil those roles through successful partnerships has been one of its aims; the other has been an investigation into how those partnerships can deliver electricity services that will contribute to poverty reduction and deliver significant livelihood benefits.

Following an overview of the project by Jeremy Doyle (ESD Ltd), the PACE experience, conclusions and lessons were presented by the team from Ethiopia, Nepal, Sri Lanka and Uganda:

Ethiopia: Melessew Shanko (MGP Ltd) presented highlights of the PACE case studies. These illustrate how, even in a country with a centralised electricity sector, decentralised electrification still occurs in an informal way, with the involvement of various public and private sector players. This experience is invaluable in guiding the future development of Ethiopia's electricity sector, and clearly demonstrates the livelihood benefits in cases that are characterised by strong and balanced public-private partnerships.

Uganda: The context for **Abdalla Kyezira's** (Konserv Ltd) presentation was the Electricity for Rural Transformation (ERT) programme that represents the concerted effort towards extending electricity to Uganda's highly dispersed and rural population. This programme, and particularly its experience in establishing mechanisms to incentivise PPPs means that is an important example for stakeholders who are interested in rural electrification in the developing world.

Nepal: With significant experience in rural electrification and a well developed micro-hydro sector, public-private partnerships for community electrification are not new to Nepal. However, it requires careful assessment to reveal the true livelihoods benefits of the many sustainable schemes. **Girish Kharel,** a consultant and micro-hydro utility operator (SBB Ltd), presented a perspective on what is required to ensure that such schemes contribute to poverty reduction.

Sri Lanka: With a power sector restructuring process currently underway, Sri Lanka is at an important crossroads in terms of developing policy for off-grid electrification. The experience of public-private partnerships for off-grid electrification that has been made possible through the World Bank and government supported ESD and RERED projects, has allowed many of these issues to emerge. **Lalith Gunaratne** (LGA Consultants) summarised some of the key issues that must be addressed to allow public-private partnerships to develop, so that livelihood benefits can be realised.

All presentations from the PACE workshop are available at **http://pace.energyprojects.net**. The main points that arose in the following plenary discussion were as follows:

- **Whilst failure to recover costs as a result of payment default is a major risk to small-scale electrification schemes, existing examples demonstrate ways in which risk can be mitigated, for example:**

    - The threat of disconnection can deter payment default.
    - Well performing schemes encourage consumers to pay up and consumer expectation of a private sector operator can be higher than for a public sector operator.
    - Private sector involvement can encourage payment because, whilst there is a perception that the public sector can manage in spite of profit losses, people realise that a private sector supplier does not have this option.
    - Well planned and participatory schemes have a better success rate in cost recovery.
    - Experience from Bangladesh and Orissa shows that recovery rates are only high when the community has been involved in the development of the tariffs.
    - Much depends on how payment is enforced.

- **In countries that are far from electricity sector liberalisation, and where self-generation of electricity might be illegal, what can be done in anticipation of the long-awaited grid?**

    - In Ethiopia this has been happening for decades. Electrification outside of a legal and regulatory framework is therefore possible, indeed the only option, but carries many risks. Bear in mind the lessons that have been learnt in Ethiopia and elsewhere.
    - Lobbying governments both from the bottom-up and top-down is required to encourage them to take action to develop policy for decentralised electrification.
    - Thresholds under which the regulator does not get *actively* involved are a common feature of electrification policy – this is known as *light-handed regulation*.
    - In Uganda, the regulator works with communities in an advisory role.

- **Attracting investment for small-scale electrification schemes is difficult**

    - In cases of small diesel genset electrification, these are often purchased by entrepreneurs for their own consumption, after which they begin to sell the surplus electricity to their neighbours.
    - With uncertainty about ownership and distribution in off-grid schemes, investment is harder to find, but easier when schemes are grid-connected.
    - In Sri Lanka, there are safety nets and banks are beginning to finance freely for micro hydro schemes. However, in the biomass sector, which is newer, this is more difficult at present.
    - It is often difficult to identify home-grown entrepreneurs because this is a new area for them and they do not know how to respond to the legislation.
    - There is also the distance issue – investors do not want to invest in rural enterprises that are far from their control.
    - Confidence builds over time, but private sector risk must be addressed and this requires assistance from donors and government agencies.

- **Other comments**

    - In a recent project, stakeholders from Tanzania/Zambia visited Uganda. Representatives from Uganda talked a lot about issues such as security for investors, confidence, etc. There are plenty of practical lessons and experience at both grassroots and national level that can be applied.
    - While the case studies have told a good story from an energy policy perspective, all the experience indicates that complementary activities in other sectors are necessary to maximise the livelihood benefits. More examples of cross-sectoral benefits from electrification projects would be welcome, e.g. where different activities are combined. Donors must begin to recognise the cross-sectoral importance of energy.
    - There is tremendous scope for involving local authorities in project planning – to ensure that access is universal. This must be considered at the outset.

Following the plenary discussion, Dick Jones (GVEP) concluded the session with the following remarks:

Today's topic should be looked at in the context of 'energy' – not just electrification. An integrated approach is absolutely essential, and Uganda is leading the way in this area. Ministries of health, education, natural resources, etc. are coordinating their activities to see how energy benefits them.

It is encouraging to see a shift from 'megawatt' based targets to those that relate to the impacts of energy. Whilst It was not possible to get non-energy sector to really recognise the inextricable links between energy and food, health and education in DFID, this is happening through GVEP and other agencies, particularly on a regional basis. The next stage will focus on a national basis with multi-sectoral conferences addressing this very area.

Dissemination is extremely important if the good *and* bad practice, lessons and success factors are to be applied. GVEP is actively disseminated this kind of information. For more information, visit the GVEP (http://www.gvep.org) and PACE (http://pace.energyprojects.net).